

A decorative graphic on the left side of the page features a vertical strip of a natural landscape with green trees and a blue waterfall. Overlaid on this and the teal background are several overlapping circles: a large orange circle, a medium light blue circle, a small light blue circle, and a large white outline circle. The teal background is a solid, vibrant color.

## Consolidated Statement 2010

The Pension Fund for State Employees (LSR)  
The Pension Fund for Nurses (LH)

## Statement of changes in net assets available for benefits 2010

	LSR 2010	LH 2010	Total LSR & LH 2010	2009
<b>Premiums</b>				
Members	5,043,178	74,637	5,117,815	5,273,105
Employers	13,101,358	185,240	13,286,598	13,528,424
Transfer of rights and repayments	23,450	0	23,450	53,551
State contribution to equalize disability pension burden	177,646	17,937	195,583	0
Increase in pension payments	7,487,094	676,589	8,163,683	8,329,333
Liquidated pension commitments	601,456	2,825	604,282	1,368,358
Employer commitment deposits	1,118,956	121,475	1,240,431	1,403,907
Premiums	27,553,139	1,078,704	28,631,842	29,956,677
<b>Benefits</b>				
Benefits	22,010,160	1,738,379	23,748,538	22,949,774
Cost of disability assessments	946	70	1,017	954
Benefits	22,011,106	1,738,449	23,749,555	22,950,728
<b>Investment income</b>				
Dividends and revenue on shares	2,678,942	211,512	2,890,454	6,322,188
Interest income and exchange-rate difference	16,295,884	968,972	17,264,856	50,138,675
Provision for securities	(1,560,174)	(112,055)	(1,672,229)	(18,537,391)
Provision for forward agreements	(826,909)	(76,929)	(903,839)	(1,027,089)
Investment income	16,587,743	991,500	17,579,243	36,896,383
<b>Investment expenses</b>				
Office and management expenses	285,610	24,257	309,867	293,339
<b>Operating expenses</b>				
Office and management expenses	249,299	23,547	272,846	294,709
<b>Other income</b>				
Other income	40,843	2,121	42,964	42,194
Increase in net assets over the year	21,635,710	286,071	21,921,781	43,356,477
Net assets from previous year	328,470,579	21,368,278	349,838,857	306,482,380
Net assets available for benefits	350,106,289	21,654,349	371,760,638	349,838,857

## Balance sheet 31.12.2010

<b>Assets</b>	LSR 2010	LH 2010	Total LSR & LH	
			2010	2009
<b>Investments</b>				
Real estate	121,522	13,502	135,024	137,537
Variable-income securities	128,428,483	9,796,624	138,225,107	144,487,051
Fixed-income securities	163,610,523	9,958,347	173,568,870	140,257,419
Mortgage loans	57,750,150	2,690,027	60,440,177	60,007,312
Other investments	3,509,896	0	3,509,896	2,648,916
Investments	353,420,574	22,458,500	375,879,074	347,538,235
<b>Claims</b>				
Claims on employers	2,200,908	49,724	2,250,631	3,410,207
Other claims	121,921	10,800	132,722	217,358
Claims	2,322,829	60,524	2,383,353	3,627,564
<b>Other assets</b>				
Operating assets and other tangible assets	7,098	789	7,887	8,858
Cash and deposits	13,770,634	810,605	14,581,240	18,739,959
Other assets	13,777,732	811,394	14,589,127	18,748,817
<b>Assets</b>	<b>369,521,135</b>	<b>23,330,418</b>	<b>392,851,554</b>	<b>369,914,616</b>
<b>Liabilities</b>				
<b>Commitments</b>				
Accrued pension commitments	93,440	8,332	101,772	96,143
Commitments	93,440	8,332	101,772	96,143
<b>Liabilities</b>				
Other liabilities	778,752	51,988	830,740	725,051
Provision for forward agreements	18,542,654	1,615,749	20,158,403	19,254,564
Liabilities	19,321,406	1,667,737	20,989,143	19,979,616
<b>Liabilities</b>	<b>19,414,846</b>	<b>1,676,069</b>	<b>21,090,916</b>	<b>20,075,759</b>
<b>Net assets available for benefits</b>	<b>350,106,289</b>	<b>21,654,349</b>	<b>371,760,638</b>	<b>349,838,857</b>
<b>Assets excluded in the Balance sheet</b>				
Claim on employers, art. 33/20	217,287,007	30,292,930	247,579,937	244,201,959

## Statement of cash flow 2010

	LSR 2010	LH 2010	Total LSR & LH 2010	2009
<b>Inflow</b>				
Premium payments	28,652,590	1,161,477	29,814,067	30,003,860
Investment income	4,098,853	135,433	4,234,287	5,760,978
Bond payments	16,389,709	1,290,607	17,680,316	15,391,992
Sale of variable-income securities	18,177,375	1,308,571	19,485,946	17,012,584
Sale of fixed-income securities	19,883,133	686,025	20,569,158	30,348,951
Inflow	87,201,661	4,582,112	91,783,774	98,518,365
<b>Outflow</b>				
Benefits	21,911,512	1,737,585	23,649,098	24,330,975
Investment expenses	279,994	24,257	304,251	284,106
Operating costs excluding depreciation	204,601	20,049	224,650	287,897
Outflow	22,396,108	1,781,891	24,177,999	24,902,978
Disposable resources for purchase of securities and other investments	64,805,553	2,800,222	67,605,775	73,615,387
<b>Purchase of securities and other investments</b>				
Purchase of variable-income securities	8,006,575	493,557	8,500,133	13,543,422
Purchase of fixed-income securities	57,277,243	2,430,235	59,707,478	49,929,053
New mortgage loans	3,401,978	42,975	3,444,953	4,157,449
Other investments	111,595	337	111,932	19,095
Total investment	68,797,391	2,967,104	71,764,494	67,649,019
Increase (decrease) in cash and bank deposits	(3,991,837)	(166,882)	(4,158,720)	5,966,367
Cash and bank deposits at beginning of year	17,762,471	977,488	18,739,959	12,773,592
Cash and bank deposits at year-end	13,770,634	810,605	14,581,240	18,739,959

## Financial indicators – LSR

	2010	2009	2008	2007	2006
<b>Yield</b>					
Nominal yield	4.92%	11.85%	-13.01%	5.06%	18.71%
Real yield	2.25%	2.96%	-25.24%	-0.75%	10.99%
Net real yield	2.19%	2.87%	-25.31%	-0.84%	10.89%
Average net real yield over the last 5 years	-2.90%	-0.74%	0.47%	8.69%	8.57%
Average net real yield over the last 10 years	1.62%	1.55%	2.08%	5.71%	6.36%
<b>Investment securities</b>					
Listed variable yield securities	32.2%	38.0%	34.6%	44.8%	46.9%
Listed fixed rate securities	42.4%	36.2%	38.2%	35.1%	37.0%
Unlisted variable yield securities	4.1%	3.3%	3.2%	1.1%	0.5%
Unlisted fixed rate securities	4.0%	4.2%	4.9%	4.6%	2.9%
Mortgage loans	16.4%	17.6%	18.6%	14.2%	12.7%
Other investments	1.0%	0.8%	0.4%	0.2%	0.2%
<b>Investment securities by currencies</b>					
Securities in Icelandic krona	66.0%	60.2%	62.6%	69.2%	66.9%
Securities in foreign currencies	34.0%	39.8%	37.4%	30.8%	33.1%
<b>Expenses as percentage of assets</b>					
Operating expenses net of other income	0.06%	0.09%	0.09%	0.09%	0.09%
Investment expenses	0.08%	0.09%	0.07%	0.06%	0.06%
<b>Members and pensioners</b>					
Average number of active members	27,921	28,417	28,099	27,655	26,849
Average number of pensioners	13,436	12,719	11,603	10,980	10,388
<b>Breakdown of pension payments by type</b>					
Old-age pensions	74.3%	74.5%	74.4%	74.3%	72.9%
Disability allowance	6.4%	6.1%	6.5%	5.7%	6.6%
Spouse's pension	17.4%	17.5%	18.7%	19.6%	20.2%
Children's allowance	0.4%	0.4%	0.4%	0.4%	0.4%
Other payments	1.4%	1.5%	0.0%	0.0%	0.0%

## Financial indicators – LH

	2010	2009	2008	2007	2006
<b>Yield</b>					
Nominal yield	4.60%	11.51%	-14.64%	4.41%	18.93%
Real yield	1.94%	2.65%	-26.64%	-1.37%	11.20%
Net real yield	1.84%	2.53%	-26.73%	-1.47%	11.09%
Average net real yield over the last 5 years	-3.49%	-1.34%	-0.06%	8.76%	8.53%
Average net real yield over the last 10 years	1.20%	1.09%	1.71%	5.59%	6.36%
<b>Investment securities</b>					
Listed variable yield securities	39.2%	43.4%	37.8%	45.7%	48.3%
Listed fixed rate securities	41.4%	37.6%	42.0%	39.0%	38.8%
Unlisted variable yield securities	4.4%	3.6%	3.5%	1.2%	0.5%
Unlisted fixed rate securities	3.0%	2.7%	3.7%	3.9%	3.8%
Member loans	12.0%	12.7%	13.0%	10.2%	8.6%
<b>Investment securities by currencies</b>					
Securities in Icelandic krona	58.3%	53.9%	57.9%	66.5%	64.1%
Securities in foreign currencies	41.7%	46.1%	42.1%	33.5%	35.9%
<b>Expenses as percentage of assets</b>					
Operating expenses net of other income	0.10%	0.11%	0.11%	0.09%	0.09%
Investment expenses	0.11%	0.11%	0.08%	0.07%	0.07%
<b>Members and pensioners</b>					
Average number of active members	522	581	628	689	740
Average number of pensioners	748	700	644	589	555
<b>Breakdown of pension payments by type</b>					
Old-age pensions	88.2%	88.9%	86.8%	86.9%	85.1%
Disability allowance	9.1%	8.3%	10.2%	10.1%	11.7%
Spouse's pension	2.7%	2.7%	2.9%	2.8%	3.0%
Children's allowance	0.1%	0.1%	0.2%	0.2%	0.2%

## Appendix – LSR & LH

### Role of the funds

The principal role of the Pension Fund for State Employees (LSR) and the Pension Fund for Nurses (LH) is to pay pensions to its members upon retirement and throughout their lives and ensure their families with a pension following a loss of income due to an impaired ability to work or due to death. The Fund receives contributions and invests them in a common fund in order to meet its liability regarding old-age pensions, disability benefits, spouse's and children's benefits. Furthermore, the Fund grants loans to Fund members and accepts and invests voluntary pension savings. LSR & LH had a total of 31,366 active members in 2010 and 16,877 members received pensions and other benefits. The Fund pays over one-third of all pensions and benefits paid by Icelandic pension funds. The Fund operates in three divisions, divisions A and B, and a division for individual retirement accounts. All divisions have the same Board but are financially separated from each other. The Pension Fund for State Employees operates in close cooperation with the Pension Fund for Nurses. The two funds share facilities and staff members.

### Investment policy for LSR & LH

The investment policy is as shown below. It is reviewed at least once a year considering changes in market situations, laws and regulations. LSR & LH follow a strategic asset allocation policy that targets the percentage to be invested in each asset class.

	Division A			Division B & LH		
	Policy	Variation		Policy	Variation	
<b>Cash</b>	1%	0%	20%	1%	0%	20%
<b>Bonds</b>	<b>53%</b>	<b>40%</b>	<b>80%</b>	<b>64%</b>	<b>40%</b>	<b>70%</b>
Government bonds	20%	15%	50%	31%	20%	50%
Fin. Institution bonds	5%	0%	15%	5%	0%	15%
Municipal bonds	5%	0%	15%	5%	0%	15%
Corporate bonds	5%	0%	10%	5%	0%	10%
Member loans	15%	5%	30%	15%	5%	30%
Foreign bonds	3%	0%	5%	3%	0%	5%
<b>Equities</b>	<b>33%</b>	<b>10%</b>	<b>60%</b>	<b>28%</b>	<b>10%</b>	<b>50%</b>
Domestic equities	3%	0%	15%	3%	0%	10%
Foreign equities	30%	10%	50%	25%	10%	50%
<b>Other investments</b>	<b>13%</b>	<b>0%</b>	<b>30%</b>	<b>7%</b>	<b>0%</b>	<b>15%</b>
Private equity	10%	0%	20%	5%	0%	10%
Real estate	1%	0%	5%	1%	0%	5%
Hedge funds	1%	0%	5%	0%	0%	0%
Commodities	1%	0%	5%	1%	0%	5%

## Investments

Total net investments in the year 2010 were 32.2 billion ISK. The funds invested 43.6 billion ISK in domestic bonds and sold 0.2 billion ISK in foreign bonds. Net investments allocated to domestic equities were 0.2 billion and 14 billion ISK of foreign equities were sold in 2010. LSR & LH invested 2.4 billion ISK in private equity last year and 0.2 billion ISK in real estate.

## Net investments 2010

(m. ISK)

	Div. A	Div. B	Div. S	LSR total	LH	Total
Government bonds	21,686	12,392	1,164	35,243	1,783	37,026
Municipal bonds	39	21	0	60	3	63
Fin. Institution bonds	1,999	1,244	0	3,243	152	3,395
Corporate bonds	1,271	404	0	1,675	63	1,738
Morgage bonds	598	313	13	924	24	948
Member loans	1,382	131	0	1,513	-7	1,506
Domestic bond funds	0	0	-1,051	-1,051	0	-1,051
Foreign bonds	-72	-84	-8	-163	-2	-165
<b>Bonds</b>	<b>26,905</b>	<b>14,420</b>	<b>118</b>	<b>41,443</b>	<b>2,016</b>	<b>43,459</b>
Domestic equities	121	66	0	187	8	195
Foreign equities	-4,938	-7,784	-331	-13,053	-970	-14,023
<b>Equities</b>	<b>-4,817</b>	<b>-7,718</b>	<b>-331</b>	<b>-12,866</b>	<b>-962</b>	<b>-13,828</b>
Private equity	1,429	810	27	2,266	111	2,377
Real estate	86	116	4	206	16	222
<b>Other investments</b>	<b>1,515</b>	<b>926</b>	<b>31</b>	<b>2,472</b>	<b>126</b>	<b>2,599</b>
<b>Total</b>	<b>23,603</b>	<b>7,628</b>	<b>-182</b>	<b>31,049</b>	<b>1,180</b>	<b>32,229</b>



### Total assets

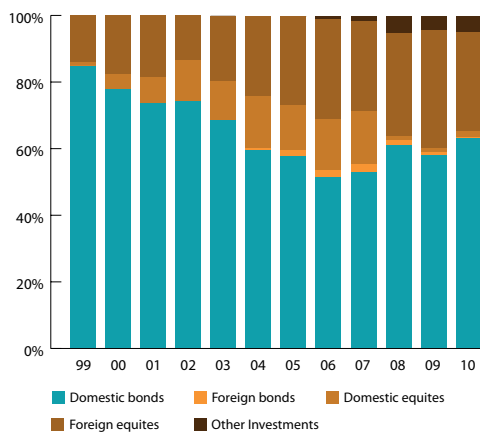
In the year-end 2010 total assets in securities amounted to 390.2 billion ISK. Assets in domestic bonds amounted to 234.6 billion ISK or 60.1% compared to 54.7% in the year-end 2009. Assets in foreign bonds were 1.8 billion ISK or 0.4% compared to 0.8% the year before. Assets in domestic equities were 6.4 billion ISK or 1.6% of total assets compared to 1.1% in 2009. Total assets in foreign equities were 110.4 billion ISK or 28.3% compared to 33.3% in 2009 and total assets in private equity and real estate funds were 19 billion ISK or 4.9% compared to 4.3% last year. Cash and deposits amounted to 18.0 billion ISK in the year-end or 4.6% of total assets.

### Total assets 2010

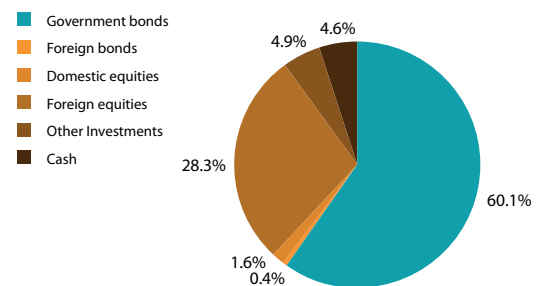
(m. ISK)

				Proportion		
	LSR	LH	Total	LSR	LH	Total
Government bonds	111,006	6,148	117,154	30.2%	26.4%	30.0%
Fin. Institution bonds	10,778	858	11,635	2.9%	3.7%	3.0%
Municipal bonds	22,469	1,435	23,904	6.1%	6.2%	6.1%
Corporate bonds	18,562	1,415	19,977	5.1%	6.1%	5.1%
Mortgage bonds	2,490	124	2,615	0.7%	0.5%	0.7%
Member loans	56,727	2,631	59,359	15.5%	11.3%	15.2%
Foreign bonds	1,650	103	1,753	0.4%	0.4%	0.4%
<b>Bonds</b>	<b>223,682</b>	<b>12,714</b>	<b>236,396</b>	<b>61.0%</b>	<b>54.7%</b>	<b>60.6%</b>
Domestic equities	6,009	424	6,432	1.6%	1.8%	1.6%
Foreign equities	102,371	8,003	110,374	27.9%	34.4%	28.3%
<b>Equities</b>	<b>108,380</b>	<b>8,426</b>	<b>116,806</b>	<b>29.5%</b>	<b>36.2%</b>	<b>29.9%</b>
Private equity	16,532	1,214	17,746	4.5%	5.2%	4.5%
Real estate	1,196	91	1,286	0.3%	0.4%	0.3%
<b>Other investments</b>	<b>17,728</b>	<b>1,304</b>	<b>19,032</b>	<b>4.8%</b>	<b>5.6%</b>	<b>4.9%</b>
<b>Cash</b>	<b>17,155</b>	<b>811</b>	<b>17,966</b>	<b>4.7%</b>	<b>3.5%</b>	<b>4.6%</b>
<b>Total</b>	<b>366,944</b>	<b>23,256</b>	<b>390,200</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Changes in Asset Allocation 1999-2010



### Total Assets 2010



## Return

The table below shows nominal and net real return for LSR and LH in 2010 and 2009 along with nominal and real return in each asset class.

### Return and asset allocation 2010

	LSR		LH	
	2010	2009	2010	2009
<b>Return</b>				
Nominal return	4.9%	11.9%	4.6%	11.5%
Net real return	2.2%	2.9%	1.8%	2.5%
Average 5 year net real return	-2.9%	-0.7%	-3.5%	-1.3%
<b>Asset Allocation</b>				
Cash	4.7%	5.9%	3.5%	4.3%
Domestic bonds	60.5%	55.0%	54.2%	50.1%
Foreign bonds	0.5%	0.8%	0.5%	0.9%
Domestic equities	1.6%	1.1%	1.8%	1.2%
Foreign equities	27.9%	33.0%	34.4%	38.7%
Other investments	4.8%	4.2%	5.6%	4.9%



### Foreign equities

LSR & LH cooperate with external managers for investments and custody of foreign equities. For risk diversification purposes, investments are diversified between several managers with different investment styles and strategies. The external managers are listed in a table on this page.

### Funds / segregated portfolios (LSR & LH) 2010

Segregated portfolios	m. ISK	%
MFS Institutional Advisors	16,188	12.5%
Morgan Stanley	11,211	8.6%
ETF Credit Suisse	2,529	2.0%
EFG Global Equity	2,509	1.9%
<b>Total</b>	<b>32,437</b>	<b>25.0%</b>

### Foreign equities

Sampo OYJ-A SHS	341	0.3%
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### Foreign equities – Funds

Vanguard Global Stock Index	13,682	10.6%
JP Morgan Global Dynamic Fund	11,377	8.8%
State Street Global Advisors	10,729	8.3%
Schroder Global Core	9,453	7.3%
ACM Global Growth Trends	9,424	7.3%
Other funds	22,932	17.7%
<b>Total</b>	<b>77,597</b>	<b>60.0%</b>

### Private equities

Schroder Private Equity III	2,344	1.8%
Morgan Stanley Private Equity III	2,281	1.8%
Schroder Private Equity II	1,245	1.0%
Black Rock Diversified Private Equity III	1,157	0.9%
Landsbanki Private Equity II	955	0.7%
Partners Group Private Equity	922	0.7%
Other funds	8,842	6.8%
<b>Total</b>	<b>17,746</b>	<b>13.7%</b>

### Real estate funds

Templeton Real Estate Fund	525	0.4%
International Real Estate Fund	762	0.6%
<b>Total</b>	<b>1,286</b>	<b>1.0%</b>

<b>Total</b>	<b>129,406</b>	<b>100.0%</b>
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