



Consolidated Financial Statements
Year ended 31 December 2006

Exista hf.
Ármúli 3
108 Reykjavík
Iceland
ID 610601-2350

Exista hf.

Consolidated Financial Statements

Year ended 31 December 2006

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Endorsement by the Board of Directors and CEOs

The Consolidated Financial Statements for the year 2006 consist of the Consolidated Financial Statements of Exista hf. and its subsidiaries. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

According to the Consolidated Income Statement, profit for the year 2006 amounted to ISK 37.409 million compared to ISK 50.315 million for prior year. Total assets at year end amounted to ISK 415.821 million compared to ISK 161.782 million at prior year end. Equity at year end amounted to ISK 179.779 million compared to ISK 96.104 million at prior year end.

The Board of Directors propose that ISK 10.839 million, which is 29% of the years profit and 100% of share nominal value, be paid to shareholders as dividend.

At 31 December 2006 Exista's shareholders numbered 31.410 as compared to 10 at the beginning of the year. One shareholder owned more than 10% of the shares at year end, Bakkabraedur Holding B.V. which owned 47,38%

The Company purchased 80,8% in VÍS eignarhaldsfélag hf. during the year and owns it now in full. The Consolidated Financial Statements include the operations of VÍS eignarhaldsfélag hf. and its subsidiaries from 1 June 2006. On 15 September 2006 Exista hf. was listed on the Iceland Stock Exchange.

It is the opinion of the Board of Directors and CEOs that these Financial Statements present the necessary information to evaluate the financial position of the Company at year end of 2006 and its operating results and financial developments for the year then ended.

The Board of Directors and CEOs of Exista hf. hereby confirm the Consolidated Financial Statements of Exista hf. for the year 2006 with their signatures.

Reykjavík, 8 February 2007

Board of Directors

Lýður Guðmundsson
Chairman

Ágúst Guðmundsson

Guðmundur Örn Hauksson

Bogi Pálsson

Sigurjón Rúnar Rafnsson

CEOs

Erlendur Hjaltason

Sigurður Valtýsson

Independent Auditor's Report

To the Board of Directors and shareholders of Exista hf.

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Reykjavík, 8 February 2007.

Deloitte hf.

Hilmar A. Alfreðsson
State Authorized Public Accountant

Knútur Þórhallsson
State Authorized Public Accountant

Consolidated Income Statement for the year 2006

	Notes	<u>2006</u>	<u>2005</u>
Financial assets designated at fair value through profit and loss	5	31.348	48.952
Financial assets held for trading	6	11.309	960
Dividend	7	6.902	687
Interest	8	4.411	102
Insurance premium	9	6.452	0
Other revenues	11	662	0
Total revenues		<u>61.083</u>	<u>50.700</u>
Insurance claims	10	(5.136)	0
Operating expenses	12	(4.476)	(245)
Total expenses		<u>(9.613)</u>	<u>(245)</u>
Profit before financial expenses		51.470	50.455
Interest expenses		(9.123)	(3.562)
Foreign exchange difference		(4.067)	(967)
		<u>(13.190)</u>	<u>(4.529)</u>
Profit before tax		38.280	45.926
Income tax	14	(872)	4.389
Profit for the year		<u>37.409</u>	<u>50.315</u>
Attributable to:			
Attributable to shareholders of Exista hf.		37.505	50.315
Minority interest		(96)	0
		<u>37.409</u>	<u>50.315</u>
Earnings per share	17	3,77	8,31

Consolidated Balance Sheet at 31 December 2006

	Notes	31.12.2006	31.12.2005
Assets			
Financial assets measured at fair value	18	215.019	148.667
Financial assets held for trading	19	79.191	7.579
Loans and accounts receivable	20	66.591	0
Goodwill	21	43.976	0
Reinsurance assets	22	1.498	0
Property and equipment	23	1.154	101
Cash and equivalents		7.198	4.965
Other assets		1.194	470
Total assets		415.821	161.782
 Equity			
Share capital	24	10.629	8.689
Statutory reserves		2.161	2.161
Capital reserves		66.026	17.351
Translation reserves		0	(135)
Retained earnings		100.407	68.037
Shareholders equity		179.223	96.104
Minority interest		556	0
Total equity		179.779	96.104
 Liabilities			
Borrowings	25	206.534	65.499
Technical provision	26	21.180	0
Deferred income tax liability	27	5.697	35
Other liabilities		2.630	144
Total liabilities		236.042	65.678
 Total equity and liabilities		415.821	161.782

Consolidated Statement of changes in Equity for the year 2006

	Share capital	Reserves	Retained earnings	Minority interest	Total
Equity 1.1.2005	6.040	927	19.374		26.340
Subsidiaries in ISK		449			449
Dividends paid			(1.000)		(1.000)
Issue of share capital	2.649	17.351			20.000
Statutory reserve		651	(651)		0
Profit for the year			50.315		50.315
Equity 31.12.2005	8.689	19.377	68.037	0	96.104
Change in minority interest				652	652
Issue of share capital	2.150	53.085			55.235
Dividends paid			(5.000)		(5.000)
Translation out		135	(135)		0
Profit for the year			37.505	(96)	37.409
Own shares	(210)	(4.410)			(4.620)
Equity 31.12.2006	10.629	68.187	100.407	556	179.779

Consolidated Cash Flow Statement for the year 2006

	Notes	2006	2005
Cash flow from operating activities			
Profit for the year		37.409	50.315
Adjustments for:			
Exchange difference		(37.631)	(47.069)
Deferred income tax liability, change	27	734	(4.389)
Depreciation and amortization	21, 23	495	5
Working capital to operations		<u>1.007</u>	<u>(1.138)</u>
Changes in operating assets and liabilities:			
Receivables, change		(17.777)	(457)
Payables, change		16.685	118
Cash from (to) operations		<u>(85)</u>	<u>(1.477)</u>
Investing activities			
Financial assets		(69.827)	(40.963)
Property and equipment		(132)	(80)
Investing activities		<u>(69.959)</u>	<u>(41.043)</u>
Financing activities			
Borrowings		75.238	27.267
Proceeds on issue of share capital		2.013	20.000
Dividends paid	16	(5.000)	(1.000)
Financing activities		<u>72.251</u>	<u>46.267</u>
Net increase in cash and equivalents		2.207	3.747
Cash and equivalents at beginning of year		4.965	1.218
Effect of foreign exchange rate changes		27	0
Cash and equivalents at year-end		<u><u>7.198</u></u>	<u><u>4.965</u></u>
Investing and financing activities without cash flow effect:			
Acquisition of subsidiary		(53.222)	
Issued share capital		53.222	

Notes to the consolidated financial statements

1. General information

Exista hf. is company incorporated and domiciled in Iceland. The consolidated financial statements for the year ended 31 December 2006 comprise Exista hf. (the parent or the Company) and its subsidiaries (together referred as the Group).

The principal activities of Exista hf. are insurance and assets finance, together with strategic holdings as a major shareholder in several of Iceland's largest companies. Exista hf. concentrates on northern Europe as its core markets.

2. Significant accounting policies

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared on 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 Financial Statements are prepared in Icelandic krónur.

New and revised Standards

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

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

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

Critical judgments in applying accounting policies

In the application of the Group's accounting policies 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 to be relevant. Actual results may differ from these estimates.

Notes to the consolidated financial statements

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.

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 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.

Business combination

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 acquire, 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 recognized 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 recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized 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 recognized. 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 recognized immediately in profit or loss.

Investment 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.

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.

Notes to the consolidated financial statements

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 the 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 Financial Instruments: Recognition and Measurement.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary or jointly controlled entity 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 and reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company'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. Any impairment is recognized immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

The Company's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates" above.

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.

i) 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.

Notes to the consolidated financial statements

ii) 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 below). 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.

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 Currency Units ('CU'), 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 Currency Units 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.

Notes to the consolidated financial statements

Taxation

Income tax expense represents the sum of the tax currently payable and deferred 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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company 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 Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

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 cost.

Property and equipment

Property and equipment are 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, on the following basis:

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 an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the consolidated financial statements

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise

Intangible assets

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.

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.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Notes to the consolidated financial statements

Risk management

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. These Derivatives are initially measured at fair value on the contract date and are remeasured to fair value at subsequent reporting dates, with all changes in fair value recognized immediately in profit and loss.

A derivative is a financial instrument or other contract within the scope of IAS 39, the value of which changes in response to a change in an underlying variable (such as share, commodity or bond prices, an index value or an exchange or interest rate), which requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and which is settled at a future date.

Exista is exposed to various risks inherent in conducting financial services operations, it is necessary to identify, measure, aggregate and manage these risks effectively, and to allocate the capital appropriately. Risk is managed through a framework of risk principles, organizational structures and risk measurements and monitoring processes that are closely aligned with the activities of the Group Divisions. This includes market-, credit-, liquidity-, underwriting- and operational risks and other risks that require comprehensive control and management. The Board of Directors emphasize effective risk management and Exista operates a centralized Group Risk Management unit in order to enforce that policy.

i) Market risk

Equity investments in strategic holdings represent a large portion of Exista's assets. Listed equity investments are marked to market on a current basis therefore Exista's equity investment portfolio is affected by fluctuations on the equity markets.

Exista's main equity assets are in Kaupthing Bank and Bakkavör Group, both of which are listed on the OMX Nordic Exchange in Iceland.

To quantify and measure market risk we use stress tests and statistical tests. Risk concentration limits are set on exposure in currencies, countries and liquidity. The investment portfolios of Vátryggingafélag Íslands hf. and Líftryggingafélag Íslands hf. are under asset management of Exista Trading. They are also monitored by the Icelandic Financial Supervisory Authority, the portfolios of the respective subsidiaries are structured to ensure that capitalisation is adequate and financial strength is maintained at all times.

Stress tests are performed on the portfolios where extreme market movements are tailored and subjectively chosen, based on historical experience and worst-case scenarios giving an indication of possible losses in a market crisis. Value at Risk (VaR) is used to estimate theoretical possible loss over a given time horizon (10 days), measured at a specified confidence level (99%) given that current variance and correlation will continue for each holding.

ii) Credit risk

Credit risk exposure is mostly concentrated in the Exista Asset Finance subsidiary Lýsing hf. The portfolio is well diversified in loans and leasing contracts. Interest rate and currency risks are managed by the length of financing contracts, currency split of financing and by interest rate and currency swaps. Lýsing, being defined according to Icelandic law as a financial institution, is regulated by the Icelandic Financial Supervisory Authority (FSA) and reports quarterly to the FSA on defaulted customers, exposure concentration and equity limits. Internal procedures are used to manage the default risk, settlement risk, exposure risk and collateral risk.

iii) Liquidity risk

Exista's risk management mitigates the liquidity risk of Exista by assuring adequate liquidity through unforeseen changes in funding sources or market disruption. The primary objective is to ensure that all obligations maturing within 180 days can be met with committed liquidity sources. Furthermore, all obligations maturing within 360 days should be covered with the addition of other liquidity sources.

Currency exposure is actively managed by Exista. Limits on currency exposure are set by the Board of Directors of Exista. Exista uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

Notes to the consolidated financial statements

iv) Underwriting risk

The customer base of Exista Insurance is well diversified and the company is not reliant on any individual client or customer. The Exista Insurance subsidiaries are Vátryggingafélag Íslands hf., Líftryggingafélag Íslands hf. and IGI Group Ltd.

In order to limit the underwriting risk of Exista Insurance, part of the risk is transferred to reinsurers. The amount of risk that Exista Insurance carries for its own account is determined with respect to the financial strength of each of the insurance companies and the nature of the risk.

v) Other risks

Exista also faces risks such as operational and reputational risk. Exista has taken measures in identifying and reducing possible operational risk factors in Exista's operation. Exista's policy is to continually increase risk awareness of employees to further reduce operational risk. Exista's strategy 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.

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', '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.

i) 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.

ii) Financial assets measured at fair value through profit and 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 Company 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

- 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 Company'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 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 below.

Notes to the consolidated financial statements

iii) Held-to-maturity investments

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

iv) Available for sale (AFS) financial assets

Listed 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 below. 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.

Dividends on AFS equity instruments are recognised in profit or loss when the Company'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.

v) 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.

vi) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For 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 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 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, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Notes to the consolidated financial statements

Financial liabilities and equity instruments issued by the Company

i) 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.

ii) 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.

iii) 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.

iv) 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 set out above.

v) Financial liabilities

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

vi) Financial liabilities at FVTPL

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 Company 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 Company'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 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 below.

Notes to the consolidated financial statements

vii) 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.

Derivative financial instruments

The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The significant interest rate risk arises from bank loans. The Company's policy is to convert a proportion of its floating rate debt to fixed rates. The Company designates these as cash flow hedged of interest rate risk.

The use of financial derivatives is governed by Company's policies approved by the board of directors, which provides written principles on the use of financial derivatives consistent with the Company's risk management strategy. The Company does not use derivative financial instruments for speculative purposes.

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 Company 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.

i) 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.

ii) Hedge accounting

The Company 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 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 Company 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.

Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

iii) Fair value hedge

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 is attributable to the hedged risk.

Hedge accounting is discontinued when the Company 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.

Notes to the consolidated financial statements

iv) Cash flow hedge

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 as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. 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.

v) 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.

Fair value

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 are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments, are 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.

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.

Borrowing costs

All borrowing costs are recognized in profit or loss in the period they incurred.

Notes to the consolidated financial statements

Insurance contracts

The Company's subsidiaries, Vátryggingarfélag Íslands hf. and Líftryggingarfélag Íslands hf. , issues contracts that transfer both financial and insurance risk from the customer to the subsidiaries.

i) Insurance contracts - definition

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

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

ii) Insurance contracts - classification

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

Property and Casualty insurance

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

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

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

Life insurance

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

iii) Investments with investment risk of the life assurance policyholders

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

iv) Technical provisions

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

v) Reinsurance contracts

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

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

Notes to the consolidated financial statements

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Income and expense

Insurance operations

i) Premiums

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

ii) Claims

Claims stated in the Income Statement are the periods claims including increases or decreases due to claims from previous fiscal years. Claims reserved in the Balance Sheet are the total amount of reported but unpaid claims as well as actuarial provision for claims accrued but unreported.

Leasing operations

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

Financial operations

i) Changes in market value of investments

Income because of changes in the market price of investment 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.

Segment reporting

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

Provisions

Provision is recognised when the Group has a present obligation 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.

Stock option contracts and obligations to increase share capital

The Group has made no stock option agreements with directors, employees and other parties relating to operations.

Notes to the consolidated financial statements

3. Business segments

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

Operational Businesses

Exista Insurance comprises three subsidiaries that are fully or majority owned by Exista. The non-life insurance companies Vátryggingarfélag Íslands and IGI Group, and the life insurance company is Líftryggingarfélag Íslands.

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

Exista Trading manages proprietary trading for the parent company and handles asset management for the parent company and its subsidiaries.

Investment Businesses

The Investment Businesses are among Iceland's largest investment operations. The investment activity is divided into three businesses, Exista Strategic Holdings, Exista other businesses and Exista UK, where each business has a different horizon and investment policy.

The following is an analysis of the Group's revenue and results for the period, analyzed by business segments.

	* Operating	Investments	Total 2006	Total 2005
Investment revenues	14.778	34.780	49.558	50.598
Insurance premium	6.452	0	6.452	0
Interest	4.128	283	4.411	102
Other revenues	564	98	662	0
Revenues.....	<u>25.922</u>	<u>35.161</u>	<u>61.083</u>	<u>50.700</u>
Insurance claims	(5.136)	0	(5.136)	0
Operating expenses	(3.529)	(948)	(4.476)	(245)
Expenses.....	<u>(8.665)</u>	<u>(948)</u>	<u>(9.613)</u>	<u>(245)</u>
<i>Profit before financial expenses</i>	17.257	34.214	51.470	50.455
Financial expenses	(2.732)	(10.458)	(13.190)	(4.529)
<i>Profit before tax</i>	<u>14.525</u>	<u>23.755</u>	<u>38.280</u>	<u>45.926</u>
Income tax	(616)	(256)	(872)	4.389
<i>Profit for the year</i>	<u>13.909</u>	<u>23.499</u>	<u>37.409</u>	<u>50.315</u>

* Insurance and Leasing operation came into the accounts in June 2006.

Segment assets

	Operating	Investments	Total 2006	Total 2005
Financial assets measured at fair value	26.045	188.974	215.019	148.667
Financial assets held for trading	78.947	244	79.191	7.579
Loans and accounts receivable	65.366	1.225	66.591	0
Goodwill	439	43.537	43.976	0
Reinsurance assets	1.498	0	1.498	0
Property and equipment	843	311	1.154	101
Cash and equivalents	4.405	2.794	7.198	4.965
Other assets	1.111	83	1.194	470
At 31 December 2006.....	<u>178.654</u>	<u>237.167</u>	<u>415.821</u>	<u>161.782</u>

Notes to the consolidated financial statements

4. Quarterly consolidated income statements

	2006				2005
	4th quarter	3rd quarter	2nd quarter	1st quarter	4th quarter
At fair value.....	2.185	28.206	(8.854)	9.811	22.323
Held for trading.....	9.228	264	93	1.724	467
Dividends.....	5.185	47	22	1.648	1
Interest.....	2.024	1.529	841	16	7
Insurance premium.....	2.278	3.198	976	0	0
Other revenues.....	220	342	101	0	0
	<u>21.120</u>	<u>33.586</u>	<u>(6.822)</u>	<u>13.199</u>	<u>22.797</u>
Insurance claims.....	(1.942)	(2.560)	(633)		
Operating expenses.....	(1.564)	(2.114)	(674)	(124)	(89)
	<u>(3.506)</u>	<u>(4.675)</u>	<u>(1.308)</u>	<u>(124)</u>	<u>(89)</u>
<i>Profit before financial expenses.....</i>	17.614	28.912	(8.130)	13.075	22.709
Interest expense.....	(3.356)	(2.438)	(1.968)	(1.362)	(1.281)
Foreign exchange difference.....	(715)	1.846	(2.132)	(3.065)	(1.161)
	<u>13.542</u>	<u>28.320</u>	<u>(12.230)</u>	<u>8.648</u>	<u>20.267</u>
Income tax	(429)	(755)	582	(270)	8.692
	<u>13.113</u>	<u>27.566</u>	<u>(11.649)</u>	<u>8.379</u>	<u>28.959</u>

5. Financial assets designated at fair value through profit and loss

	2006	2005
Shares - listed	25.333	48.122
Shares - unlisted	6.015	829
	<u>31.348</u>	<u>48.952</u>

6. Net gain on financial assets held for trading

	2006	2005
Shares - listed	9.472	528
Shares - unlisted	1.157	124
Funds - listed.....	73	108
Funds - unlisted.....	233	4
Bonds - listed.....	332	196
Bonds - unlisted.....	39	0
Other.....	2	0
	<u>11.309</u>	<u>960</u>

Notes to the consolidated financial statements

7. Dividend revenue

	2006	2005
Financial assets measured at fair value.....	6.595	666
Financial assets held for trading.....	307	21
	<u>6.902</u>	<u>687</u>

8. Interest revenue

	2006	2005
Interest revenue from bonds.....	1.704	45
Other interest revenues.....	2.706	57
	<u>4.411</u>	<u>102</u>

9. Insurance premiums, net of reinsurance

	2006
Premiums written.....	8.573
Reinsure's share.....	(1.197)
Change in the gross provision for unearned premiums.....	(879)
Change in other technical provision of life assurance policyholders who bear the investment risk.....	(221)
Change in the provision for unearned premiums, reinsure's' share.....	7
Unrealized gain on investments of life-assurance policyholders who bear the investment risk.....	169
	<u>6.452</u>

10. Insurance claims, net of reinsurance

	2006
Claims paid.....	5.203
Claims paid, reinsure's share.....	(549)
Change in the provision for claims.....	571
Change in the provision for claims, reinsures' share.....	(88)
	<u>5.136</u>

11. Other revenues

	2006
Security services (ÖMÍ).....	496
Other operating income.....	166
	<u>662</u>

12. Operating expenses

	2006	2005
Salaries and related expenses.....	2.333	71
Administration expenses.....	1.575	98
Depreciation and amortization.....	495	5
Other operating expenses.....	73	71
	<u>4.476</u>	<u>245</u>

Notes to the consolidated financial statements

13. Salaries and related expenses

	2006	2005
Salaries.....	1.979	53
Related expenses.....	355	17
	<u>2.333</u>	<u>71</u>
Average number of full time equivalent employees.....	286	6
Executive employment terms		
	<u>Salaries</u>	<u>* Shares</u>
Erlendur Hjaltason, CEO	36	17.793.500
Sigurdur Valtýsson, CEO	21	24.716.713
Lýður Guðmundsson, Chairman	96	** 5.135.943.926
Ágúst Guðmundsson, Board member	1	** 5.135.943.722
Bogi Pálsson, Board member	0,4	7.656.147
Sigurjón R. Rafnsson, Board member	0,4	0
Guðmundur Hauksson, Board member	1	*** 686.725.946
	<u>155</u>	

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

**Bakkabraedur Holding B.V., the largest shareholder in Exista, is owned by Lýður Guðmundsson and Ágúst Guðmundsson. Bakkabraedur Holding B.V. in total hold control of 5.135.943.722 shares in Exista.

***Guðmundur Hauksson is the CEO of Sparisjóður Reykjavíkur og nágrennis (Reykjavík Savings Bank), which is the second largest shareholder of Exista. Sparisjóður Reykjavíkur og nágrennis in total holds control of 686.725.169 shares in Exista.

14. Income tax

Reconciliation of effective tax rate:

		<u>2006</u>
Profit before tax		38.280
Tax calculated at domestic tax rate	18,0%	6.890
Effect of different tax rates of other jurisdiction	(12,6%)	(4.833)
Tax effect of expenses that are not deductible	0,1%	56
Tax exempt revenues	(3,2%)	(1.242)
	<u>2,3%</u>	<u>872</u>

15. Auditors fee

	2006	2005
Audit and audit related services	27	1
Other professional services	25	5
	<u>52</u>	<u>6</u>

16. Dividend paid

In the year 2006, a dividend of ISK 0,58 per share (total dividend ISK 5.000 million) was paid to shareholders. In the year 2005, the dividend paid was ISK 0,17 per share (total dividend ISK 1.000 million).

Notes to the consolidated financial statements

17. Earnings per share

	2006	2005
Profit for the year (attributable to shareholders of Exista hf.)	37.505	50.315
Weighted average number of ordinary shares for basic earnings per share calculation	9.943	6.054
Earnings per share	3,77	8,31

18. Financial assets measured at fair value

	31.12.2006	31.12.2005
Shares - listed	195.393	129.270
Shares - other	19.625	19.397
	<u>215.019</u>	<u>148.667</u>

Shares in listed companies specifies as follows:

	Share %	Nominal value	Closing price	31.12.2006	31.12.2005
Kaupthing hf.....	23,02%	170.439.413	841,00	143.340	104.600
Bakkavor hf.....	38,29%	826.209.416	62,50	51.638	23.950
Flaga Group hf.....	22,01%	158.625.601	2,62	416	720
Listed shares total				<u>195.393</u>	<u>129.270</u>

Shares in unlisted companies specifies as follows:

Síminn hf.....	43,60%	13.501.019.634	-	13.510	13.500
Other.....	-	-	-	6.115	5.897
Unlisted shares total				<u>19.625</u>	<u>19.397</u>

19. Financial assets held for trading

	31.12.2006	31.12.2005
Shares - listed	64.203	6.066
Shares - other	2.831	0
Funds - listed.....	3.008	0
Funds - unlisted.....	1.459	347
Bonds - listed.....	6.314	0
Bonds - unlisted.....	963	1.086
Other.....	413	80
	<u>79.191</u>	<u>7.579</u>

20. Loans and account receivable

	31.12.2006
Leasing contracts	53.200
Bonds and bills	8.871
Insurance receivables	3.317
Other	1.203
	<u>66.591</u>

Notes to the consolidated financial statements

21. Goodwill

	31.12.2006
At 1 January 2006	0
Goodwill acquired in acquisitions of VÍS eignarhaldsfélag hf. (note 29)	44.290
Impairment during the year	(314)
At 31 December 2006	43.976

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

22. Reinsurance assets

	31.12.2006
Reinsurance share in the technical provisions:	
Premiums reserve	578
Claims reserve	920
Reinsurance assets, total	1.498

23. Property and equipment

	Property	Equipment	Total
Cost or valuation			
At 1 January 2006.....	90	16	106
Additions.....	7	214	222
Acquisitions through business combinations.....	1.178	787	1.964
Disposals.....	(111)	(88)	(199)
At 31 December 2006.....	1.164	929	2.094
Accumulated depreciation			
At 1 January 2006.....	2	3	5
Charge for the year.....	42	139	181
Acquisitions through business combinations.....	476	345	821
Eliminated on disposal.....	(11)	(57)	(68)
At 31 December 2006.....	508	431	939
Carrying Amount			
At 1 January 2006.....	89	13	101
At 31 December 2006.....	656	498	1.154
Depreciation rates.....	2-4%	20-35%	

The assessment- and insurance value for the company's assets is analyzed as the following:

	Assessment value	Insurance value
Property	1.308	1.472
Equipment		395

Notes to the consolidated financial statements

24. Share capital

Issued shares are 10.838.746.119 with the nominal value of each share amounting ISK 1.

Share capital is specified as follows:

	Shares	Ratio
Total share capital according to Financial Statements 31 December 2006	10.629	98,06%
Own shares at 1 December 2006	210	1,94%
	10.839	100,00%

25. Borrowings

	31.12.2006	31.12.2005
Debts in CHF	21.305	5.657
Debts in DKK	4.093	2.208
Debts in EUR	74.406	16.269
Debts in GBP	5.189	4.846
Debts in JPY	15.174	1.839
Debts in NOK	5.860	72
Debts in SEK	0	523
Debts in USD	14.592	5.493
Debts in ISK	63.786	27.760
	204.405	64.667
Accrued interests	2.129	832
	206.534	65.499
Repayable in 2007 / 2006	98.078	17.886
Repayable in 2008 / 2007	45.881	14.058
Repayable in 2009 / 2008	23.913	14.924
Repayable in 2010 / 2009	20.108	0
Repayable in 2011 / 2010	14.791	5.044
Repayable later	3.763	13.586
	206.534	65.499

26. Technical provision

	31.12.2006
Technical provisions total	
Claims reported and loss adjustment expenses	13.409
Claims incurred but not reported	2.478
Claims outstanding	15.887
Provision for unearned premiums	5.293
Technical provisions	21.180
Reinsurers' share	
Claims reported and loss adjustment expenses	806
Claims incurred but not reported	114
Claims outstanding	920
Provision for unearned premiums	578
Reinsurers' share	1.498

Notes to the consolidated financial statements

27. Deferred tax

	31.12.2006
At 1 January 2006.....	35
Arising on acquisition.....	4,928
Calculated tax for the year 2006.....	872
Income tax payable in year 2007.....	(138)
At 31 December 2006.....	5,697

28. Subsidiaries and associated companies

Name of subsidiary	Incorporation	Ownership	Principal activity
Áskaup ehf.	Iceland	65,68%	Holding company
Exista B.V.	Netherlands	100,00%	Investment company
Exista fjárfestingar ehf.	Iceland	100,00%	Investment company
Exista Holding B.V.	Netherlands	100,00%	Holding company
Flutningar ehf.	Iceland	100,00%	Holding company
IGI Group Ltd.	United Kingdom	54,40%	Insurance company
Líftryggingarfélag Íslands hf.	Iceland	100,00%	Life insurance company
Lýsing hf.	Iceland	100,00%	Leasing company
Pond Street Investments ehf.	Iceland	100,00%	Investment company
Traustfang ehf.	Iceland	100,00%	Investment company
Vátryggingarfélag Íslands hf.	Iceland	100,00%	Insurance company
VÍS International Invest ehf.	Iceland	100,00%	Insurance company
Öryggismiðstöð Íslands hf.	Iceland	55,44%	Security company
Frásögn ehf.	Iceland	100,00%	Investment company
Exista Properties ehf.	Iceland	100,00%	Property company
Exista UK Ltd.	United Kingdom	100,00%	Investment company
Name of associated company	Incorporation	Ownership	Principal activity
Árkaup ehf.	Iceland	35,70%	Holding company
Íslensk endurtrygging hf.	Iceland	28,80%	Insurance company
Þórskaup ehf.	Iceland	31,40%	Investment company

Notes to the consolidated financial statements

29. Changes within Exista

In May 2006, Exista became the owner of 100% of the share capital in VÍS Holding hf. The consideration was paid for with ISK 2.000.367.319 in new share capital in Exista, whereas the seller received a 18.5% holding in Exista. The price for this 80.9% stake totalled ISK 53,2 billion, representing a total equity value of ISK 65,8 billion. VÍS Holding was composed of a number of subsidiaries, the largest being Vátryggingarfélag Íslands, Líftryggingarfélag Íslands, Lýsing, Öryggismidstöð Íslands, Vördur Íslandstrygging and IGI Group.

In October 2006 Exista sold all of its shares in Vördur Íslandstrygging, or 56.65% stake in the company. The sale had limited effect on Exista profit and loss account and balance sheet.

Acquisition of VÍS eignarhaldsfélag hf.

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

Tangible assets	1.144
Goodwill	5.360
Loans and accounts receivables	61.599
Financial assets	40.620
Other assets	2.620
Cash	2.927
Total assets	114.270
Deferred taxation	(4.928)
Borrowings	(53.723)
Technical provisions and other liabilities	(27.587)
Total liabilities	(86.238)
Net assets	28.032
Goodwill	38.930
Satisfied by:	
Shares issued	53.222
Direct costs relating to acquisition	1.131
Shares acquired in year 2005	12.610
.....	66.963

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

If the acquisition had been completed on the first day of the financial year, the Company's operating profit for the period would have been 76,2 million lower.

The operation of all acquired companies are integrated into the Company's current structure from the date of acquisition. VÍS eignarhaldsfélag hf. contributed 5,7 billion of revenue for the period between the date of acquisition and the balance sheet date.

Notes to the consolidated financial statements

30. Related parties

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 372 million as of 31 December 2006. Loans to members of the Board of Directors and their fully owned companies amounted to ISK 0 as of 31 December 2006.

Loans to subsidiaries amounted to ISK 37.291 million as of 31 December 2006. At year-end 2005, comparable amount was ISK 22.989 million.

31. Other matters

Exista hf. has granted its employees and employees of subsidiaries guarantees amounting to ISK 1.318 million relating to purchase of shares in Exista in September.

Customers guarantees of a subsidiary in the amount of ISK 2.885 million.

Pledged assets relating to loan agreements amounted to ISK 119 billion.

32. Events after the balance sheet date

There have been no material post balance sheet events which have not already been disclosed and would require adjustments to the Consolidated Financial Statements year ended 2006.

33. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on 8 February 2007.

34. Key Ratios

	2006	2005
Earnings per share (EPS)	3,77	8,31
Return on equity	27,1%	104,0%
Price earnings (P/E)	6,52	-
Price to book (P/B)	1,36	-
Price pr. share	22,5	-
Equity ratio	43,2%	59,4%
Internal value of shares	16,59	11,06
Insurance operation:		
Combined ratio	115,0%	-
Leasing operation:		
Ratio of provision to lending position at year-end	0,82%	-