

**Focus**

Q3 Results

**Performance Exceeds Expectations**

Exista's very successful Q3 performance is primarily the result of substantial increases in the share prices of Kaupthing Bank and Bakkavör. Restructuring of VÍS has begun to show positive results.

3 November 2006

ISK millions	Net financial income	Operating expenses	Profit/Loss	EPS	ROE	Shareholders' equity	P/E 12M	P/B
2005	48,952	-245	50,315	8.31	108.6%	59.4%	-	-
2006E	56,125	-10,831	32,749	3.02	26.5%	46.1%	7.3	1.3
2007E	64,426	-18,899	28,459	2.63	15.9%	44.5%	8.2	1.1
Q3 2005	-	-	-	-	-	-	-	-
Q4 2005	-	-	-	-	-	-	-	-
Q1 2006	-	-	-	-	-	-	-	-
H1 2006	6,377	-1,432	-3,270	-0.30	-3.4%	46.1%	-	-
Q3 2006	33,586	-4,675	27,566	2.54	76.9%	45.7%	-	1.5
Q3 2006E	32,751	-3,489	19,730	1.82	55.1%	49.3%	-	1.5

Source: Landsbanki

**Key Points**

- **Fine Performance**

Exista's first published results following its listing on 15 September were very good. The group's total income amounted to ISK 33,586 m, with the lion's share an ISK 28,206 m profit on financial assets at fair value. The major portion of this, in turn, is due to increases in the shares of Kaupthing Bank and Bakkavör. Profit on trading securities was ISK 264 m or around 1% of total trading securities at the beginning of Q3. After-tax profit was ISK 27,566 m,

- **VÍS and Lýsing included in group accounts for the first time**

Earlier this year Exista acquired 80.8% of the holding company VÍS, including the asset leasing company Lýsing, making this a wholly owned subsidiary. The company is fully included in Exista's accounts for the first time from 1 June. Since the acquisition was concluded, restructuring efforts have been underway at the company, which appear to have already produced substantial results. The combined loss and cost ratio for the first 9M of this year was 116% and appears to have been below 110% in Q3.

Lýsing's operations have been very successful, with profit YtD 53% more than for the same period last year, while credit loss provisions have been at an historical low.

- **Marketweighting recommended**

Following its very successful Q3 performance, Exista's shares have risen by 2.3% since its listing on 15 September, or substantially more than the ICEX-15 index. At the same time its equity has risen by almost 20%.

Exista's price multiples are considerably more attractive now than in our previous publication. Its price-to-book ratio, for instance, is now around 1.31 as compared with FL Group's 1.26 (following the sale of Icelandair) and Atorka's price-to-book ratio of 1.10. We recommend that investors marketweight Exista's shares in a well diversified portfolio based on the domestic equity market.



## Performance surpasses expectations

Exista reported an after-tax profit of ISK 27,566 m in Q3, considerably exceeding our forecast. The major difference is the result of a much lower taxation rate than we anticipated, only 2.7%, plus our miscalculation of currency gains on loans due to ISK appreciation. This is undeniably a fine performance.

Exista's operations have undergone major changes this year, including its full acquisition of VÍS, including the asset leasing company Lýsing, as of 1 June. This must be borne in mind when making comparisons with Q3 2005.

**Table 1. Performance in last five quarters**

	Q3 05	Q4 05	Q1 06	Q2 06	Q3 06
Net financial income	10.119	22.797	13.199	-6.822	33.586
Cost	-71	-89	-124	-1.308	-4.675
<b>Profit on operations</b>	<b>10.048</b>	<b>22.709</b>	<b>13.075</b>	<b>-8.130</b>	<b>28.912</b>
Interest expense	-1.272	-1.281	-1.362	-1.968	-2.438
Exchange rate differential	800	-1.161	-3.065	-2.132	1.846
<b>Pre-tax profit</b>	<b>9.575</b>	<b>20.267</b>	<b>8.648</b>	<b>-12.230</b>	<b>28.320</b>
Taxes	-755	582	-270	8.692	-1.555
<b>After-tax profit</b>	<b>8.820</b>	<b>20.849</b>	<b>8.378</b>	<b>-3.538</b>	<b>26.765</b>

Source: Exista

### • Major increases in principal assets

Exista's total Q3 income amounted to ISK 33,586 m as compared with ISK 8,020 m for the same period in 2005. The results reflect the highly favourable domestic equity market situation during the quarter.

Exista's investment assets are divided into two classes: financial assets held at fair value and trading securities. Financial assets at fair value are longer-term investments while trading securities are short-term investments.

Trading gains on financial assets held at fair value amounted to ISK 28,206 m, most of which can be attributed to major increases in the share prices of Kaupthing Bank and Bakkavör. Kaupthing's shares rose by 29% during the quarter and Bakkavör's by 15%; together the two holdings comprise half of Exista's balance sheet.

Profit on trading securities was only ISK 264 m or around 1% of total trading securities at the beginning of Q3.

ISK appreciation during Q3 resulted in FX gains on Exista's foreign currency loans of ISK 1,846 m.

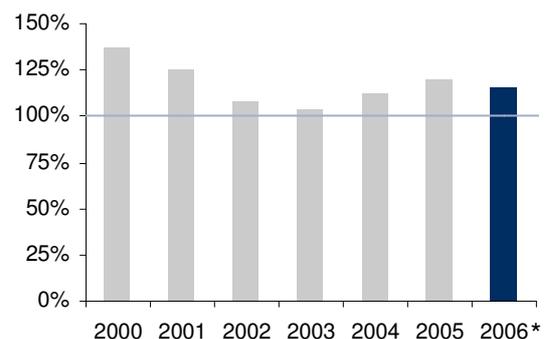
### • New income pillars

Although Exista includes insurance operations in its core activities, this is the first quarter when VÍS is fully included in its results.

Work has been underway on restructuring to boost the profitability of insurance activities, as in recent years the combined ratio has been unacceptable. As a ratio of premiums net of reinsurance 2005, this was 120% and at investors' meetings prior to Exista's listing the information was provided that this figure was similar in H1 2006. In other words, insurance operations reported a loss, while good returns on the technical provisions more than covered the losses.

Unfortunately, only limited information was provided on VÍS's Q3 operations, making it difficult for us to monitor the progress of its restructuring which appears, however, to be proceeding successfully. Since the overall claims and cost ratio for the 9M was 116%, the Q3 ratio would appear to have been below 110%. Total insurance premiums amounted to ISK 3,198 m and claims were ISK 2,560 m, making the claims ratio around 80%. Premiums net of reinsurance have increased by 15% during the first 9M of this year.

**Figure 1. Combined loss and cost ratio**



Source: Landsbanki  
\*First 9M

Exista's management aim at bringing the combined claims and cost ratio down to at least 100%. By doing so they aim at delivering the entire return on investment of technical provisions (referred to as "float") to shareholders instead of having to use part of this investment income to pay losses on insurance operations. We consider this to be a realistic target and expect the ratio to be below 100% on an annualised basis as early as 2008.

Lýsing's operations have been successful YtD, with a 9M profit of ISK 761 m, 53% more than for



the same period in 2005. Net income from operations has increased by 43% and total assets by 50% while at the same time write-offs have been at an historical low. Final write-offs during the period amount to only 0.27% of total loans outstanding at the beginning of this year.

- **Low income tax rate**

Exista's income tax rate in Q3 was only 2.7% as a result of the fact that Exista's assets in Kaupthing Bank, Bakkavör and Síminn (Iceland Telecom) are held in a holding company registered in the Netherlands, where there is no tax on financial income. Because of the double-taxation agreement between Iceland and the Netherlands, this income is not taxed in Iceland either. We can expect Exista's tax rate to continue to be low in the future, since the above-mentioned assets comprise over half of its balance sheet and estimated income.

- **Increased equity holdings**

Exista's trading securities grew by ISK 22 bn during Q3. It also added to its holding in Bakkavör, which had been considerably diluted in Q2 when Kaupthing Bank exercised the conversion right on its convertible bond in Bakkavör.

- **Strong capital position**

Exista's total assets at the end of Q3 amounted to ISK 373,848 m after increasing by ISK 212,067 m this year. Exista's equity at the end of September was ISK 171,023 m and its capital ratio 45.7%, compared to equity of ISK 96,104 m and an equity ratio of 59.4% at the beginning of 2006. The company has not disclosed any long-term target equity ratio.

- **Performance depends on Kaupthing Bank and Bakkavör**

As mentioned previously, Exista's assets in Kaupthing Bank and Bakkavör comprise half its balance sheet, making it extremely dependent upon how the share prices of these two companies develop. Although it has to be considered risky to be so dependent upon two holdings, up until now these assets have provided Exista with very good returns.

- **Major increase in shareholders**

Kaupthing's payment of dividends in the form of shares in Exista added some 30,000 shareholders to the company's shareholder registry.

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## Marketweighting recommended

Following its very successful Q3 performance, Exista's shares have risen by 2.3% since its listing on 15 September this year, while at the same time its equity has risen by close to 20%.

By comparison, FL Group's shares have risen by 3.2%, those of Atorka and Straumur-Burðarás have dropped by 0.6% and the ICEX-15 index has risen by 4.0%.

Exista's price multiples are considerably more attractive now than in our previous publications. Its price-to-book ratio, for instance, is now around 1.31 as compared with FL Group's 1.26 (following the sale of Icelandair) and Atorka's price-to-book ratio of 1.10.

Landsbanki Research has not previously published a valuation of Exista, but we recommend that investors marketweight its shares in a well diversified portfolio reflecting the domestic equity market.



**Disclosure Checklist - Potential Conflict of Interests**

Stock	ISIN	Disclosure (See Below)	Currency	Price
Exista	IS000013175	nothing to disclose	ISK	22,20

Source: Factset closing prices of 02/11/2006

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Source: Kepler Equities

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Rating breakdown	A	B
Buy	46.0%	0.0%
Hold	31.0%	0.0%
Reduce	0.0%	0.0%
Not Rated/Under Review/Accept Offer	23.0%	0.0%
Total	100.0%	0.0%

Source: Landsbanki

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Rating breakdown	A	B
Buy	45.0%	0.0%
Hold	35.0%	0.0%
Reduce	15.0%	0.0%
Not Rated/Under Review/Accept Offer	5.0%	0.0%
Total	100.0%	0.0%

Source: Merrion Stockbrokers Limited

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Rating breakdown	A	B
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Hold	24.0%	13.0%
Reduce	15.0%	0.0%
Not Rated/Under Review/Accept Offer	2.0%	4.4%
Total	100.0%	100.0%

Source: Teather & Greenwood Limited

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