Consolidated Financial Statements

for the year 2008

Exista hf.
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Contents

Endorsement of the Board of Directors and the CEOs

The Consolidated Financial Statements for the year 2008 consist of the Consolidated Financial Statements of Exista hf. and its subsidiaries, together referred to as the Group. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

According to the Consolidated Income Statement, loss for the year amounted to EUR 1,619 million compared to EUR 574 million profit for the prior year. According to the Consolidated Balance Sheet, total assets at year end amounted to EUR 2,300 million compared to EUR 8,010 million at prior year end. Equity at year end amounted to EUR 200 million compared to EUR 2,369 million at prior year end.

On 30 May 2008 the share capital was increased from 11,361,092,458 shares by 2,813,675,174 new shares as a consideration for shares in Skipti hf. acquired as a result of Exista's takeover bid of the entire share capital of Skipti not previously owned by Exista. On 8 December 2008 the share capital was increased from 14,174,767,632 shares by 50,000,000,000 new shares as a consideration for shares in Kvakkur ehf. After the share increase the total share capital of Exista consisted of 64,174,767,632 shares of ISK 1 each. Pursuant to a ruling by the Register of Limited Companies of 29 June 2009, the capital increase from 8 December 2008 was reversed and share capital of Exista hf. decreased from 64,174,767,632 to 14,174,767,632 shares.

On 7 October 2008, Exista sold its entire 19.98% holding in Sampo Oyj. As a result of that transaction, neither Exista nor any of its subsidiaries owns any shares in Sampo Oyj.

On 9 October 2008, Exista sold its holding in Storebrand ASA, amounting to 8.69% of the company's total share capital. After that sale, neither Exista nor any of its subsidiaries owns any shares in Storebrand ASA.

On 9 October 2008, the Icelandic Financial Supervisory Authority (FME) appointed a Resolution Committee for Kaupthing Bank hf. (Kaupthing) that undertook all the affairs of the bank. This action was based on the authority contained in a new legislation on unusual circumstances in the financial markets and was subsequent to an extremely harsh action taken by the British authorities against Kaupthing's subsidiary in the United Kingdom. That intervention made a profound impact on Exista's financial position, but because its holding in Kaupthing was only pledged to a limited degree, the Group was able to respond to dramatically changed circumstances.

As previously announced, the Shareholders Meeting agreed to the delisting of the Company's shares, due to the present uncertainty and in order to facilitate the work currently being undertaken by the Board and Management in order to shape a future plan for the Company. The shares were delisted on 22 December 2008.

Note 35 to the accounts contains main events after the Balance Sheet date.

At 31 December 2008, Exista's shareholders numbered 28,357 as compared to 29,663 at the beginning of the year. Two shareholders owned more than 10% of listed shares at year end, BBR ehf. 77.91% and New Kaupthing Bank hf. 10.43% following an increase of the Company's share capital on 8 December 2008. The Register of Limited Companies reversed the increase on 29 June 2009 as further outlined in Note 27. BBR ehf. is therefore the only shareholder owning more than 10% with a 51,96% share.

The Board of Directors does not propose a payment of dividend to shareholders.

According to the best of our knowledge, and with reference to the reservations made in this statement, it is our opinion that the annual Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Group for the financial year 2008, its assets, liabilities and consolidated financial position as at 31 December 2008 and its consolidated cash flows for the financial year 2008.

The Board of Directors is aware of its duties under Annual Accounts Act no. 3/2006 and Act on Public Limited Companies no. 2/1995. The preparation and confirmation of the annual account is made under extreme and unprecedented circumstances as the Icelandic financial system virtually collapsed in October 2008. The status and prospects of Exista are therefore currently very uncertain. The collapse of the Icelandic financial system has impacted Exista significantly. The takeover of Kaupthing by FME had a tremendous effect on the Company's financial position, as Exista was the largest shareholder in Kaupthing with a 24.75% holding and the stake subsequently became worthless overnight.

A major factor of uncertainty regarding the financial position of Exista concerns the assessment of Exista's claims against Icelandic banks in relation to FX hedging contracts that had been entered into prior to the collapse of the Icelandic banking system in October 2008. The banks' obligation pursuant to these FX hedging contracts was to deliver a specified amount of foreign currency at a specified date in exchange for a specified amount in ISK from Exista.

The value of these contracts depends on the exchange rate used for settlement. The valuation method employed in the present Annual Account is based on what [Exista] judges to be fair value of Exista's claim towards the banks. In Exista's view, the most realistic manner to assess the value of the contracts is with reference to market value of the currencies in question on the date Exista demanded settlement of the contracts, i.e. on 9 October 2008.

At that date, the Icelandic financial system was in total turmoil and there was consequently a market failure in the Icelandic currency market. Therefore, in Exista's opinion, the most reliable indicator of market value of the ISK on 9 October 2008 is the rate published by the European Central Bank, which is based on prices obtained from actual currency quotes. On the other hand, the exchange rate published by the Central Bank of Iceland on the same day was not based on empirical data and is therefore not a reliable measure for evaluating the parties' obligations. As further outlined in Note 20 to the accounts, there is a significant discrepancy between the two rates.

The resolution committees of the counterparty banks have not accepted Exista's claims in respect of the currency agreements. Exista's claims and the banks' counter-claims are currently under litigation. The banks dispute both Exista's right to demand settlement of the currency contracts on 9 October 2008 as well as the applicable exchange rate and Exista's right to set off any profit derived from the contracts against outstanding loan obligations towards the banks. Should the outcome of the aforementioned litigation be in line with the bank's claims, Exista would be in a negative equity position, as further outlined in Note 20. The ability of Exista to continue as a going concern is therefore highly dependent upon the outcome of the said litigation.

The turmoil in Icelandic financial markets had a seriously negative effect on the Company's financial position. Exista has postponed payments of instalments and interest as stated in an announcement to the Nasdaq OMX Nordic Stock Exchange, dated 1 March 2009. These facts in addition to the difficult economic environment resulted in the Company not meeting its financial obligations. The regular operation of Exista before interest and instalments can be carried out by using its current financial resources and income. However, the Company's high leverage demands actions in which the Company has been actively engaged during the past months. An informal non-binding standstill arrangement has been in place with a number of the Company's creditors to allow the management necessary time to negotiate a restructuring of the Company's obligations. Accordingly the Board of Directors has decided to propose in due course a fundamental restructuring of the balance sheet of the Group in order to create a sustainable capital structure for the business going forward. The Company has engaged both Icelandic and foreign consultants to advise on a financial restructuring and to carry out discussions with all the major creditors of the Company. The Board of Directors has been advised that a successful financial restructuring would be in the best interest of the Company's stakeholders in terms of preserving and maximising the value of the Company's assets. The majority of the Company's creditors have been actively engaged in discussions on the financial restructuring of the Company. The Board of Directors believes that as long as discussions with the creditors are carried out in a constructive manner, it is in the best interest of stakeholders to proceed trading. As a part of the financial restructuring, Exista envisages filing a petition for a licence to enter into a formal composition process with its creditors in due course. The ability of Exista to continue as a going concern is highly dependent upon successful financial restructuring.

According to Article 11, para. 1 of the Annual Accounts Act no. 3/2006, annual accounts shall, as a main rule, be prepared on the assumption that the entity involved continues to trade as a going concern. Although the above-described situation indicates the existence of an uncertainty which may cast doubt on the Company's ability to continue as a going concern and to realise its assets and discharge its liabilities in the normal course of business, the Consolidated Financial Statements are prepared on the assumption that the Company continues to trade as a going concern.

It should furthermore be pointed out that the exact financial position of Exista is subject to a number of uncertainties, and may at any time be affected by occurrences at Exista and/or any of its subsidiaries including, but not limited to, the possible emergence of contract or tort claims from creditors and/or third parties; invocation of contractual and/or other remedies by creditors; emergence of indebtedness due to enforcement of guarantee obligations; and/or administrative or criminal penalties or other sanctions levied by public authorities.

Taking into consideration the aforementioned, it is the opinion of the Board of Directors and the CEOs that the accounting policies used are appropriate and that these Consolidated Financial Statements present all the information necessary to give a true and fair view of the Group's assets and liabilities, financial position and operating performance for the year 2008 and describes the assumptions made and the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEOs of Exista hf. have today discussed and approved the Consolidated Financial Statements for the year 2008 with their signature. The Board of Directors and the CEO recommend, with reference to the reservations made in this statement, that the Consolidated Financial Statements be approved at the Annual General Meeting of Exista.

Reykjavík, 19 October 2009

Board of Directors

Lýdur Gudmundsson
Chairman

Ágúst Gudmundsson

Hildur Árnadóttir

CEOs

Erlendur Hjaltason

Sigurdur Valtýsson

Independent Auditor's Report

To the Board of Directors and shareholders of Exista hf.

We were engaged to audit the accompanying consolidated financial statements of Exista hf., which comprise the balance sheet as at December 31, 2008, and the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion
Exista had open foreign exchange hedging contracts with Kaupthing Bank and Glitnir before the collapse of the banks in October 2008. The value of those contracts depend on the EUR/ISK exchange rate used for settlement. Exista and the banks have not reached an agreement on the exchange rate to settle the contracts, since there is a significant discrepancy between the rates of the Central Bank of Iceland and the European Central Bank.

When calculating and recognising the value of the hedging contracts at year-end 2008, Exista is using the EUR/ISK exchange rate as listed by the European Central Bank at the maturity date of the contracts. The European Central Bank exchange rate for EUR/ISK was 305, which results in a EUR 782 million net profit for Exista. That has been included in the financial statement and represent over 34% of the company´s assets and over 390% of the company´s equity at December 31, 2008.

Kaupthing Bank and Glitnir have not accepted these claims of Exista and therefore this remains unsettled. The dispute between Exista and the banks will be concluded in court. The outcome of the court cases and the value of these claims is therefore highly uncertain.

As a result of this multiple uncertainties we were unable to determine whether the value of those assets are appropriate and the possible impact on the financial statement if it should prove wrong.

Disclaimer of Opinion
Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Reykjavík, 19 October 2009

Deloitte hf.

Hilmar A. Alfreðsson
State Authorised Public Accountant

Consolidated Income Statement for the year 2008

	Notes	2008	2007
Net gain (loss) on financial assets at fair value through profit or loss	6	(581.7)	0.8
Net gain (loss) on financial assets held for trading	7	62.1	(46.3)
Dividend	8	11.2	12.6
Interest revenue	9	136.5	91.2
Insurance premium	10	97.1	129.0
Share of profits of associates	22	180.3	756.2
Other revenues	11	28.3	17.9
Total revenues		(66.2)	961.5
Insurance claims	12	(85.6)	(104.4)
Operating expenses	13	(57.7)	(65.4)
Impairment losses	21	(75.6)	-
Administration and sale of associates	22	(916.4)	-
Total expenses		(1,135.2)	(169.9)
(Loss) profit before financial expenses		(1,201.4)	791.7
Interest expense		(520.8)	(350.3)
Net foreign exchange gain		92.9	84.3
Total financial expenses		(428.0)	(266.0)
(Loss) profit before tax		(1,629.3)	525.7
Income tax	15	10.7	48.2
(Loss) profit for the year		(1,618.7)	573.9
Attributable to:			
Equity holders of the parent		(1,618.2)	573.7
Minority interest		(0.5)	0.2
		(1,618.7)	573.9
(Loss) earnings per share (cents):	17		
Basic		(11.93)	5.11
Diluted		(11.93)	5.11

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Consolidated Balance Sheet at 31 December 2008

	Notes	31.12.2008	31.12.2007
Assets			
Financial assets at fair value through profit or loss	18	315.9	1,123.4
Financial assets held for trading	19	97.6	210.2
Loans and receivables	20	1,480.2	785.0
Goodwill and other intangible assets	21	195.0	469.4
Investments in associates	22	0.0	4,737.6
Reinsurance assets	23	4.6	10.1
Deferred tax asset	15	1.9	-
Investment properties	24	-	70.1
Property and equipment	25	4.6	27.6
Cash and equivalents	26	187.7	567.6
Other assets		12.5	9.5
Total assets		2,300.0	8,010.5
Equity			
Share capital	27	143.4	120.6
Reserves		163.4	736.3
Retained earnings		(106.9)	1,511.3
Equity attributable to equity holders of the parent		200.0	2,368.1
Minority interest		0.0	0.6
Total equity		200.0	2,368.7
Liabilities			
Borrowings	28	1,678.2	5,123.7
Hybrid securities		272.3	250.0
Technical provision	29	125.4	221.5
Deferred income tax liability	15	-	18.8
Other liabilities		24.0	27.8
Total liabilities		2,100.0	5,641.8
Total equity and liabilities		2,300.0	8,010.5

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Consolidated Statement of changes in Equity for the year 2008

	Share capital	Reserves	Retained earnings	Minority interest	Total equity
Equity at 1 January 2007	112.3	720.7	1,061.3	5.9	1,900.2
Change in minority interest				(5.5)	(5.5)
Issue of share capital	5.9	139.7			145.6
Payment of dividends			(123.7)		(123.7)
Profit for the year			573.7	0.2	573.9
Net buyback of own shares	2.3	54.9			57.1
Changes in equity of associates		(14.0)			(14.0)
Exchange difference arising on translation of foreign operation		(165.0)			(165.0)
Equity at 31 December 2007	120.6	736.3	1,511.3	0.6	2,368.7
Equity at 1 January 2008	120.6	736.3	1,511.3	0.6	2,368.7
Change in minority interest				(0.1)	(0.1)
Issue of share capital	22.9	200.5			223.4
Loss for the year			(1,618.2)	(0.5)	(1,618.7)
Net buyback of own shares	0.0	0.0			0.0
Changes in equity of associates		(228.0)			(228.0)
Reversal of gain on disposal of net investment in foreign operation		(1,685.3)			(1,685.3)
Exchange difference arising on translation of foreign operation		1,140.0			1,140.0
Equity at 31 December 2008	143.4	163.4	(106.9)	0.0	200.0

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Consolidated Cash Flow Statement for the year 2008

	Notes	2008	2007
Cash flows from operating activities			
(Loss) profit for the year		(1,618.7)	573.9
Net investment and foreign exchange (gain) loss		426.7	35.2
Income tax recognised in Income Statement	15	10.7	(48.2)
Interest expenses recognised in Income Statement		520.8	350.3
Technical provision, change		(96.0)	(2.4)
Non-cash items relating to associates		1,164.6	(756.2)
Deferred income tax liability, change		(18.8)	(39.1)
Dividends from associates	8	167.5	135.4
Impairment losses	21	75.6	-
Depreciation and amortisation	21, 25	1.9	3.4
		634.4	252.2
Movements in working capital:			
Loans and receivables, change		89.4	(72.4)
Payables, change		(3.7)	(0.0)
		720.1	179.8
Interest paid		(542.5)	(212.8)
Income tax paid		(3.3)	(1.5)
Net cash (used in) generated by operating activities		174.2	(34.4)
Investing activities			
Financial assets		1,655.5	(2,396.2)
Investment properties		(0.5)	(63.4)
Property and equipment		(2.5)	(5.2)
Net cash (used in) generated by investing activities		1,652.6	(2,464.8)
Financing activities			
Borrowings, change		(2,373.3)	3,115.3
Hedging effects through equity		195.0	-
Dividends paid to equity holders of the Parent	16	-	(123.7)
Net cash (used in) generated by financing activities		(2,178.3)	2,991.6
Net increase in cash and equivalents		(351.4)	492.4
Cash and equivalents at the beginning of the year		567.6	76.1
Effects of foreign exchange rate changes		(28.5)	(0.9)
Cash and equivalents at the end of the year		187.7	567.6

Investing and financing activities not affecting cash flow:

		2008	2007
Investment in other companies		(223.4)	(203.0)
Issued share capital		223.4	203.0

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Notes to the Consolidated Financial Statements

1. General information

Exista hf. is a company incorporated and domiciled in Iceland. The Consolidated Financial Statements for the year ended 31 December 2008 comprise Exista hf. (the Parent or the Company) and its subsidiaries (together referred to as the Group).

The Group prepares its Consolidated Financial Statements in EUR, which is the Group's functional currency.

2. Adoption of new and revised Standards

2.1 Standards and Interpretations effective in the current period.

The Financial Statements are presented in accordance with the new and revised standards (IFRS / IAS) and new interpretations (IFRIC), applicable in the year 2008. These standards and interpretations are:

- IAS 39 (Revised) - *Financial Instruments: Recognition and Measurement*
- IFRIC 11 *IFRS 2: Group and treasury share transactions*
- IFRIC 12 *Service concession arrangements*
- IFRIC 14 *IAS 19 - The limit on a defined benefit asset, minimum funding requirements and the interaction*

The adoption of the new and revised Standard and Interpretations has not led to changes in the Group's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these Financial Statements, the following Standards and Interpretations were in issue but not effective:

	Effective:
- IAS 1 (Revised) Presentation of Financial Statements	1 January 2009
- IAS 23 (Revised) Borrowing costs	1 January 2009
- IAS 27 (Revised) Consolidated and Separate Financial Statements	1 January 2009
- IAS 39 (Revised) Financial Instruments: Recognition and Measurement	1 January 2009
- IFRS 2 (Revised) Share-based Payment	1 January 2009
- IFRS 3 (Revised) Business combinations	1 July 2009
- IFRS 8, Operating Segments	1 January 2009

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

- IFRIC 13, Customer Loyalty Programmes	1 July 2008
- IFRIC 15, Agreements for the Construction of Real Estate	1 January 2009
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation	1 October 2008
- IFRIC 17, Non-cash Assets to Owners	1 January 2008

The directors anticipate that the adoption of these revised Standards and Interpretations will have no material financial impact on the Financial Statements of the Group.

IFRS 8 is the only one of the above new or revised Standards and Interpretations that has been approved by the EU.

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3. Significant accounting policies

3.1 Statement of compliance

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

3.2 Basis of preparation

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

The Consolidated Financial Statements are prepared in euros (EUR). The change in functional currency from Icelandic Krónas to euros was made as of 1 January 2007, after receiving the proper authorisation from regulatory authorities.

3.3 Basis of consolidation

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

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

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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

3.4 Business combinations

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

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

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

3.5 Investments in associates

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

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

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

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

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

3.6 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

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

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

3.7 Leasing

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

3.7.1 The Group as lessor

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

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

3.7.2 The Group as lessee

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

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

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

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

3.8 Foreign currencies

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

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

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

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

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

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

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

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

3.9 Borrowing costs

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

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

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

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

3.10 Taxation

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

3.10.1 Current tax

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

3.10.2 Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profit against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.10.3 Current and deferred tax for the period

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

3.11 Property and equipment

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

Property	2-4%
Equipment	20-35%

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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

3.12 Investment property

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

3.13 Intangible assets

3.13.1 Intangible assets acquired separately

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

3.13.2 Intangible assets acquired in a business combination

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

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

3.14 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

3.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.16 Financial assets

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

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit and loss' (FVTPL), 'held-to-maturity investments' (HTM), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3.16.1 Effective interest method

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

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

3.16.2 Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

• it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

• it is a derivative that is not designated and effective as a hedging instrument.

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

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

• the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

• it forms part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 30.

3.16.3 Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. HTM investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

3.16.4 Available for sale financial assets

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 30. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

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

3.16.5 Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3.16.6 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

• significant financial difficulty of the issuer or counterparty; or

• default or delinquency in interest or principal payments; or

• the probability that the borrower will enter bankruptcy or financial re-organisation.

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

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

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

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

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

3.16.7 Derecognition of financial assets

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

3.17 Financial liabilities and equity instruments issued by the Group

3.17.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.17.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

3.17.3 Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar nonconvertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

3.17.4 Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

• the amount of the obligation under the contract, as determined in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*; and

• the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

3.17.5 Financial liabilities

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

3.17.6 Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

• it has been incurred principally for the purpose of repurchasing in the near future; or

• it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

• it is a derivative that is not designated and effective as a hedging instrument.

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

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

• the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

• it forms part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 30.

3.17.7 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

3.17.8 Derecognition of financial liabilities

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

3.18 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in note 30.

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

3.18.1 Embedded derivatives

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

3.18.2 Hedge accounting

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

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

3.18.3 Fair value hedges

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

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

3.18.4 Cash flow hedges

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

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

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

3.18.5 Hedges of net investment in foreign operations

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

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

3.19 Offsetting financial asset and financial liabilities

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

3.20 Insurance contracts

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

3.20.1 Insurance contracts - definition

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

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

3.20.2 Insurance contracts - classification

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

i) Property and casualty insurance:

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

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

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

ii) Life insurance:

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

3.20.3 Investments with investment risk of the life assurance policyholders

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

3.20.4 Technical provision

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

3.20.5 Reinsurance contracts

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

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

3.21 Cash and cash equivalents

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

3.22 Income and expense

3.22.1 Insurance operations

i) Premiums

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

ii) Claims

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

3.22.2 Leasing operations

i) Interest income and expense

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

3.22.3 Financial operations

i) Changes in market value of investments

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

ii) Dividend income

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

3.23 Segment reporting

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

3.24 Stock option contracts and obligations to increase share capital

The Group has made no stock option agreements.

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

5. Segment information

5.1 Business segment

The Group's operation is based on two main foundations: Financial Services and Investments.

These foundations are monitored and supported by six units at group level: Finance, Risk Management, Treasury, Legal Counsel, Research and Communications.

Financial Services

Financial Services are divided into subsidiaries and associates:

Subsidiaries in Financial Services are wholly owned by Exista hf. and are accounted for as such in the Consolidated Financial Statements: the property & casualty insurance company Vátryggingafélag Íslands hf. (VÍS), the life insurance company Líftryggingafélag Íslands hf. (Lífís) and the asset finance company Lýsing hf.

Investments

Investments are Exista's other shareholdings and investments in listed and unlisted companies. Among the Group's largest investments are the food company Bakkavor Group hf. and the telecommunications company Skipti hf.

5.2 Segment revenue and result

	Financial Services	Investments	Total 2008	Total 2007
Investment revenues	156.2	(484.3)	(328.1)	723.4
Insurance premium	97.1	-	97.1	129.0
Interest revenues	124.6	12.0	136.5	91.2
Other revenues	3.0	25.3	28.3	17.9
Total revenues	380.8	(447.0)	(66.2)	961.5
Insurance claims	(85.6)	-	(85.6)	(104.4)
Operating expenses	(44.5)	(13.2)	(57.7)	(65.4)
Impairment losses	(75.6)	-	(75.6)	-
Administration and sale of associates	(916.4)	-	(916.4)	-
Total expenses	(1,122.0)	(13.2)	(1,135.2)	(169.9)
Profit (loss) before financial items	(741.2)	(460.2)	(1,201.4)	791.7
Financial items	(345.3)	(82.6)	(428.0)	(266.0)
Profit (loss) before tax	(1,086.5)	(542.9)	(1,629.3)	525.7
Income tax	22.3	(11.6)	10.7	48.2
Profit (loss) for the year	(1,064.1)	(554.5)	(1,618.7)	573.9

5.3 Segment assets and liabilities

	Financial Services	Investments	Total 31 Dec 2008	Total 31 Dec 2007
Financial assets measured at fair value	-	315.9	315.9	1,123.4
Financial assets held for trading	93.6	4.0	97.6	210.2
Loans and accounts receivable	1,081.4	398.8	1,480.2	785.0
Goodwill and other intangible assets	193.8	1.2	195.0	469.4
Investments in associates	0.0	0.0	0.0	4,737.6
Reinsurance assets	4.6	-	4.6	10.1
Deferred tax assets	1.5	0.4	1.9	-
Investment properties	-	-	-	70.1
Property and equipment	2.9	1.7	4.6	27.6
Cash and equivalents	174.7	13.0	187.7	567.6
Other assets	10.0	2.5	12.5	9.5
Total assets	1,562.5	737.5	2,300.0	8,010.5
Borrowings	1,238.3	439.9	1,678.2	5,123.7
Hybrid securities	272.3	-	272.3	250.0
Technical provisions	125.4	-	125.4	221.5
Deferred income tax liability	-	-	-	18.8
Other liabilities	16.4	7.6	24.0	27.8
Total liabilities	1,652.4	447.6	2,100.0	5,641.8

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6. Net gain (loss) on financial assets at fair value through profit or loss

	2008	2007
Shares - listed	(570.0)	(63.9)
Shares - unlisted	(11.6)	64.7
	(581.7)	0.8

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

	2008	2007
Shares - listed	(16.9)	(24.8)
Shares - unlisted	(1.1)	(2.2)
Funds - listed	(0.0)	(0.4)
Funds - unlisted	-	(0.4)
Bonds - listed	(10.4)	(12.3)
Bonds - unlisted	(1.9)	(1.2)
Derivatives	92.4	-
Other	0.0	(5.0)
	62.1	(46.3)

8. Dividend income

	2008	2007
Financial assets measured at fair value through profit or loss	9.9	5.0
Financial assets held for trading	1.2	7.7
	11.2	12.6

Total dividend received during 2008 amounted to EUR 178.5 million, thereof EUR 167.5 million from associated companies. Dividend from associated companies is not recognised in the Income Statement because they are accounted for using the equity method.

9. Interest revenue

	2008	2007
From leasing contracts	60.8	61.0
Other interest revenue	75.7	30.2
	136.5	91.2

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10. Insurance premium, net of reinsurance

	2008	2007
Premiums written	108.5	149.3
Reinsurers' share	(5.0)	(8.1)
Change in the gross provision for unearned premiums	(6.3)	(4.4)
Change in the provision for unearned premiums, reinsurers' share	(0.2)	(7.7)
	97.1	129.0

11. Other revenues

	2008	2007
Security services	10.4	12.3
Rental income	3.1	2.3
Value adjustments of investment properties	-	2.1
Other revenues	14.8	1.2
	28.3	17.9

12. Insurance claims, net of reinsurance

	2008	2007
Claims paid	85.0	105.0
Claims paid, reinsurers' share	(2.8)	(3.4)
Change in the provision for claims	2.5	2.4
Change in the provision for claims, reinsurers' share	0.9	0.5
	85.6	104.4

13. Operating expenses

	2008	2007
Salaries and related expenses	29.2	34.2
Administrative expenses	17.9	21.8
Depreciation and amortisation	1.9	3.4
Real estate administration expenses	3.6	3.0
Other operating expenses	5.1	3.0
	57.7	65.4

14. Salaries and related expenses

	2008	2007
Salaries	25.0	29.0
Related expenses	4.1	5.2
	29.2	34.2
Average number of full time equivalent employees	420	433

Salaries paid to Exista's Board of Directors, senior management of Exista and subsidiaries amounted to EUR 2.7 million.

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15. Income tax

15.1 Income tax recognised in profit or loss

The total change for the year can be reconciled to the accounting (loss)/profit as follows:

	2008		2007	
Profit (loss) before tax		(1,629.3)		525.7
Tax calculated at domestic tax rate	15.0%	(244.4)	18.0%	94.6
Adjustment in respect of prior years	0.0%	-	(9.2%)	(48.2)
Effect of different tax rates of other jurisdictions	(0.7%)	10.7	(17.6%)	(92.4)
Tax effect of expenses that are not deductible	(12.8%)	209.2	0.1%	0.4
Tax incentives not recognised in PnL	(2.7%)	44.4	0.0%	-
Tax exempt revenues	1.9%	(30.5)	(0.5%)	(2.7)
	0.7%	(10.7)	(9.2%)	(48.2)

15.2 Deferred tax balances

	2008	2007
At beginning of year	(18.8)	(60.2)
Arising through mergers and acquisitions	-	(6.2)
Change relating to sale of subsidiaries	(0.1)	-
Calculated income tax for the year	10.7	48.2
Income tax to be paid next year	1.1	3.3
Effects of cash flow hedges	-	0.2
Net foreign currency exchange difference	8.9	(4.2)
	1.9	(18.8)

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

	2008	
	Assets	Liabilities
Shares in other companies	1.3	
Loans and receivables	0.3	
Property and equipment		0.1
Other items	0.4	
	2.0	0.1

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16. Dividend paid

On 28 February 2008 the Exista hf. Board of Directors proposed at the Annual General Meeting that no dividend would be paid in respect of profits for the year 2007, the proposal was approved. On 30 April 2007, a dividend of ISK 1.00 per share, a total dividend EUR 124 million (ISK 10,838 million) was paid to shareholders.

17. Earnings per share

	2008	2007
Net (loss) earnings attributable to equity holders of the Parent	(1,618.2)	573.7
* Weighted average number of shares for earnings per share calculation	13,565.1	11,230.5
Basic (loss) earnings per share (cents)	(11.93)	5.11
Diluted (loss) earnings per share (cents)	(11.93)	5.11

* Shares are registered in Icelandic Krónas (ISK).

Exista hf. - Consolidated Financial Statements 2008 28 Amounts are in EUR million

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

	31.12.2008	31.12.2007
Shares - listed	12.7	849.6
Shares - unlisted	303.2	273.8
	315.9	1,123.4

Shares in listed companies are as follows:

	Share %	Nominal value	Closing price	31.12.2008	31.12.2007
Bakkavor Group hf.	39.63%	855,151,478	ISK 2.52	12.7	548.5
* Storebrand ASA	0.00%	-	-	-	278.3
** SPRON hf.	4.26%	213,135,934	n/a	-	21.3
Other	-	-	-	-	1.5
Listed shares total				12.7	849.6

Shares in unlisted companies are as follows:

	31.12.2008	31.12.2007
*** Skipti hf.	288.3	148.1
Other	14.9	125.7
Unlisted shares total	303.2	273.8

* On 9 October Exista sold its entire shareholding in Storebrand (8.69%) to Gjensidige. Sale price was NOK 20.00 per share.

** On 21 March 2009 the Icelandic Financial Supervisory Authorities (FME) took SPRON into administration.

*** Skipti hf. was listed on the OMX Nordic Exchange in Iceland on 19 March 2008. On 19 March 2008, Exista announced a voluntary offer for all shares in Skipti hf. The offer amounted to ISK 6.64 per share, which was paid with new Exista shares. The offer was valid from 27 March through 26 May, by which time Exista had acquired 99.22% of Skipti shares. Following the offer and the delisting of the company, outstanding shares were called in. Skipti has been 100% owned by Exista since 2 July 2008.

19. Financial assets held for trading

	31.12.2008	31.12.2007
Shares - listed	5.4	58.0
Shares - unlisted	2.8	6.4
Funds - listed	11.7	64.9
Funds - unlisted	2.8	2.9
Bonds - listed	71.8	63.6
Bonds - unlisted	3.0	12.8
Other	-	1.6
	97.6	210.2

Exista hf. - Consolidated Financial Statements 2008 29 Amounts are in EUR million

20. Loans and receivables

20.1 By type

	31.12.2008	31.12.2007
Leasing contracts	683.0	710.7
* Claims on Icelandic banks	1,307.0	-
Bonds and bills	49.4	17.6
Insurance receivables	21.5	31.0
Other	20.0	44.6
Provision for losses on receivables	(600.6)	(18.9)
	1,480.2	785.0

20.2 By maturity

	31.12.2008	31.12.2007
On demand	824.7	41.3
Up to 3 months	32.9	61.7
Over 3 months and up to a year	158.7	137.8
Over 1 year and up to 5 years	379.4	440.3
Over 5 years	84.4	103.8
	1,480.2	785.0

20.3 Movement in provision for losses on receivables

	31.12.2008	31.12.2007
At beginning of year	18.9	9.0
Impairment losses recognised on loans and receivables	614.4	15.5
Amounts written off as uncollectible	(3.0)	(6.4)
Amounts recovered during the year	0.1	0.6
Net foreign currency exchange difference	(29.7)	0.3
	600.6	18.9

* Exista had open foreign exchange hedging contracts with Kaupthing Bank and Glitnir before the collapse of the banks in October 2008. The value of those contracts depend on the EUR/ISK exchange rate used for settlement. Exista and the banks have not reached an agreement on the exchange rate to settle the contracts, since there is a significant discrepancy between the rates of the Central Bank of Iceland and the European Central Bank.

When calculating and recognising the value of the hedging contracts at year-end 2008, Exista is using the EUR/ISK exchange rate as listed by the European Central Bank on 9 October 2008. The European Central Bank exchange rate for EUR/ISK was 305, which results in a EUR 782 million net profit for Exista, after impairment of EUR 525 million in line with current market rate of claims against the old banks.

Kaupthing Bank and Glitnir have not accepted these claims of Exista and therefore this remains unsettled. The dispute between Exista and the banks will be concluded in court. The outcome of the court case and the value of these claims is therefore highly uncertain.

When calculated on the Icelandic Central Bank rate the value of hedging contracts results in a loss of EUR 46 million resulting in negative equity.

At the Balance Sheet date Exista and New Kaupthing had entered into a written agreement of setting off profit from part of Exista's hedging contracts against borrowings with the bank. This agreement resulted in a profit of EUR 515 million. The agreement expired on 30 March 2009.

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21. Goodwill and other intangible assets

	Goodwill	Customer contracts	Trademark	Total
At beginning of year	464.0	5.2	0.2	469.4
Net additions/disposal of assets	0.0	-	-	0.0
Impairment	(75.6)	-	-	(75.6)
Amortisation during the year	-	(0.2)	(0.0)	(0.2)
Net foreign currency exchange difference	(196.1)	(2.4)	(0.1)	(198.6)
	192.4	2.6	0.1	195.0

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

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

Customer contracts	15 years
Trademark	15 years

21.1 Annual test for impairment

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units which represent the lowest level within the Group, at which the goodwill is monitored for internal managament purpose.

In performing the annual impairment test of goodwill, an assessment is made as to whether the individual units of the company (cash-generating units) to which goodwill relates will be able to generate sufficient positive net cash flows in the future to support the value of goodwill, trademarks with an indefinite useful life and other net assets of the entity.

The estimates of future net free cash flows are based on budgets and business plans for the next 5 years and the terminal period. Key parameters are business growth, operating margin, future capital expenditure, interest rate and inflation expectations beyond the next 5 years. Discount rates which reflect the risk-free interest rate with the addition of specific risks related to equity and liabilities in each particular segment are used to calculate recoverable amounts.

The impairment losses recognised in the Consolidated Income Statement, in respect of goodwill are as follows:

Insurance business	22.5
Leasing business	53.1
	75.6

The key assumptions used for value in use calculations are as follows:

	Insurance business	Leasing business
Long term growth rate	4.7%	4.7%
WACC	13.2% - 14.0%	15.2%

At 31 December the carrying amount of goodwill and trademarks with an indefinite useful life for the Company's cash-generating units, summarised at segment level, was as follows:

	31.12.2008
Insurance business	174.8
Leasing business	19.0
Other business	1.2
	195.0

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22. Investments in associates

Changes in investments in associates:

	31.12.2008	31.12.2007
At beginning of year	4,737.6	-
Purchases of shares in associates	51.4	2,083.0
Transfers	49.1	1,995.3
Sold shares & administration of Kaupthing Bank	(3,950.0)	-
Share of results for the period	180.3	756.2
Dividend	(167.5)	(135.4)
Equity adjustments	(228.0)	-
Net foreign currency exchange difference	(672.8)	38.5
	0.0	4,737.6

At the beginning of 2008 Exista's investment in associates consisted almost entirely of ownership in Kaupthing Bank hf and Sampo Oyj. As is well known, the financial markets in Iceland and abroad have been subject to enormous trauma in Q4 2008. Consequently, on 7 October, Exista sold its 19.98% holding in Sampo Oyj. The shares were sold in a book building offering to a number of institutional investors at EUR 11.50 per share. On 9 October the Icelandic Financial Supervisory Authorities (FME) took Kaupthing Bank into administration.

Following the administration of Kaupthing Bank, Exista's investment in the bank was written down to zero. Write off relating to Kaupthing Bank investment is recognised in the Income Statement. Simultaneously all previously realised and unrealised hedging effects relating to investment in Kaupthing Bank was reversed from equity to the Income Statement in accordance with IFRS 39.102. Net loss relating to disposal of associates, i.e. sale of shares in Sampo, administration of Kaupthing Bank and hedging effects, recognised directly in profit or loss amounted to EUR 916.4 million.

23. Reinsurance assets

Reinsurance share in the technical provision is as follows:	31.12.2008	31.12.2007
Premium reserve	0.9	2.0
Claims reserve	3.7	8.1
	4.6	10.1

24. Investment properties

	31.12.2008	31.12.2007
At fair value		
At beginning of year	70.1	-
Net additions/disposals during the year	(43.9)	68.0
Increase in value adjustment	-	2.1
Net foreign currency exchange differences	(26.1)	(0.1)
	-	70.1

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25. Property and equipment

	Property	Equipment	Total 31.12.2008	Total 31.12.2007
Cost or valuation				
At beginning of year	23.0	10.7	33.7	22.1
Additions	0.9	2.9	3.8	16.5
Disposals	(14.3)	(0.7)	(15.0)	(17.6)
Revaluation increase due to goodwill allocation	-	-	-	12.4
Net foreign currency exchange difference	(8.9)	(5.2)	(14.1)	0.3
	0.7	7.7	8.4	33.7
Accumulated depreciation				
At beginning of year	1.3	4.9	6.1	9.9
Charge for the year	0.3	1.4	1.7	2.7
Eliminated on disposal	(0.7)	(0.4)	(1.1)	(7.0)
Net foreign currency exchange difference	(0.5)	(2.5)	(3.0)	0.5
	0.4	3.4	3.8	6.1
Carrying Amount				
At beginning of year	21.8	5.8	27.6	12.2
At end of the year	0.3	4.3	4.6	27.6

The assessment value and insurance value for the Group's assets are as follows:

	Assessment value	Insurance value
Property	1.2	1.2
Equipment		2.9

26. Cash and equivalents

	31.12.2008	31.12.2007
* Cash and bank balances	177.3	353.8
Term deposits	8.7	148.7
Money market deposit and current asset investments	1.6	65.0
	187.7	567.6

* Old Kaupthing has claimed their right to a pledge over a cash deposit of EUR 76 million which is not accepted by Exista. The dispute will be concluded in court.

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27. Share capital

Due to an acquisition of shares in Skipti hf. and with reference to Exista hf.'s announcement of 19 March 2008, the Board of Directors of Exista has increased the Group's share capital by 2,813,675,174 shares.
After the share increase the total share capital of Exista consisted of 14,174,767,632 shares of ISK 1 each. All Exista shares carry one vote on shareholders meetings.
Own shares at 31 December 2008 amounted to ISK 1,161,709 (EUR 12,281).

Share capital at 31 December 2008 was as follows:

	Shares	Ratio
* Total share capital according to Financial Statements 31 December 2008	143,435,262	99.9914%
Own shares at 31 December 2008	12,281	0.0086%
	143,447,543	100.000%

* Due to an acquisition of shares in Kvakkur ehf. and with reference to Exista hf.'s announcement of 8 December 2008, the Board of Directors of Exista increased the Group's share capital by 50,000,000,000 shares. After the share increase the total share capital of Exista consisted of 64,174,767,632 shares of ISK 1 each.

Pursuant to a ruling by the Register of Limited Companies of 29 June 2009, the capital increase from 8 December 2008 was reversed and share capital of Exista hf. decreased from 64,174,767,632 to 14,174,767,632 shares.

Effects of reversal of share capital increase on shareholders equity:

	Pre reversal - as listed 31 Dec. 2008	Effects of reversal	Post reversal according to Fin. Statements 31 Dec. 2008
Share capital	481.5	(338.1)	143.4
Reserves	(167.9)	331.3	163.4
Retained earnings	(106.9)		(106.9)
	206.7		200.0

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28. Borrowings

28.1 By currency

	31.12.2008	31.12.2007
Loans in CHF	142.5	152.4
Loans in DKK	40.3	40.2
Loans in EUR	682.1	3,263.9
Loans in GBP	37.4	49.4
Loans in JPY	135.2	125.3
Loans in SEK	0.2	0.2
Loans in USD	105.7	101.3
Loans in ISK	507.1	1,231.0
	1,650.3	4,963.7
Accrued interests	27.9	160.0
	1,678.2	5,123.7

28.2 By maturity

	31.12.2008	31.12.2007
On demand	56.9	-
Up to 3 months	173.3	557.9
Over 3 months and up to a year	277.0	748.0
Over 1 year and up to 5 years	725.7	3,377.0
Over 5 years	445.3	440.9
	1,678.2	5,123.7

28.3 By type

	31.12.2008	31.12.2007
Bonds issued	217.7	397.1
Bills issued	35.2	338.3
Money market loans	27.4	83.5
Subordinated loans	9.8	15.8
Other loans	1,388.2	4,289.0
	1,678.2	5,123.7

28.4 Other information

	31.12.2008	31.12.2007
Recourse borrowings	1,557.6	2,730.4
Non-recourse borrowings	120.6	2,393.3
	1,678.2	5,123.7

Exista hf. - Consolidated Financial Statements 2008 35 Amounts are in EUR million

Notes to the Consolidated Financial Statements

29. Technical provision

	31.12.2008	31.12.2007
Claims reported and loss adjustment expenses	77.8	143.0
Claims incurred but not reported	16.1	28.6
Claims outstanding	93.9	171.5
Provision for unearned premiums	31.5	49.9
Technical provision	125.4	221.5
Claims reported and loss adjustment expenses	3.3	7.4
Claims incurred but not reported	0.4	0.8
Claims outstanding	3.7	8.1
Provision for unearned premiums	0.9	2.0
Reinsurers' share	4.6	10.1

30. Financial instruments

30.1 Capital risk management

The Group strives to manage its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

30.2 Significant accounting policies

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

30.3 Risk management

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

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

The CRO is responsible for GRM operations. GRM is responsible for working with the individual subsidiaries to establish best practices in risk management and to implement Group-wide reforms when new risk management practices develop. Group Treasury is responsible for managing the liquidity risk of the Group and reports quarterly to the Risk Committee. The GRM makes sure that risk factors are identified and that effective procedures and guidelines are in place in order to limit risk and to quantify and control the Group's risk exposure, as well as ensuring that the Company and the subsidiaries are enforcing sufficient risk management.

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

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30.4 Market risk

The Group's listed holdings in financial assets measured at fair value and financial assets held for trading are marked to market on a current basis and are therefore affected by fluctuations on the equity markets. Financial assets measured at fair value and financial assets held for trading represent 13.7% and 4.2% respectively of the Group's total assets.

Financial assets held for trading represent the Group's asset management for the insurance subsidiaries. GRM monitors, manages and reports on the risks in the Group's assets under management. All positions are marked to market daily in the Group's systems. To quantify and measure market risk, stress tests and statistical tests are used.

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

30.5 Currency risk management

The Group undertakes certain transactions denominated in currencies, other than the accounting currency, including the NOK, USD, JPY and ISK. Currency exposure is managed with asset and liability matching. For investments in associates and unlisted assets the accounting currencies of the underlying assets are used in the currency balance, for listed equities the currency of the primary listing is used.

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

	Net position	
	2008	2007
EUR	(809.0)	(627.5)
NOK	9.2	301.8
USD	(33.3)	119.0
JPY	112.6	106.0
ISK	934.8	98.4

30.5.1 Currency sensitivity analysis

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

2007	NOK	USD	JPY	ISK
Effect on income	(30.2)	0.1	(9.7)	45.8
Effect on equity	-	(11.9)	(0.9)	(55.6)

2008	NOK	USD	JPY	ISK
Effect on income	(0.9)	3.3	(11.3)	(74.0)
Effect on equity	-	-	-	(19.5)

30.6 Interest rate risk management

The Group's total bond exposure (bonds and bond funds) amounted to EUR 109.4 million with an average duration of 4.39. A 100 bps increase in interest rates would result in approximately EUR 4.8 million loss in value.

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30.7 Credit risk management

The Group's credit risk exposure is mostly concentrated in the asset finance subsidiary Lýsing hf. Lýsing's portfolio is well diversified in loans and leasing contracts. Lýsing's policy is to fully hedge interest rate risk inherent in its credit exposure. It has work procedures in place that aim to match both the duration of their lending contracts with the terms of their funding as well as the fixed vs. floating interest rates. All of Lýsing's contracts have provisions in them allowing Lýsing to change the interest rates on a monthly basis. This enables Lýsing to react quickly to changes in their funding profile. Since Lýsing is defined according to Icelandic law as a financial institution, it is regulated by the FSA and reports quarterly to them on loans in arrears, exposure concentration and equity limits. The FSA requirement is an 8% CAD ratio for financial institutions. The CAD ratio for Lýsing was 8.10% at the end of 2008.

	2008	2007	2006	2005	2004
CAD ratio	8.10%	10.58%	11.97%	11.40%	11.65%

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

Lýsing has a well diversified asset backed loan portfolio. A high proportion of the loans are denominated in foreign currency. The depriciation of the ISK in 2008 therefore greatly affected the size of the loan portfolio. The write-off of the loan portfolio at the end of 2008 was 0.55%, calculated as the total write-offs at year end against the total loan portfolio at the beginning of the year. The ratio of provisions to total loans at the end of the year was 9.71%.

	2008	2007	2006	2005	2004
Provisions % loans	9.71%	2.15%	0.82%	0.84%	2.17%
Write-offs % loans	0.55%	0.69%	0.32%	0.47%	0.41%

30.8 Liquidity risk management

Group Treasury is responsible for liquidity management and continuously monitors the Group's liquid funds and maturing obligations. Exista is engaged in discussions with domestic and foreign financial institutions concerning a review of loan agreements and the settlement of mutual claims. As a result, Exista's position is currently unclear. While these discussions are ongoing, Exista intends to negotiate postponement of payments of interest and installments on financial obligations that become due and payable while the discussions are in progress.

30.9 Underwriting risk

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

Loss frequency risk is the risk that losses or a certain type of losses becomes more frequent than expected and the insurance tariffs are based on. GRM conducts close and constant examination of the loss frequencies of the various insurance branches, especially in private insurance such as motor vehicle insurance, house owner's insurance and homeowner's insurance, where there are many policies and relatively high loss frequency. Using these examinations, the GRM looks to discover trends in loss frequencies and take necessary measures if needed.

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Exista insurance segments - Gross Premiums

	2008	2007
Property	23.5%	23.6%
Marine Hull and Cargo	3.5%	3.8%
Compulsory Motor	35.5%	36.5%
Other Motor	15.3%	14.9%
General Liability	5.5%	5.9%
Accident and Sickness	10.2%	9.4%
Reinsurance	1.4%	0.7%
Life and Health	5.1%	5.2%
	100.0%	100.0%

Reinsurers' risk is the risk that a reinsurer will not be able to pay his share of a loss event. In severe loss events, the settlement can take many years. GRM has structured a reinsurance policy for insurance subsidiaries. The policy requires a minimum rating from an international rating agency for the reinsurers participating in the reinsurance programs. The minimum rating depends on contract length. The policy limits the number of reinsurers in a programme depending on the volume ceded and limits of cover. There are also limits on the maximum size of a loss ceded to a reinsurer depending on rating and contract length. Reinsurers rating as percentage of ceded premiums for 2007, 2008 and estimated figures for 2009 are as follows:

	2009	2008	2007
AAA	7.3%	1.0%	2.0%
AA	1.1%	0.6%	1.5%
AA-	66.2%	76.8%	65.2%
A+	11.3%	11.1%	11.7%
A	0.0%	0.9%	1.5%
A-	14.0%	9.6%	17.2%
BBB+	0.0%	0.0%	0.9%
	100.0%	100.0%	100.0%

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

Combined ratio is the sum of the loss ratio and the expense ratio. Combined ratio for 2008 is 108.8%. Investment return from insurance activities is 17.3% resulting in an operating ratio of 92.7%. Following is a table of key ratio's for the Group's insurance subsidiaries over the last five years:

	2008	2007	2006	2005	2004
Loss ratio	85.6%	77.4%	84.9%	82.0%	76.6%
Operating expenses ratio	20.0%	17.2%	22.4%	25.0%	26.2%
Reinsurance cost ratio	3.2%	4.9%	5.9%	8.0%	6.7%
Investment income ratio	17.3%	15.3%	18.2%	19.0%	23.0%
Combined ratio	108.8%	99.5%	113.3%	115.0%	109.5%
Operating ratio	92.7%	86.3%	95.9%	96.6%	89.1%

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30.10 Operational risk

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

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

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

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

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

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

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

30.11 Fair value of financial instruments

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

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

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

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

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

31. Subsidiaries and associated companies

Name of subsidiary	Incorporation	Ownership	Principal activity
Bond Private Insurance Holding ehf	Iceland	100.00%	Holding company
Exafin B.V.	Netherlands	100.00%	Holding company
Exista B.V.	Netherlands	100.00%	Investments
Exista Holdings B.V.	Netherlands	100.00%	Holding company
Exista Invest ehf.	Iceland	100.00%	Investments
Exista Trading ehf.	Iceland	100.00%	Investments
Exista UK Ltd.	United Kingdom	100.00%	Investments
Flutningar ehf.	Iceland	100.00%	Holding company
Frásögn ehf.	Iceland	100.00%	Holding company
Líftryggingafélag Íslands hf.	Iceland	100.00%	Life insurance
Lýsing hf.	Iceland	100.00%	Leasing
Pera ehf.	Iceland	100.00%	Holding company
Pond Street Investments ehf.	Iceland	100.00%	Investments
Vátryggingafélag Íslands hf.	Iceland	100.00%	Insurance
VÍS International Invest ehf.	Iceland	100.00%	Holding company
ÖM eignarhaldsfélag ehf.	Iceland	56.17%	Security

Name of associated company	Incorporation	Ownership	Principal activity
Árkaup ehf.	Iceland	35.70%	Holding company
Haed 14 ehf.	Iceland	50.00%	Real estate
Kaupthing Bank hf.	Iceland	24.75%	In administration

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32. Changes within Exista

On 30 September 2008, Exista sold its entire share (100%) in the property investment entity, Exista Properties ehf. Sale price was EUR 70.2 million.

On 7 October 2008, Exista sold its entire 19.98% holding in Sampo Oyj. The shares were sold in a book building offering to a number of institutional investors at EUR 11.50 per share. Morgan Stanley and Citigroup acted as joint bookrunners. As a result of that transaction, neither Exista nor any of its subsidiaries owns any shares in Sampo Oyj.

On 9 October 2008, Exista sold its holding in Storebrand ASA, amounting to 8.69% of the company's total share capital, to Gjensidige Forsikring BA. The shares were sold at NOK 20 per share. After that sale, neither Exista nor any of its subsidiaries owns any shares in Storebrand.

On 9 October 2008 the Icelandic Financial Supervisory Authorities (FME) took Kaupthing Bank into administration. Following extremely harsh action taken by the British authorities against Kaupthing's subsidiary in the United Kingdom, the Icelandic Financial Supervisory Authority (FME) intervened in the operations of Kaupthing Bank on 9 October 2008, based on the authority contained in new legislation on unusual circumstances in the financial markets. Subsequently Exista's investment in the bank was written down to zero.

33. Related party transactions

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

Loans to subsidiaries amounted to EUR 293 million as of 31 December 2008. At year end 2007, the comparable amount was EUR 930 million.

34. Other matters

Customers guarantees of a subsidiary amounted to EUR 18.2 million (2007: EUR 35.7 million).

35. Events after the Balance Sheet date

After year end, the following significant events have occurred:

On 1 January 2009 the functional currency was changed from Euro to Icelandic Króna.

On 21 March 2009 the Icelandic Financial Supervisory Authority (FME) took SPRON into administration.

On 11 April 2009 BBR ehf. announced a takeover bid to the shareholders of Exista hf. The offer was valid from 11 April through 8 May, by which time the offer was accepted by shareholders which owned 7,370,176,028 shares.

On 27 May 2009 the resolution committee of Glitnir accelerated their claims. Exista had previously declared set-off in respect of Glitnir's claims and has hence disputed the acceleration. Glitnir and other related party submitted writs to the District Court of Reykjavík on 15 September 2009 and 20 October 2009.

On 29 June 2009 the capital increase from 8 December 2008 was reversed by the Register of Limited Companies and listed share capital of Exista hf. decreased from 64,174,767,632 to 14,174,767,632 shares as referred to in note 27.

On 20 July 2009 the resolution committee of Landsbankinn accelerated their claims. The acceleration on claims did not apply to Exista's listed bonds. Landsbanki's writ was submitted to the District Court of Reykjavík on 3 September 2009.

On 11 September 2009 the sale of 855,151,478 shares in Bakkavor Group hf. was executed in accordance with an agreement dated 10 October 2008. Following the transaction, Exista and its affiliates do not own any shares in Bakkavor Group. The transfer of 190,000,000 of the above-mentioned shares has however been delayed due to a dispute with Old Kaupthing Bank over the release of a previously existing pledge over the shares.

On 8 October 2009 the resolution committee of Kaupthing Bank hf. submitted a writ to the District Court of Reykjavík stemming from FX agreements where the claim is ISK 20,117,708,624 and a right to a pledge over a cash deposit of EUR 76 million.

Number of smaller creditors have also submitted writs to the District court of Reykjavík and petition for attachments to the Magistrate of Reykjavik to secure their claims against Exista hf.

On 14 October 2009, the NASDAQ OMX Iceland hf. announced that Exista's listed financial instruments will be delisted on 16 November 2009.

The position and prospects of Exista are uncertain at the present time. Exista is engaged in discussions with domestic and foreign financial institutions concerning a review of loan agreements and the settlement of mutual claims. As a result, Exista's position is currently unclear. As stated in Exista's announcement to the market on 17 September 2009 the Company has engaged the advisory of Talbot Hughes McKillop LLP in connection with the proposed financial restructuring of Exista hf. The advisers will perform services and lead the discussions with creditors in connection with the proposed financial restructuring of Exista hf.

36. Approval of Consolidated Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and CEOs and authorised for issue on 19 October 2009.

Other information

Key Ratios

	31.12.2008	31.12.2007
Earnings per share (EPS) - cents	(11.93)	5.11
Return on equity	(88.2%)	23.0%
Price earnings (P/E)	n/a	4.29
Price to book (P/B)	n/a	1.04
Price pr. share in ISK	n/a	19.75
Equity ratio	8.7%	29.6%
Internal value of shares	1.39	19.65

	2008	2007
EUR/ISK rates:		
Average exchange rate for the year	127.46	87.60
Year end exchange rate	169.97	91.20

Quarterly Consolidated Income Statements

	2008				2007
	4th quarter	3rd quarter	2nd quarter	1st quarter	4th quarter
At fair value	(276.9)	(67.6)	(63.9)	(173.2)	(104.6)
Held for trading	(13.8)	(3.2)	20.6	58.5	(156.3)
Dividend	(0.0)	(0.0)	6.9	4.4	0.0
Interest revenue	45.8	34.2	28.0	28.5	30.3
Insurance premium	17.8	25.7	24.8	28.8	31.2
Share in profit of associates	0.7	47.2	67.8	64.6	48.4
Other revenues	3.1	15.3	5.4	4.6	7.2
Total revenues	(223.4)	51.5	89.6	16.1	(143.8)
Insurance claims	(18.0)	(17.5)	(21.2)	(28.8)	(28.3)
Operating expenses	(12.6)	(12.9)	(15.8)	(16.5)	(18.8)
Impairment losses	(75.6)	-	-	-	-
Admin. & sale of associates	(916.4)	-	-	-	-
Total expenses	(1,022.5)	(30.3)	(37.0)	(45.3)	(47.1)
Profit (loss) before financial items	(1,246.0)	21.2	52.5	(29.2)	(190.8)
Interest expense	(222.3)	(93.1)	(100.4)	(105.1)	(109.4)
Net FX gain (loss)	12.3	(17.0)	9.1	88.4	(6.2)
Profit (loss) before tax	(1,455.9)	(88.9)	(38.7)	(45.9)	(306.5)
Income tax	7.2	1.1	0.3	2.0	10.9
Profit (loss) for the year	(1,448.7)	(87.8)	(38.4)	(43.8)	(295.6)

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