Tryggingamiðstöðin hf.

Consolidated Financial Statements 2006

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The Board of Directors and President & CEO's report

These Consolidated Financial Statements of Tryggingamiðstöðin hf. for the year 2006 consists of the Financial Statement of Tryggingamiðstöðin hf, and its subsidiaries, Nemi Forsikring ASA, Trygging hf. and ISP ehf, which is wholly owned by Tryggingamiðstöðin hf. and Líftryggingamiðstöðin hf., which Tryggingamiðstöðin hf. has 51% ownership of.

At year end 2005 the Group had 167 employees. Total paid wages during the year amounted to ISK 1.172 million.

In November 2006 the share capital of Tryggingamiðstöðin hf. was raised by 157.894.737 shares in a public offering. At the end of the year 2006 the total listed shares amounted to 1.090.290.905. The offering price per share was 38 which resulted in a total market value of ISK 6 billion. Total cost related to the offering amounted to ISK 269 million.

TM does not follow guidlines on corporate governance issued by the Iceland Stock Exchange, the Iceland Chamber of Commerce and SA-Confederation of Icelandic Employers. The matter is being considered and a conclusion is expected within the next few months. The main considerations will be an assessment of the need for a remuneration and audit committee as well as the independance of board members.

The board of directors suggests that a dividend amounting to ISK 1.000 million, or ISK 0,91 per share, to be paid to shareholders, but refers to the financial statements regarding appropriation of the year's net profit and changes in shareholder's equity.

The number of shareholders in Tryggingamiðstöðin hf. at year's end 2006 was 383, a decrease of 5 from the previous year. Two shareholders had a holding interest of more than 10%:

Kristinn ehf.	42,45%
Fjárfestingafélagið Grettir hf.	24,45%

The Board of Directors and President & CEO of Tryggingamiðstöðin hf. hereby ratify the Consolidated Financial Statements of Tryggingamiðstöðin hf. for the year 2006 with their signatures.

Reykjavík, February 15, 2007.

Board:

Gunnlaugur Sævar Gunnlaugsson, chairman.

Guðbjörg M. Matthíasdóttir

Geir Zoëga

Guðmundur Davíðsson

Sigurður G. Guðjónsson

President & CEO

Óskar Magnússon

Independent Auditor's Report

To the Board of Directors and Shareholders of Tryggingamiðstöðin hf.

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Tryggingamiðstöðin hf., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Tryggingamiðstöðin hf. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavík, February 15, 2007

Deloitte hf.

Birkir Leósson
State Authorized Public Accountant

Sigrún Ragna Ólafsdóttir
State Authorized Public Accountant

Consolidated Income Statement

	Note	2006 Q4	2005 Q4	2006	2005
Insurance premium revenue...		4.155.191	1.559.824	9.944.215	5.885.955
Insurance premium ceded to reinsurers...............................		(2.005.939)	(286.500)	(3.292.413)	(995.509)
Net insurance premium revenue	17	2.149.252	1.273.324	6.651.801	4.890.446
Interest - and dividend income..	18	124.238	203.079	1.479.341	787.680
Net realised gains (losses) on financial assets.....................	19	7.468	(50.000)	63.781	11.078
Net fair value gains on assets at fair value through income...	20	1.162.153	1.997.210	3.264.605	6.878.154
Other operating income..		(1.810)	(7.753)	0	30.034
Investment income		1.292.049	2.142.536	4.807.727	7.706.946
Net income		3.441.300	3.415.860	11.459.528	12.597.392
Insurance claims and loss adjustment expenses..................		(4.163.421)	(1.702.324)	(9.401.654)	(5.631.643)
Insurance claims expenses recovered from reinsurers..........		2.196.201	91.047	3.025.379	820.060
Net insurance claims	21	(1.967.219)	(1.611.276)	(6.376.275)	(4.811.583)
Other operating expenses..	22	(924.711)	(513.213)	(2.263.609)	(1.727.174)
Expenses		(2.891.930)	(2.124.489)	(8.639.884)	(6.538.757)
Results of operating activities		549.370	1.291.371	2.819.643	6.058.635
Finance costs...	24	(306.096)	(3.143)	(786.809)	(4.437)
Share of profit (loss) of associates.......................................	8	5.813	903.533	(1.253.831)	2.678.819
Profit before tax		249.088	2.191.761	779.003	8.733.017
Income tax	27	(17.469)	(427.908)	(82.906)	(1.534.448)
Profit for the year	5,32	231.618	1.763.853	696.098	7.198.569
Attributable to:					
Equity holders of the Parent Company.................................		230.744	1.764.791	687.337	7.200.343
Minority interest...		874	(938)	8.761	(1.774)
		231.618	1.763.853	696.098	7.198.569
Earnings per share (ISK per share)	25	0,24	1,95	0,75	7,89

Tryggingamiðstöðin hf., Consolidated Financial Statements 2006 Amounts in thousands of ISK

Consolidated Balance Sheet

Assets	Note	31/12 2006	31/12 2005
Property, plant and equipment	6	537.925	506.392
Intangible assets	8	30.602	0
Goodwill	7	5.617.841	0
Investments in associates	8	179.929	5.437.473
Financial assets:			
Available for sale	9	2.402.019	1.638.811
At fair value through income	9	22.831.361	14.785.711
Held to maturity	9	2.632.399	456.429
Short term receivable	10	7.126.953	1.331.934
Loans	10	7.638.120	5.560.953
Deferred tax asset		385.131	0
Reinsurance contracts	11,14	11.295.344	273.663
Cash and cash equivalents		8.701.700	786.104
Total assets		69.379.324	30.777.470
Equity			
Share capital	12	1.081.639	904.341
Share premium	13	6.614.724	283.882
Reserves		69.184	0
Translation reserves		416.787	0
Retained earnings		13.638.497	14.759.842
Total equity of the Parent Company's holders		21.820.831	15.948.065
Minority interest		151.549	142.789
Total equity		21.972.380	16.090.854
Liabilities			
Insurance liability	14	26.105.579	10.497.130
Borrowings	15	11.977.858	0
Accounts payable and other liabilities	16	5.734.980	1.114.239
Deferred income tax	23	3.588.528	3.075.248
Total liabilities		47.406.944	14.686.616
Total equity and liabilities		69.379.324	30.777.470

Tryggingamiðstöðin hf., Consolidated Financial Statement 2006 Amounts in thousands of ISK

Consolidated cash flow statement

	Notes	2006	2005
Cash flows from (to) operating activities			
Insurance premium received		9.647.392	6.152.755
Reinsurance premium paid		(4.251.152)	(999.034)
Insurance claims paid		(8.094.391)	(5.566.472)
Reinsurance claims received		3.081.863	776.643
Operating expenses paid		(1.779.722)	(1.353.376)
Interest - and dividends received		1.251.114	1.100.687
Other operating cash flows		105.646	2.424
Net sale (purchase) of equity securities		9.362.486	(699.781)
Net purchase of debt security held to maturity		124.298	0
Net (increase) decrease of loans to customers		(1.908.705)	(1.852.452)
Cash generated from (to) operations excluding interest and taxes:		7.538.829	(2.438.605)
Interest paid		(134.424)	(4.437)
Taxes paid		(386.481)	(4.961)
Cash flows from (to) operating activities		7.017.924	(2.448.004)
Cash flows from investing activities			
Purchase of subsidiary	7	(158.314)	0
Purchases of property, plant and equipment		(91.169)	(43.227)
Sale of property, plant and equipment		11.804	2.000
		(237.679)	(41.227)
Cash flow from financing activities			
Borrowings		2.867.485	0
Repayments of borrowings		(4.112.485)	0
Purchase of treasury shares		(158.393)	(670.276)
Dividends paid to shareholders		(1.808.682)	(906.399)
Paid new share capital	12	4.310.578	0
		1.098.503	(1.576.675)
Increase (Decrease) in cash and cash equivalents		7.878.748	(4.065.906)
Cash and cash equivalents at beginning of year		786.104	4.852.010
Cash and cash equivalents of ISP	7	36.848	0
Cash and cash equivalents at end of period		8.701.700	786.104

Tryggingamiðstöðin hf., consolidated Financial Statements 2006 Amounts in thousands of ISK

Consolidated statement of changes in equity

	Share capital	Share premium	Other reserves	Retained earnings	Minority interest	Total
2006						
Equity 1 January 2006	904.341	283.882	0	14.759.842	142.789	16.090.854
Dividends paid to shareholders				(1.808.682)		(1.808.682)
Purchase of treasury shares........................	(3.990)	(154.403)				(158.393)
Sales of treasury shares	28.055	1.110.471				1.138.526
Treasury shares classified as debts because of a clause in a stock option contract	(4.662)	(198.134)				(202.796)
Fair value adjustment of investment properties			69.184			69.184
Translation difference			416.787			416.787
Issued new share capital	157.895	5.572.910				5.730.804
Profit for the year 2006				687.336	8.760	696.097
Equity 31 December 2006	1.081.639	6.614.725	485.971	13.638.496	151.549	21.972.380
2005						
Equity 1 January 2005	932.396	926.103		8.465.898		10.324.397
Purchase of treasury shares........................	(28.055)	(642.221)				(670.276)
Dividends paid to shareholders				(906.399)		(906.399)
Acquisition of minority interest					144.562	144.562
Profit for the year 2005				7.200.343	(1.774)	7.198.569
	904.341	283.882	0	14.759.842	142.789	16.090.854

Amounts in thousands of ISK

Notes

1. General information

Tryggingamiðstöðin hf. and its subsidiaries, together referred to as TM, operate in the insurance buisiness as well as in financial business. TM mainly does it's business in Iceland and Norway.

Tryggingamiðstöðin hf., parent company, is a limited liability company incorporated and domiciled in Iceland. The address of it's registered office is Aðalstræti 6, Reykjavík. TM´s stock is listed on the Icelandic Stock Exchange.

These consolidated financial statements have been approved for issue by the Board of Directors on the 15th of February 2007.

2. Summary of significant accounting policies

2.1 Basis of presentation

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

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

	Effective Date: Annual periods beginning:
- IFRS 7, Financial Instruments: Disclosures	On or after 1. January 2007
- IFRS 8, Operating Segments	On or after 1. January 2009

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

	Effective Date: Annual periods beginning:
- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	On or after 1. March 2006
- IFRIC 8, Scope of IFRS 2	On or after 1. May 2006
- IFRIC 9, Reassessment of Embedded Derivatives	On or after 1. June 2006
- IFRIC 10, Interim Financial Reporting and Impairment	On or after 1. November 2006
- IFRIC 11, IFRS 2; Group and Treasury Share Treansactions	On or after 1. March 2007
- IFRIC 12, Service Concession Arrangements	On or after 1. January 2008

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of financial statements in acccordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying TM´s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2.2 Consolidation

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which TM has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether TM controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to TM. They are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by TM. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of TM’s share of the identifiable net assets acquired is recorded as goodwill. At year end 2006 the purchase price of NEMI, in excess of the equity of Nemi at the acquisition date, had not been allocated to the net identifiable assets of the company and is therefore accounted for as unallocated Goodwill among assets in the Balance sheet, see note 7. The amount will be allocated according to IFRS3 in the first half of the year 2007.

Tryggingamiðstöðin hf., Consolidated Financial Statements 2006 Amounts in thousands of ISK

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by TM.

Associates

Associates are all entities over which TM has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

TM's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When TM's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, TM does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between TM and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.3 Segment reporting

A business segment is a part of TM's assets and operations which is subject to risks and returns differing from those of other business segments. A geographical segment is a part of the assets and operations within a specific economic environment that are subject to risks and returns different from those of segments operating in other economic environments.

2.4 Foreign currency translation

The consolidated financial statements are presented in thousands ISK, which is the functional currency of Tryggingamiðstöðin hf.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Exchange differences arising are recognized in the income statement.

The financial statements of each individual group entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of presenting consolidated financial statements, assets and liabilities of TM´s foreign operations are expressed in thousands of ISK using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to TM´s translation reserve. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

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

2.5 Property, plant and equipment

Land and buildings comprise mainly sales offices and other buildings for the TM's operation. All property, plant and equipment (PPE) is shown at cost less subsequent depreciation, except for land, which is shown at cost. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to TM and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

Buildings	25-40 years
Furniture and Equipment	3-15 years
Vehicles	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Intangible assets

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

Other intangible assets

Intangible assets other than goodwill are stated at cost less accumulated amortisation. Software is an example of other intangible assets.

2.7 Investments

TM classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading.

Financial assets held-to-maturity

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the TM has the positive intention and ability to hold to maturity.

Financial assets available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Purchases and sales of investments are recognised on trade-date – the date on which TM commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and TM has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through income are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other reserves in equity. When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains/losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), TM establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances.

TM assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.8. Impairment of assets

Financial assets carried at amortised cost
TM assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of TM about the following events:

(i) significant financial difficulty of the issuer or debtor;
(ii) a breach of contract, such as a default or delinquency in payments;
(iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial
(iv) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flow.

TM first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If TM determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Financial assets carried at fair value
TM assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in income – is removed from equity and recognised in the income statement.

Impairment of other non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

2.10 Share capital

Share capital is recorded at a nominal value and premium in other reserves.Share capital in balance sheet is stated at nominal value less treasury shares.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs.

2.11 Insurance contracts

TM issues insurance contracts which involve the transfer of risk from the insured to the group (see also note 4).

Premiums
Premiums are recorded as revenue (premium revenue) prorated over the period in which they apply. The portion of written premium for existing and valid contracts, which applies to unexpired risk on the account settlement day is recorded as unearned premium.

Claim costs
Claim costs are expensed in the income statement based on paid and an estimated unpaid claim amount. The claim amount is a settlement cost for direct and indirect claims, which are due to incidents that arose on or before the account settlement day, even though such incidents had not been reported. TM does not discount its liabilities regarding unpaid claims. Liabilities for unpaid claims are estimated based on individual claim incidents reported to the company, and statistical presuppositions on claims which have not yet been reported.

Reinsurance contracts
TM reduces its insurance risk (see note 4) by entering into agreements with reinsurers. The agreements are either quota share (based on the underwriters bearing a certain portion of the claims risk) or excess of loss (reinsurer bears all risk exceeding an agreed upon amount).

The payments TM is entitled to in accordance with the reinsuranse agreements are recorded as reinsurance contracts. These are various receivables resulting from communications with reinsurers, receivables due to participation in claim costs in accordance with the reinsurance agreements and share in unearned premium. Liabilities relating to the reinsurance agreements are first and foremost reinsurance premiums that are expensed upon agreement renewal.

TM selects its reinsurers based on their financial strength. Reinsurance contracts are valued regularly with respect to decrease in value. If there are indications that underwriting assets have decreased in value, TM will reduce the recorded value to a realisable value and records the loss of value in the income statement. The same references are applied as are described in note 2.8 regarding "financial assets recorded at impaired value"

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortiised cost with any difference between cost and redemption value being recognized in profit or loss over the period of the debt on an effective interset basis.

2.13 Deferred taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where TM controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefits

Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. TM recognises termination benefits when it is demonstrably committed to pay them. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2.15 Provisions

Restructuring costs
Provisions for restructuring costs are recognised when: TM has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise, among other things, of employee termination payments. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are presented amongst accounts payables and other liabilities.

Levies
TM is subject to various insurance-related assessments or guarantee fund levies. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event.

2.16 Interest and dividends income

Interest income
Interest income for financial assets that are not classified at fair value through profit or loss is recognised using the effective interest method. When a receivable is impaired, TM reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income.

Dividend income
Dividend income for available-for-sale equities is recognised when the right to receive payment is established.

2.17 Dividend distribution

Dividend distribution to the TM's shareholders is recognised in TM's financial statements in the period in which the dividends are approved by it’s shareholders.

3. Critical accounting estimates and judgements in applying accounting policies

TM makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Insurance liability
The estimation of the ultimate liability arising from claims made under insurance contracts is TM’s most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the TM will ultimately pay for such claims.

Impairment of available-for-sale equity financial assets
TM determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, TM evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

4. Management of insurance and financial risk

TM issues contracts that transfer insurance risk, financial risk or both. This section summarises these risks and the way TM manages them.

4.1 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

As statistical analysis is used when valuing insurance risk, TM's main risk is that the final claim costs will be higher than anticipated. This occurs when events, resulting in claims, are more frequent or more serious than anticipated in the statistical assumptions.

Experience shows that the greater the insurance portfolio, the less the relative variation from the expected results.

Diversification relating to type of insurance, industry and geographical location in the insurance portfolio reduces TM’s insurance risk.

Uncertainty factors regarding the assessment of claim amounts.
TM pays claims due to events that occur during the contract period, even though the damage or its consequences are not known on the account settlement day. The length of time needed to settle a claim varies, depending on the nature of the claim and other circumstances. Therefore, unsettled claims need to be valued regularly, both reported and unreported claims.

Estimated claim costs are the amounts that have to be paid upon claim settlement, less estimated repayment value and other repayments. TM collects information relevant to each event and to the assessment of the claim amount. There is a number of uncertainty factors when assessing a claim and the final damage can thus be different than the assessed amount at any one time. Insurance liability is claims provision due to incurred but not reported events, claims provisions due to unpaid yet reported events and premium provision due to unexpired insurance contracts. Judgements in precedence cases and the interpretations thereof can have a material impact on claims and on end results of claim settlements.

Unsettled reported claims are each valued based on the best information available. Unreported claims are valued based on experience relating to claims notifications during the past years.

Assessment of unreported claims is subject to more uncertainty than assessment of claims TM has been notified of. It is possible that the consequences of an event may not be apparent to the injured until some time after the event has occurred. The percentage of unreported claims varies depending on the insurance class, being the highest in liability and accident insurance.

4.2 Financial risk

TM is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are interest rate risk, equity price risk, currency risk and credit risk.

TM manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the TM’s ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

TM’s ALM is integrated with the management of the financial risks associated with TM’s other financial assets and liabilities not directly associated with insurance liabilities (in particular borrowings and investments in operations).

5. Segment information

The Group is organised into three business segments:

1. Non-life insurance business
2. Life insurance business
3. Financial business

The segments results for the year 2006 are as follows:

	Non-life insurance	Life insurance	Financial business	Group
Net insurance premium revenue	6.552.369	99.432		6.651.801
Investment income	1.191.205	4.704	3.611.817	4.807.726
Net income	7.743.574	104.136	3.611.817	11.459.527
Net insurance claims	(6.346.109)	(30.167)		(6.376.276)
Other operating expenses	(1.752.002)	(77.658)	(433.949)	(2.263.609)
Expenses	(8.098.111)	(107.825)	(433.949)	(8.639.885)
Results of operating activities	(354.537)	(3.689)	3.177.868	2.819.642
Finance costs			(786.809)	(786.809)
Share of profit/(loss) of associates			(1.253.831)	(1.253.831)
Profit (loss) before tax	(354.537)	(3.689)	1.137.228	779.002
Income tax				(82.906)
Profit for the year 2006				696.096
Attributable to:				
Equity holders of the Parent Company				687.335
Minority interest				8.761
				696.096

The segment assets and liabilities at 31 December 2006 are as follows:

	Non-life insurance	Life insurance	Financial business	Group
Assets:				
Property, plant and equipment	5.378.679	0	807.689	6.186.368
Financial assets and investment in associates	22.885.187	123.978	20.186.748	43.195.913
Reinsurance contracts	11.259.096	36.248	0	11.295.344
Cash and cash equivalents	1.250.547	282.222	7.168.931	8.701.700
Total assets	40.773.509	442.448	28.163.368	69.379.325
Liabilities:				
Insurance liability	25.998.873	106.706	0	26.105.579
Accounts payable and other liabilities	5.446.047	22.438	266.494	5.734.979
Borrowings	0	0	11.977.858	11.977.858
Deferred income tax	997.367	4.020	2.587.141	3.588.528
Total liabilities	32.442.287	133.164	14.831.493	47.406.944

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The segments results for the year 2005 are as follows:

	Non-life insurance	Life insurance	Financial business	Group
Net insurance premium revenue	4.846.164	44.282		4.890.446
Investment income	892.089	2.903	6.811.955	7.706.947
Net income	5.738.253	47.185	6.811.955	12.597.393
Net insurance claims	(4.798.157)	(13.426)		(4.811.583)
Other operating expenses	(1.408.535)	(46.448)	(272.191)	(1.727.174)
Expenses	(6.206.692)	(59.874)	(272.191)	(6.538.757)
Results of operating activities	(468.439)	(12.689)	6.539.764	6.058.636
Finance costs			(4.437)	(4.437)
Share of profit/(loss) of associates			2.678.819	2.678.819
Profit (loss) before tax	(468.439)	(12.689)	9.214.145	8.733.018
Income tax expense				(1.534.448)
Profit for the year				7.198.569
Attributable to:				
Equity holders of the Parent Company				7.200.343
Minority interest				(1.774)
				7.198.569

The segment assets and liabilities at 31 December 2005 are as follows:

	Non-life insurance	Life insurance	Financial business	Group
Assets:				
Property, plant and equipment	430.433	0	75.959	506.392
Financial assets and investment in associates	11.995.968	74.726	17.140.618	29.211.312
Reinsurance contracts	253.019	20.644	0	273.663
Cash and cash equivalents	524.254	261.850	0	786.104
Total assets	13.203.674	357.220	17.216.577	30.777.470
Liabilities:				
Insurance liability	10.435.984	61.146	0	10.497.130
Accounts payable and other liabilities	612.131	4.573	497.534	1.114.238
Deferred income tax	767.732	95	2.307.422	3.075.248
Total liabilities	11.815.847	65.814	2.804.956	14.686.616

Geographical segments - breakdown of revenues 2006:	Iceland	Norway
Net insurance premium revenue	5.842.431	809.370
Investment income	4.488.577	319.150
Net income	10.331.008	1.128.520

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6. Property, plant and equipment

	Buildings	Furniture and equipment	Vehicles	Total
At 1 January 2005				
Cost or valuation	696.230	284.708	19.322	1.000.260
Accumulated depreciation	(262.832)	(206.509)	(4.409)	(473.750)
Net book amount at 1 January 2005	433.398	78.199	14.913	526.511
At 31 December 2005				
Net book amount at 1 January 2004	433.398	78.199	14.913	526.511
Additions	7.000	18.700	17.527	43.227
Sold	0	0	(2.197)	(2.197)
Depreciation charge	(21.298)	(36.987)	(2.863)	(61.148)
Net book amount at 31 December 2005	419.100	59.913	27.380	506.393
At 31 December 2005				
Cost or valuation	703.230	303.408	34.652	1.041.290
Accumulated depreciation	(284.130)	(243.495)	(7.272)	(534.897)
Net book amount at 31 December 2005	419.100	59.913	27.380	506.393
At 31 December 2006				
Net book amount at 1 January 2006	419.100	59.913	27.380	506.393
Accounting for Nemi´s property, plant and equipment at 1 September, 2006	0	13.560	8.532	22.092
Additions	4.269	74.741	11.885	90.894
Sold	0	(1.053)	(10.155)	(11.208)
Depreciation charge	(21.239)	(45.728)	(3.279)	(70.245)
Net book amount at 31 December 2006	402.130	101.433	34.363	537.926
At 31 December 2006				
Cost or valuation	707.499	460.679	48.591	1.216.768
Accumulated depreciation	(305.369)	(359.247)	(14.227)	(678.844)
Net book amount at 31 December 2006	402.130	101.432	34.364	537.925

Depreciation expenses have been charged in other operating expenses.

No mortgages are on the parent company's assets.
No mortgages nor liabilities, other than those presented in the balance sheet, are on the Group's property, plant and equipments.

7. The Group

The Consolidated Financial Statements og TM pertain to the following subsidiaries

	Country	Ownership	Principal activity
Nemi Forsikring ASA	Norway	100%	Insurance
Líftryggingamiðstöðin hf	Iceland	51%	Life-insurance
Trygging hf	Iceland	100%	Insurance
ISP ehf	Iceland	100%	Holding company

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Nemi Forsikring ASA (Nemi)

On August 25th 2006 TM acquired 90,001% of the shares in Nemi. A takeover process followed for the rest of the shares in Nemi, leading to TM´s ownership of Nemi´s shares at year end of 100% . The purchase has been accounted for by the Purchase method of accounting. Nemi is included in TM´s consolidated statements from 1st of september 2006. A valuation of fair values of Nemi´s assets and liabilities, for allocation of goodwill acquired in the purchase, has not yet been performed. The valuation is projected to be implemented in the next few months. Nemi´s financial statements have been prepared in accordance with generally accepted accounting principles in Norway, Norwegian GAAP. From January 1st 2007, Nemi´s financial statements will be prepared in accordance with International financial reporting standards (IFRS). Adopting IFRS includes the restating of Nemi´s financial statements for the year 2006. When accounted for in TM´s consolidated statements for the year 2006, Nemi´s financial statements were adjusted to IFRS based on a high level review of the IFRS taking into account material differences between Norwegian GAAP and IFRS. Nemi´s projected transition to IFRS on January 1st 2007 will most probably have some effect on the goodwill accounted for by TM in relation to the acquisition of Nemi.

Net purchase of assets:

Property, plant and equipment	21.556
Intangible assets	32.892
Financial assets:	
Financial assets at fair value through income	6.559.985
Debt securities held to maturity	2.208.151
Short term receivables	2.803.998
Reinsurance contracts	10.556.958
Cash and cash equivalents	1.721.965
Insurance liability	(13.854.541)
Accounts payable and other liabilities	(5.120.293)
Deferred income tax	(357.116)
	4.573.555
Goodwill	5.402.904
Total purchase	9.976.459
Borrowings directly linked with purchase	8.096.180
Cash payments	1.880.279
	9.976.459

Cash flow effects:

Cash payments	1.880.279
Nemi´s cash and cash equivalents on acquisition	(1.721.965)
	158.314

Goodwill as at 1 September 2006	5.402.904
Corrections prior to 1. 9. 2006 made through retained earnings	22.166
Translation difference due to Goodwill 31/12/2006	192.771
	5.617.841

Isp ehf.

In the year 2006 ISP ehf. purchased treasury shares causing TM to gain a controlling interest in the company. TM now has a 100% interest in ISP outstanding shares. ISP is included in TM´s consolidated statements from 1st of september 2006.

Net purchase of assets:

Financial assets at fair value through income	2.968.438
Short term receivables	2.343
Deferred tax assets	330.827
Cash and cash equivalents	36.848
Borrowings	(4.155.216)
Accounts payable and other liabilities	(469.595)
	(1.286.355)

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8. Investments in associates

	2006	2005
At 1 January	5.437.473	2.605.446
Investment in associates	0	220.745
Disposals	(3.976.698)	
Dividends received	(27.015)	(67.537)
Share of profit (loss) January to December	(1.253.832)	2.678.819
Balance at 31 December	179.929	5.437.473

The Group's associates were as follows:

	% of shares
At 1 January 2005	
Fjárfestingarfélagið Grettir hf.	49,75%
Íslensk endurtrygging hf.	38,32%
At 1 January 2006	
Fjárfestingarfélagið Grettir hf.	38,90%
Íslensk endurtrygging hf.	38,32%
Isp ehf.	49,00%
At 31 December 2006	
Íslensk endurtrygging hf.	38,32%

The Group's share in its associates, all of which are unlisted, was as follows:

Name	Assets	Liabilities	Revenues	Profit/(loss)	% profit of Group
Fjárfestingarfélagið Grettir hf.	30.433.267	17.135.964	10.186.841	7.496.681	38,90%
Íslensk endurtrygging hf. (estimated)	974.789	493.789	106.100	55.200	38,32%
ISP ehf.	7.320.746	7.156.454	0	(286.209)	49,00%
Balance at 31 December 2005	38.728.802	24.786.207	10.292.941	7.265.672	
Íslensk endurtrygging hf.	795.534	325.991	106.087	55.389	38,32%
Balance at 31 December 2006	795.534	325.991	106.087	55.389	

9. Financial assets

Available-for-sale

	31/12 2006	31/12 2005
Balance at 1 January	1.638.811	2.362.590
Disposals	(37.868)	(968.772)
Additions	735.634	358.394
Fair value increase	84.370	0
Provision for impairment	(18.928)	(57.779)
Other changes	0	(55.622)
Balance at 31 December	2.402.019	1.638.811

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Financial assets available-for-sale, are as follows:

	% interest	Par value	Net book amount
Samherji hf., Akureyri	9,10%	80.051	863.898
Vísir hf., Grindavík	10,51%	1.916	607.201
Ísfélag Vestmannaeyja hf., Vestmannaeyjum	5,77%	33.210	369.138
Other assets			561.782
			2.402.019

At fair value through profit or loss

	Share	Net book amount
Icelandic Group hf.	13,02%	2.863.929
Landsbanki Íslands hf	0,83%	2.425.745
Kaupþing banki hf	0,34%	2.140.345
Invik & Co AB	4,45%	1.847.881
H.B. Grandi hf.	5,42%	1.157.047
Bakkavör-Group hf	0,84%	1.134.191
Glitnir hf	0,32%	1.069.306
Storebrand ASA	0,27%	615.396
Marel hf.	1,13%	320.393
Actavis-Group hf	0,12%	260.608
Other financial assets at fair value through profit or loss		915.034
		14.749.875
Mutual-fund certificate		932.078
Equity securities		2.999.048
Debt securities		4.150.361
		22.831.361

Held-to maturity

	31/12 2006	**31/12 2005**
Securities with government guarantee	203.358	368.014
Securities with letter of credit	2.349.250	21.012
Bonds payable with municipality guarantee	2.588	2.905
Bonds payable with company guarantee	77.202	64.499
	2.632.398	456.429

Fair values for held-to-maturity financial assets are based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

group that previously was classified as held to maturity has been classified as a financial asset at fair value through profit or loss. This asset group amounted isk 868.189 thousand at year end 2006 compared with isk 472.584 at year end 2005. Fair value increases of this financial asset group amounted isk 174.852 thousand in year 2006 compared with isk 93.637 thousand in year 2005. Fair value increases of this asset group are now accounted for as fair value increases in the income statement instead of interest and dividend income previously. Comparative figures in the financial statements have been changed accordingly.

10. Loans and short term receivables

	31/12 2006	**31/12 2005**
Short term receivables		
Receivables due from insurers	4.406.441	1.271.686
Other receivables due from first insurers	79.824	55.606
Other receivables	2.640.688	4.642
	7.126.953	1.331.934

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Loans

Mortgage loans:		
Bonds payable with mortgage in ships	283.760	99.361
Bonds payable with mortgage in real estates	273.876	286.636
Bonds payable with mortgage in vehicles	6.315.218	4.478.825
Bonds payable with mortgage in machines	112.604	8.390
Bonds payable with self debt	652.662	685.522
Other loans	0	2.219
	7.638.120	5.560.953

Provisions for impairment of loans and short term receivables at 31 December, 2006 amounts to 312.901 thousands ISK compared to 248.682 thousands ISK at 31 December, 2005.

11. Reinsurance assets

	31/12 2006	31/12 2005
Reinsurers' share of insurance liabilities:		
Unearned premium	2.279.034	21.051
Claims provisions	8.810.768	157.478
Reinsurance receivable and retention money	205.542	95.134
	11.295.344	273.663

12. Share capital

	Number of shares (thousands)	Ordinary shares	Share premium	Treasury shares
At 1 January 2005	932.396	932.396	867.803	0
Treasury shares purchased	(28.055)		(642.221)	(28.055)
At 31 December 2005	904.341	932.396	225.582	(28.055)
Treasury shares sale (purchase)	19.403	0	757.934	19.403
Issued new share capital	157.895	157.895	5.572.910	0
At 31 December 2006	1.081.639	1.090.291	6.556.426	(8.652)

In November 2006 the nominal share capital of Tryggingamiðstöðin hf. was raised by 157.894.737 shares in a public offering. The offering price per share was 38 which resulted in a total value of ISK 6.000 million. At year end ISK 1.420 million were uncollected and are accounted for among short term receivables in the Balance sheet.

13. Reserves

	31/12 2006	31/12 2005
Legal reserve	58.300	58.300
Share premium	6.556.425	225.582
	6.614.725	283.882

14. Insurance liabilities and reinsurance assets

Gross	31/12 2006	31/12 2005
Insurance liabilities:		
Unearned premium	5.384.695	1.456.296
Claims provisions	20.720.884	9.040.834
	26.105.579	10.497.130

Reinsurance assets

Reinsurers' share of insurance liabilities:		
Unearned premium	2.279.034	21.051
Claims provisions	8.810.768	157.478
Reinsurance receivable and retention money	205.542	95.134
	11.295.344	273.663

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Net liability due to insurance contracts

Premium reserve	3.105.661	1.435.245
Claims provisions	11.910.116	8.883.356
Reinsurance receivable and retention money	(205.542)	(95.134)
	14.810.235	10.223.467

Changes in insurance claim liabilities and reinsurance assets in 2006:

31 December	2006			2005		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims provision:						
Reported claims	7.730.234	(105.321)	7.624.913	7.818.406	(324.491)	7.493.915
Incurred but unreported claims	1.310.600	(52.156)	1.258.444	1.287.599	(69.255)	1.218.344
Total at 1 January	9.040.834	(157.477)	8.883.357	9.106.005	(393.746)	8.712.259
Reported claims	5.074.528	(3.570.146)	1.504.382			
Incurred but unreported claims	5.115.287	(4.193.247)	922.040			
Addition from subsidiary	10.189.815	(7.763.393)	2.426.422			
Paid claims of the year	(5.094.071)	1.860.487	(3.233.584)	(2.689.454)	304.049	(2.385.405)
Increase in liabilities:						
- due to claims of the year	6.672.299	(2.249.461)	4.422.838	3.390.516	(68.892)	3.321.624
years	(87.994)	(500.926)	(588.919)	(766.233)	1.112	(765.121)
Total at year end	20.720.883	(8.810.769)	11.910.114	9.040.834	(157.477)	8.883.357
Claims provision:						
Reported claims	13.946.039	(4.298.990)	9.647.049	7.730.234	(105.321)	7.624.913
Incurred but unreported claims	6.774.844	(4.511.779)	2.263.065	1.310.600	(52.156)	1.258.444
Total at year end	20.720.883	(8.810.769)	11.910.114	9.040.834	(157.477)	8.883.357
Premium liabilities						
Previous year premium liability	1.456.296	(21.051)	1.435.245	1.331.009	(23.421)	1.307.588
Increase of the year	3.928.399	(2.257.983)	1.670.416	125.287	2.370	127.657
Total at year end	5.384.695	(2.279.034)	3.105.661	1.456.296	(21.051)	1.435.245

15. Borrowings

Remaining balance	31/12 2006
Subordinated bonds	6.102.258
Loans from credit institutions	5.875.600
	11.977.858

Subordinated bonds

In Q3 TM issued subordinate bonds with face value 8,5 billions, indexed og bearing 5,75% interest, in order to finance the purchase of Nemi. The bonds have annual interest dates on August every year, but the capital matures in year 2016. The company is permissed to retire the bonds on it´s interest dates for the next five years.

Loans from credit institutions

Aggregated annual maturities are as follows

In the year 2007	1.046.786
In the year 2008	4.602.684
In the year 2009	226.130
	5.875.600

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16. Account payable and other liabilities

	31/12 2006	31/12 2005
Reinsurance payable	1.530.494	64.329
Other liabilities	4.204.486	1.049.910
	5.734.980	1.114.239

17. Net insurance premium revenue

	2006	2005
Written premium	9.682.116	6.011.242
Changes in unearned premium provision	262.099	(125.287)
Insurance premium revenue	9.944.215	5.885.955
Reinsurer's part of written premium	(2.554.164)	(993.139)
Reinsurer's part of changes in unearned premium provision	(738.249)	(2.370)
Insurance premium ceded to reinsurers	(3.292.414)	(995.509)
Net insurance premium revenue	6.651.801	4.890.446

18. Interest and dividend income

Interest revenue and exchange differences	1.378.603	731.622
Dividend income	100.738	56.058
	1.479.341	787.680

19. Net realised gains (losses) on financial assets

Realised gains due to sale of financial assets	82.709	68.857
Impairment of financial assets	(18.928)	(57.779)
	63.781	11.078

20. Net fair value gains on assets at fair value through profit and loss

Fair value gains	3.006.409	6.757.695
Dividends received	258.196	120.459
	3.264.605	6.878.154

21. Net insurance claims

Claims and loss adjustment expenses	7.674.320	5.696.814
Changes in claims provisions	1.727.333	(65.171)
Insurance claims and loss adjustment expenses	9.401.653	5.631.643
Reinsurers' claims and loss adjustment expenses	(1.869.006)	(1.056.329)
Changes in reinsurers' part of claims provisions	(1.156.373)	236.269
Insurance claims and loss adjustment exp. recovered from reinsurers	(3.025.378)	(820.060)
Net insurance claims	6.376.275	4.811.583

22. Other operating expenses

Marketing expenses	636.037	287.333
Administrative expenses	1.990.282	1.453.880
Commission and gain from reinsurers	(362.709)	(14.039)
	2.263.609	1.727.174

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23. Deferred income tax

Deferred income tax, the amounts are as follows:	**2006**	**2005**
At the beginning of the year	3.075.248	810.595
Effects of error of previous years	(8.922)	0
Adoption of IAS 32 and IAS 39	0	731.326
Deferred income tax of Nemi as of 1.9.06	357.116	0
Translation difference of deferred income tax of Nemi	12.690	0
Effects of fair value changes through equity	15.187	0
Calculated income tax	137.210	1.534.448
Income tax payable	0	(1.121)
Balance at end of year	3.588.529	3.075.248

Deferred income tax analyses as follows

Property, plant and equipment	22.412	17.715
Financial assets	3.470.630	3.209.756
Other items	11.082	(152.223)
Claims provision	360.884	0
Loss carried forward	(276.479)	0
Deferred income tax at end of year	3.588.529	3.075.248

Deferred tax assets are as follows:

Deferred tax asset of ISP as of 1.9.06	330.827	0
Calculated income tax	54.304	0
Balance at end of year	385.131	0

24. Finance cost

Interest expense:		
Bank borrowings	732.563	3.931
Other interest expense	54.246	506
	786.809	4.437

25. Earnings per share

Basic earnings per share is calculated by dividing the profit by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares.

Profit attributable to the Parent Company's equity holders	696.098	7.198.569
Weighted average number of ordinary shares in issue (thousands)	929.940	912.623
Basic earnings per share (in ISK per share)	0,75	7,89

26. Dividends per share

The dividends paid in 2006 and 2005 were 1.808 million ISK and 906 million ISK respectively or ISK 2 per share in 2006 and ISK 1 per share in 2005.

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27. Income tax expense

Income tax to be paid in 2007	0
Deferred tax (Note 24)	82.906
	82.906

Income tax of profit before taxes is different from calculated income tax as follows:

Calculated income tax of profit before taxes	87.915
Reversal of associates from deferred income tax	48.234
Effects of paid dividends	(64.608)
Other permanent differences	11.365
Calculated income tax	82.906

28. Contingencies and other matters

A severance agreement with former Nemi CEO remains to be settled. The settlement amount is uncertain, but due to conservatism Nemi has provided for the maximum amount expected to be settled on. Nemi has also made a provision due to disagreement with norwegian financial company. The total ammount of these provisions is NOK 14 millions.

29. Related party disclosures

The company has a related party relationship with its subsidiaries, its associates, the board of directors and all main directors of the company and subsidiaries, close family members of individuals referred to herein and entities with significant influences as the largest shareholders of the company.

During the fiscal year, related parties purchased services from the parent company at an amount of ISK 173,3 million (2005; ISK 80,2 million) but the parent company had no transactions with related parties.

All transactions with related parties take place under the same terms and conditions that are available to the general public.

30. Directors' terms of employment

Wage payments to top management for their work for the company and their shares in the company are as follows:

	Wages and benefits	**Shares at the end of year**
Óskar Magnússon, President and CEO	27.861	5.451
Gunnlaugur Sævar Gunnlaugsson, Chairman of the Board	3.440	0
Geir Zoëga, Member of the Board	1.720	49.552
Guðbjörg Matthíasdóttir, Member of the Board	1.720	486.975
Guðmundur Pétur Davíðsson, Member of the Board	900	92.315
Sigurður G. Guðjónsson, Member of the Board	900	266.611
Former Members of the Board	1.640	31.579
Six Company Managers	67.428	279
	105.610	932.763

In shares both shares owned by management and related parties are included.

The company has made an employment contract with it's CEO, stating that he will receive his monthly salary for 24 months if the contract is terminated by the company.

The CEO owns a put option for his holdings in TM, 4.661.981 shares, with a strike price of 42.5 in addition to the financial cost of his stake, minus any dividends paid by TM. The CEO can exercise the option at any time until 26 May 2009. The shares have been counted for as treasure shares among share capital as well as among debt in TM's Balance Sheet.

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31. Fees to Auditors

Auditors' fees are as follows:	2006	2005
Audit of financial statements	11.298	6.454
Review of interim financial statements and other services	27.426	13.857
	38.724	20.311

32. Quarterly report

	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4
Net insurance premium revenue	2.149.252	1.733.702	1.386.083	1.382.764	1.273.324
Investment Income	1.292.049	2.126.418	(321.933)	1.711.194	2.142.537
Net income	3.441.301	3.860.120	1.064.150	3.093.957	3.415.861
Net insurance claims	(1.967.219)	(1.509.538)	(1.377.761)	(1.521.756)	(1.611.277)
Other operating expenses	(924.711)	(474.237)	(443.446)	(421.215)	(513.213)
Expenses	(2.891.930)	(1.983.776)	(1.821.207)	(1.942.972)	(2.124.490)
Results of operating activities	549.371	1.876.344	(757.057)	1.150.986	1.291.371
Finance costs	(306.096)	(402.799)	(71.320)	(6.594)	(3.143)
Share of (loss)/profit of associates	5.813	(124.614)	(721.366)	(413.664)	903.533
Profit (loss) before tax	249.088	1.348.931	(1.549.743)	730.728	2.191.761
Income tax	(17.469)	(260.592)	299.840	(104.684)	(427.907)
Profit (loss) for the period	231.619	1.088.339	(1.249.903)	626.043	1.763.854
Attributable to:					
Equity holders of the Company	230.744	1.085.411	(1.254.862)	625.742	1.764.791
Minority interest	874	2.928	4.959	301	(937)
	231.618	1.088.339	(1.249.903)	626.043	1.763.854

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