Askar Capital hf.

Consolidated Financial Statements
for the year 2008

Askar Capital hf.
Suðurlandsbraut 12
108 Reykjavík
Iceland

Reg. no. 441206-0110

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Endorsement and Signatures of the Board of Directors and the CEO

Operations in the year 2008

The Consolidated Financial Statements comprise Askar Capital hf. and its subsidiaries (together referred to as the "Bank").

According to the income statement, loss for the year amounted to ISK 12,412 million. The Bank's equity at the end of 2008 was negative by ISK 1,833 million. The Bank's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings was negative by 5.2% at year-end. As of 31 December 2008 the Bank's total assets amounted to ISK 36,140 million.

At the end of 2008 the Bank's shareholders numbered 16 compared to 19 at year end 2007. Moderna Finance AB, Sweden, which holds 82% of the Bank's share capital, is the only shareholder with a holding exceeding 10%.

The Board of Directors proposes that no dividend will be paid to shareholders in 2009.

Impact of recent developments in financial markets

On 6 October 2008 Althingi, the Parliament of Iceland, passed Law no. 125/2008, authorizing a disbursement of funds from the Treasury due to the unusual situation facing the financial market, which includes a change to the act on Financial Undertakings and other laws. This law authorized the Financial Supervisory Authority of Iceland (FME) inter alia, to take special measures, due to unusal circumstances, in order to minimize harm or danger of harm to the financial market. The FME later suspended the Boards of Directors of each of the three largest banks in Iceland and appointed Resolution Committees.

These events and the developments of the financial markets all around the world have had a severe impact on the Bank and vast impact on the economy in general. The situation affects the ability of the Bank's customers to repay amounts due and impairment losses have increased. Real estate and private equity projects have progressed much slower than anticipated. The changed circumstances call for a new focus, and work has been in progress in recent months on adapting the Bank to the new environment to enhance its financial performance. The Bank is currently working on reorganising its asset base and capital structure in preparation for facing the challenges of the changed climate.

At year end 2008 the Bank's equity ratio, as defined in Article 84 of Act No. 161/2002 on Financial Undertakings, is below the statutory requirements of 8%. The Financial Supervisory Authority has been informed of the situation, as required by law. The Authority has given the Bank a deadline to 15 May 2009 to rectify the situation. The Bank has been working on a restructuring plan with the Resolution Committee of Glitnir and other general creditors of the parent company. The creditors have accepted the restructuring plan. According to the plan the creditors will convert debt into equity and take over the ownership of the company. The shareholding of current shareholders will be written down. The solvency ratio on 31 March 2009, taking into account the impact of restructuring, was 19%.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Askar Capital hf. for the year 2008 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

According to the best of our knowledge it is our opinion that the annual consolidated financial statements give a true and fair view of the financial performance of the Bank for the financial year 2008, its assets, liabilities and consolidated financial position as at 31 December 2008 and its consolidated cash flows for the financial year 2008.

Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the CEO gives a fair view of the development and performance of the Bank's operations and its position and describes the principal risks and uncertainties faced by the Bank.

Endorsement and Signatures of the Board of Directors and the CEO, contd.:

The Board of Directors and the CEO have today discussed the annual consolidated financial statements of Askar Capital hf. for the year 2008 and confirm them by means of their signatures.

Reykjavík, 13 May 2009.

The Board of Directors:

Managing Director:

Independent Auditors' Report

To the Board of Directors and shareholders of Askar Capital hf.

We have audited the accompanying consolidated financial statements of Askar Capital hf. and its subsidiaries (the "Bank"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 consolidated financial statements in accordance with the 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 judgement, 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 principles 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.

Basis for Qualified Opinion

As disclosed in the Endorsement of the Board of Directors and the CEO the Bank´s loss for the year amounted to ISK 12,412 million. Equity at year end 2008 was negative by ISK 1,833 million. The Bank´s capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings was negative by 5.1% at year-end. According to the Act the capital adequacy ratio shall as a minimum be 8.0%. The aforementioned facts cast doubt on the Bank´s ability as a going concern unless new capital or refinancing can be secured. The financial statements are presented on a going concern basis. The liquidation value of assets and liabilities might differ from the book value.

Opinion

In our opinion, taking into account the uncertainty regarding going concern and other information described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 13 May 2009.

KPMG hf.

Consolidated Income Statement
for the year 2008

	Notes	2008	2007
Interest income		3.822.234	2.021.446
Interest expenses		(4.401.834)	(1.457.535)
Net interest (expense) income	33	(579.600)	563.911
Fee and commission income		794.254	1.630.700
Fee and commission expense		(164.987)	(136.020)
Net fee and commission income	34	629.267	1.494.680
Net loss on financial assets and financial liabilities held for trading	35	(86.261)	(9.353)
Net loss on financial assets designated at fair value through profit and loss	36	(1.210.976)	(1.545.888)
Net exchange profit		2.757.438	82.954
Other operating income		24.785	2.690
Net operating income		1.534.653	588.994
Administrative expenses	37	(2.119.801)	(1.515.063)
Impairment of investment property	49	(238.913)	0
Impairment of intangble assets	50	(2.880.296)	0
Impairment of losses on loans and receivables	44	(6.544.576)	(118.165)
Share of (loss) profit of associates	47	(2.701.683)	39.737
Loss before income tax		(12.950.616)	(1.004.497)
Income tax	40	538.631	172.728
Loss for the year		(12.411.985)	(831.769)

Notes on pages 9 to 39 are an integral part of these consolidated financial statements

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Consolidated Balance sheet
as at 31 December 2008

	Notes	2008	2007
Assets			
Cash and cash equivalents	41	744.174	2.350.794
Loans and receivables	42-44	31.233.760	22.603.811
Financial assets held for trading	45	0	315.515
Financial assets designated at fair value through profit and loss	46	303.003	1.578.941
Investment in associated companies	47	1.434.417	1.677.754
Equipment	48	47.696	148.717
Investment property	49	566.888	754.523
Intangible assets	50	580.465	3.536.722
Deferred tax assets	53	773.814	187.282
Forclosed mortages		99.230	0
Other assets	51	356.179	1.096.973
Total Assets		36.139.626	34.251.032
Liabilities			
Borrowings	52	28.919.297	22.296.702
Financial liabilities held for trading		0	408.038
Current tax liabilities	53	2.614	0
Other liabilities	54	9.050.973	982.990
Total Liabilities		37.972.884	23.687.730
Equity			
Share capital	55	576.802	579.602
Share premium		0	10.833.151
Translation reserve		89.437	(567)
Accumulated deficit		(2.499.497)	(848.884)
Total Equity		(1.833.258)	10.563.302
Total Liabilities and Equity		36.139.626	34.251.032

Notes on pages 9 to 39 are an integral part of these consolidated financial statements

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Consolidated Statement of Changes in Equity for the year 2008

	Share capital	Share Premium	Translation reserve	Accumulated deficit	Total equity
Equity as at 1.1.2007	552.700	10.501.300	0	(17.115)	11.036.885
Translation difference			(567)		(567)
Loss for the year				(831.769)	(831.769)
Total recognised loss for the year ..			(567)	(831.769)	(832.336)
Issued new shares	35.750	676.923			712.673
Purchase of shares	(8.848)	(345.072)			(353.920)
Equity as at 31.12.2007	579.602	10.833.151	(567)	(848.884)	10.563.302
Equity as at 1.1.2008	579.602	10.833.151	(567)	(848.884)	10.563.302
Translation difference			90.004		90.004
Loss for the year				(12.411.985)	(12.411.985)
Total recognised loss for the year ..			90.004	(12.411.985)	(12.321.981)
Purchase of shares	(2.800)	(71.779)			(74.579)
Share premium transfered to accumulated deficit		(10.761.372)		10.761.372	0
Equity as at 31.12.2008	576.802	0	89.437	(2.499.497)	(1.833.258)

Notes on pages 9 to 39 are an integral part of these consolidated financial statements

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Consolidated Statement of Cash Flows for the year 2008

	Notes	2008	2007
Cash flows from operating activities:			
Loss for the year		(12.411.985)	(831.769)
Adjustments for operating activities:			
Indexation and foreign exchange (gain) loss		(4.370.318)	(2.714)
Net interest income		(834.359)	(563.911)
Depreciation of property and equipment		247.316	28.878
Impairment loss investment property		238.913	0
Impairment of intangible assets		2.880.296	0
Impairment on loans and advances		2.657.085	118.165
Profit from sale of operating assets		(3.189)	(1.639.720)
(Loss) profit from associates		2.701.683	(39.737)
Income tax		(487.051)	(172.728)
		(9.381.609)	(3.103.536)
Changes in operating assets and liabilities:			
Loans		1.251.258	(16.605.593)
Financial assets held for trading		1.275.937	(321.075)
Financial assets designated at fair value through profit and loss		35.870	(2.084.316)
Deferred tax assets		(60.948)	(145.849)
Other assets		343.680	(863.313)
Financial liabilities held for trading		2.284.459	408.038
Other liabilities and provisions		2.584.569	439.787
		7.714.825	(19.172.321)
Interest and dividends received		4.354.264	2.350.834
Interest paid		(5.251.265)	(815.038)
Income tax paid		(39.206)	0
Net cash used in operating activities		(2.602.991)	(20.740.061)
Cash flows from investing activities:			
Purchase of investment property		(72.713)	(754.523)
Purchase of property and equipment		(27.314)	(169.619)
Proceeds from sale of equipment		15.360	0
Purchase of intangible assets		(53.841)	(156.426)
Payment for acquisition of associates		(433.001)	(1.638.017)
Other changes		0	7.314
Net cash used in investing activities		(571.509)	(2.711.271)
Cash flows from financing activities:			
Borrowings		1.569.367	18.333.072
Issued new shares		0	7.712.673
Purchase and sold treasury shares		(74.578)	(353.920)
Net cash provided by financing activities		1.494.789	25.691.825
(Decrease) increase in cash and cash equivalents		(1.679.711)	2.240.493
Cash and cash equivalents at the beginning of the year		2.350.794	110.845
Effect of exchange rate fluctuations on cash held		73.091	(544)
Cash and cash equivalents at the end of the year		744.174	2.350.794

Notes on pages 9 to 39 are an integral part of these consolidated financial statements

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Notes to the Financial Statements

General information

1. Reporting entity

Askar Capital hf. (the parent) is a company incorporated and domiciled in Iceland. The address of the Bank's registered office is at Suðurlandsbraut 12 in Reykjavik, Iceland. The Consolidated Financial Statements for the year 2008 comprise Askar Capital hf. (the parent) and its subsidiaries (together referred to as "The Bank"). The Bank offers integrated financial services to companies and institutional investors.

Askar Capital hf. is a subsidiary of Moderna AB and the financial statements are a part of the consolidated financial statement of Moderna AB, Sweden.

2. Basis of preparation

a. *Statement of compliance*

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

The Consolidated Financial Statements were approved by the Board of Directors and the CEO of Askar Capital hf. on 13 May 2009.

b. *Basis of measurement*

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

c. *Functional and presentation currency*

The Consolidated Financial Statements are presented in Icelandic krona (ISK) which is the parent's functional currency. Except as indicated, financial information presented in ISK has been rounded to the nearest thousand.

d. *Use of estimates and judgments*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertinty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 28.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by the Bank's entities.

3. Basis of consolidation

a. *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control usually exists when the Bank holds more than the 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are currently exercisable or convertible, if any, are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

b. *Transactions eliminated on consolidation*

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

4. Associates

Associates are those entities in which the Bank has significant influence but not control or joint control over the financial operating policies. Significant influence generally exists when the Bank holds between 20% and 49% of the voting rights, including potential voting rights, if any. Investments in associates are initially recognised at cost. The Bank's investment in associates includes goodwill and any accumulated impairment loss.

5. Foreign currency

a. *Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currencies at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

b. *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency, Icelandic krona, at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Icelandic krona at spot exchange rates at the dates of the transactions.

Foreign exchange differences on the translation of foreign operations are recognised directly in equity. When a foreign operation is disposed of, in part or full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

6. Interest

a. *Interest income and expense*

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

b. ***Fee and commission income and expense***

The Bank provides various services to its clients and earns income there from. Fees earned from services that are provided over a certain period of time are recognised as the services are performed. Fees earned from transaction-type services are recognised when the service has been completed. Fees that are performance-linked are recognised when the performance criteria are fulfilled. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

c. ***Dividend income***

Dividend income is recognised when the right to receive income is established.

d. ***Net trading income***

Net financial income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes.

e. ***Net income from other financial instruments at fair value***

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes except interest and foreign exchange difference which are presented as separate line items in income statement.

7. Impairment

The carrying amount of the Bank's assets, other than tax assets and financial assets measured at fair value with changes recognised in the income statement is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated, see note 7c.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

a. ***Identification and measurement of impairment***

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Bank.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

b. *Impairment of goodwill*

The Bank asses whether there is any indication of impairment of goodwill on annual basis. Goodwill is written down for impairment.

c. *Calculation of recoverable amount*

The recoverable amount of the Bank's investments in financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

The recoverable amount of other assets is the greater of their 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

d. *Reversals of impairment*

An impairment loss in respect of financial assets carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

8. Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

The deferred income tax asset / liability is calculated and entered in the balance sheet. The calculation is based on the difference between balance sheet items as presented in the tax return, on the one hand, and in the Financial Statements, on the other, taking into consideration any carry-forward tax loss. This difference is due to the fact that tax assessments are based on premises that differ from those governing the financial statements, mostly because revenues, especially of financial assets, are recognised earlier in the Financial Statements than in the tax return. A calculated tax asset is only offset against an income tax liability if they are due to tax assessment from the same tax authorities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

9. Derivatives

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 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.

The Bank uses derivatives for trading purposes and to hedge its exposure to market price risk, foreign exchange and interest rate risk arising from operating, financing and investing activities.

Derivatives are recognised at fair value. Fair value changes are recognised in the Income Statement. Fair values of derivatives are split into interest income, foreign exchange differences and other gains and losses. Interest income is recognised on accrual basis. Derivatives with positive fair values are recognised as trading assets and derivatives with negative fair values are recognised as trading liabilities.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 12.

10. Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with banks and money market placements.

11. Loans and receivables

Loans and receivables are financial assets, other than derivative agreements, which carry fixed or determinable, calculated payments and are not listed in an active market. Loans and receivables consist of leasing agreements that the Bank grants to customers for real estates, machines and equipments and loans, such as debentures.

Loans are recognised when cash is advanced to borrowers. They are initially recognised at fair value, which is the cash given to orginate the loan, including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. The Bank's loans are capitalized with accrued interests, indexation and exchange rate differences at period end. Indexed loans are recognized based on the indices that came into effect at the beginning of January 2009 and currency indexed loans are recognised based on the exchange rate of the relevant currency at end of December.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to owership of an asset to the lessee, the arrangement is presented within loans.

Loans and receivables are derecognised when cash flow can no longer be obtained or when the group has transferred for the most part risk and rewards from the ownership.

12. Financial assets measured at fair value through profit and loss

a. *Trading assets*

Trading assets are financial instruments acquired principally for the purpose of generating profits from short-term price fluctuations or from a dealer’s margin.

Financial assets held for trading mainly consist of bonds and shares. Derivatives with positive fair values are also included in this category.

Financial assets held for trading are measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of financial assets held for trading are reported in the Income Statement as Net gains on financial assets and financial liabilities held for trading. Interest and dividend income on financial assets held for trading are reported as Interest income and Dividend income. Interest income on non-derivates debt instruments is calculated using the effective interest rate method.

b. *Financial assets designated as at fair value*

The Bank classifies certain financial assets upon their initial recognition as financial assets held at fair value with fair value changes recognised in profit or loss if doing so results in more relevant information because:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or

- financial assets and/or financial liabilities are managed and their performance is evaluated on a fair value basis, in accordance with the Bank's risk management or investment strategy, and information about it is provided internally on that basis to the Bank's management personnel.

The assets classified according to the above-mentioned conditions consist of:

- equity and debt instruments which are acquired by the Bank with a view to profiting from their total return and fair value bases.

Fair value changes of financial assets classified under this category are reported in the Income Statement as Net gains on financial assets designated at fair value, while interest is reported as Interest revenue. Interest income on non-derivatives debt instruments is recognised on an accrual basis.

13. Fair value measurement of financial assets and financial liabilities

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. For all other financial instruments fair value is determined by using valuation techniques. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis or option pricing models. Valuation techniques incorporate factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one.

For more complex instruments, the Bank uses models, which usually are based on recognised valuation models. Some of the inputs into these models may not be market observable, and are derived from market prices or rates or estimated based on assumptions. When entering into a transaction, the financial instrument is initially recognised at the transaction price although the value obtained from the valuation model may differ from the transaction price.

14. Recognition and derecognition of financial assets and financial liabilities

Purchases and sales of financial assets are recognised using trade date accounting, i.e. they are recognised on the date on which the Bank commits to purchase or sell the asset, except for loans which are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the liability instrument. Financial liabilities are derecognised when the obligation of the Bank specified in the contract is discharged or cancelled or expires.

15. Offsetting financial assets 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.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains or losses arising from a group of similar transactions such as in the Banks trading activity.

16. Amortised cost measurement of financial assets and financial liabilities

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

17. Repurchase agreements

A repurchase agreement involves the sale of securities subject to the simultaneous agreement to repurchase the same securities at a certain later date and at an agreed price.

The control of the securities remains with the Bank throughout the entire term of the transaction and the securities continue to be reported in the Bank's Balance Sheet as Financial assets measured at fair value, as appropriate. Interest incurred is recognized as interest expense over the life of each agreement.

18. Equipment

a. *Recognition and measurement*

Items of equipment are stated at cost less accumulated depreciation and impairment accumulated losses.

b. *Subsequent costs*

The cost of replacing a part of an item of equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of equipment is recognised in profit and loss as incurred.

c. *Depreciation*

The depreciable amount of equipment is determined after deducting its residual value. Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of the equipment.

Fixtures and furniture	5 years
Vehicles	3 - 5 years

19. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as operating asset, its fair value at the date of reclassification becomes its cost for subsequent accounting.

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group´s investment property portfolio every year. The fair value are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm´s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of investment property under development is measured at the cost of the development.

20. Intangible assets

a. *Goodwill*

Business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of company.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates.

Negative goodwill arising on an acquisition is recognised directly as income.

b. *Other intangible assets*

Intangible assets other than goodwill that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

c. *Amortisation*

Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

21. Financial liabilities held for trading

Trading liabilities primarily consist of derivatives with negative fair values and delivery obligations for short sales of securities.

Trading liabilities are measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of trading liabilities are reported as Net gain on financial assets/liabilities measured at fair value. Interest expenses on trading liabilities are included in Interest expenses.

22. Borrowings

The borrowings of the Bank are classified as other financial liabilities and are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between cost and redemption amount being recognised in the Income Statement over the period of the borrowings on an effective interest basis. Accrued interest is included in the carrying amount of the borrowings.

23. Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee liabilities are initially recognised at their fair value, and initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

24. Other assets and other liabilities

Other assets and other liabilities are stated at cost.

25. Share Capital

Treasury shares

Acquired own shares and other equity instruments (treasury shares) are deducted from equity. No gain or loss is recognised in Income Statement on the purchase, sale, issue or cancellation of treasury shares. Consideration paid or received is recognised directly in equity.

Incremental transaction costs of treasury share transaction are accounted for as a deduction from equity (net of any related income tax benefit).

When classifying a financial instrument (or component of it) in the Consolidated Financial Statements, all terms and conditions agreed between members of the Bank and the holders of the instrument are considered. To the extent there is an obligation that would give rise to a financial liability, the instrument is classified as financial liability, rather than an equity instrument.

26. New standards and interpretation

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements. The amendments to the standards and interpretations are not expected to have a significant impact on the Bank's financial statements when it becomes effective.

IAS 1 Presentation of Financial Statements, becomes mandatory for the Bank's 2009 financial statement.

IFRS 8 Operating Segments, applicable to periods starting from 1 January 2009.

IAS 23 Borrowing Cost, becomes mandatory for the Bank's 2009 financial statements.

IFRS 3 Business Combinations, becomes mandatory for the Bank's 2010 financial statements.

IFRS 2 Share-Based-Payment - Vesting Conditions and Cancellation, becomes mandatory for the Bank's financial statements with retrospective application if it will be approved by the EU.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation, becomes mandatory for the Bank's 2009 financial statements with retrospective application.

IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items, becomes mandatory for the Bank's 2010 financial statements with retrospective application if endorsed by the EU.

IFRIC 13 Customer Loyalty Programmes, becomes mandatory for the Company’s 2009 financial statements if endorsed by the EU.

IFRIC 15 Agreements for the Construction of Real Estate, becomes mandatory for the Bank's 2009 financial statements if endorsed by the EU.

IFRIC 17 Distribution of Non-cash Assets to Owners, becomes mandatory for the Bank's 2010 financial statements if endorsed by the EU.

IFRIC 12 Service Concession Arrangement, became effective for the year 2008 but has not been applied in the preparation of these financial statements as it has not been endorsed by the EU.

27. Segment reporting

Business segment is a distinguishable component of The Bank 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. The Bank’s primary format for segment reporting is based on business segments.

28. Critical accounting estimates and judgements in applying accounting policies

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

a. *Impairment losses on loans*

The management reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the Income Statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b. *Fair value of financial instruments*

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

c. *Financial asset and liability classification*

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.

In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

29. Capital management and allocation

a. *Capital management*

It is the Bank's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Bank recognises the impact on shareholder returns of the level of equity capital employed within the Bank and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

The principal forms of capital are included in the following balances on the consolidated balance sheet: share capital, share premium account, other reserves and retained earnings. Capital also includes the collective impairment allowances held in respect of loans and advances.

Notes, contd.:

b. *Capital management and allocation*

The Icelandic Financial Supervisory Authority (FME) supervises the Bank on a consolidated basis and, as such, receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. In most jurisdictions, nonbanking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

c. *Regulatory capital*

Equity at the end of the period was negative by ISK 1,831 million. The capital adequacy ratio of the Bank, calculated in accordance to Article 84 of the Act on Financial Undertakings, is negative by 5.1%. This ratio may not be lower than 8.0% according to that Act. The Financial Supervisory Authority has been informed of the situation, as required by law. The Authority has given the Bank a deadline to 15 May 2009 to rectify the situation. The Bank has been working on a restructuring plan with the Resolution Committee of Glitnir and other general creditors of the parent company. The creditors have accepted the restructuring plan. According to the plan the creditors will convert debt into equity and take over the ownership of the company. The shareholding of current shareholders will be written down. The solvency ratio on 31 March 2009, taking into account the impact of restructuring, was 19%. The ratio is calculated as follows:

	2008	**2007**
Total equity	(1.833.258)	10.563.302
Intangible assets	(580.465)	(3.536.722)
Risk base, total	(2.413.723)	7.026.580
Total capital requirements for:		
Credit risk	2.261.005	1.862.270
Market risk under standardised approaches (SA)	1.383.877	105.541
Operational risk (OP)	93.766	88.349
Capital requirements	3.738.648	2.056.160
(Deficit) surplus of own funds	(6.152.371)	4.970.420
Capital adequacy ratio	-5,2%	27,3%

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30. Risk management disclosures

Askar Capital is exposed to a number of risks, in its daily activities, as a financial services firm. Askar Capital considers risk management, with a clearly defined framework, a core competency to enhance profitability. In order to provide comprehensive risk management and control the main activities includes measuring and monitoring credit risk, market risk, liquidity risk, and operational risk.

Risk policy of the Bank

The task of evaluating risk lies within a Risk Management Division which is responsible for assessing the company's financial and operational risk. The responsibility of the bank´s risk management lies with the CEO and Risk Management acting as advisory body. The Board of Directors oversees the granting of credit, by deciding on a Risk Policy. Askar Capital´s Risk Policy is established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The following sections discuss the main risk factors at Askar Capital which may affect the earnings of the bank and its capacity to fulfil its commitments towards investors. This coverage emphasizes important risk factors; however it need not cover all the potential risk factors in the operation of Bank and its external environment.

Credit risk

Credit risk is the risk that a customer or counterparty in a financial instrument cannot fulfil his obligation pursuant to a contract or an agreement with Askar Capital which can lead to a decrease in the bank´s revenue and capital. The current counterparty risk is reflected in the book value of assets in the balance sheet. Askar Capital is also exposed to counterparty risk relating to off balance sheet item such as credit commitment.

The Board of Directors of Askar Capital establishes general loan rules of the Bank and supervises the Bank´s lending activities. The Board of Directors establishes credit limits to the Credit committee, which determines the bank's credit policy involving lending and guarantees. The Board of Directors deals with any lending that exceeds the authority of the Credit committee.

Maximum exposure to credit risk

The banks maximum exposure to credit risk is the book value of its assets and the amount of financial guarantees and loan commitments at 31 December 2008.

Allowance for credit losses on loans

The change in the allowance account for credit losses on loans specifies as follows:

	2008	2007
Provision for loan impairment	190.572	90.196
Provision for losses during the year	5.807.990	118.234
Loans written off during the year as uncollectible	(2.553.762)	(17.858)
Recovery of loans previously written off	2.047	0
Total allowance for credit losses on loans	3.446.847	190.572

Liquidity risk

Liquidity risk can be divided into funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the bank. Market liquidity risk is the risk that the bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

The Central Bank of Iceland requires financial institutions to report monthly the liquidity ratio and its outlook for next twelve months.

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Notes, contd.:

30. Contd.:

Following is the breakdown by contractual maturity of financial assets and liabilities:

2008 **Assets:**	0 to 1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	744.174	0	0	0	0	744.174
Loans and receivables	0	2.622.912	5.411.255	19.444.661	3.754.931	31.233.759
Financial assets designated at fair value through profit and loss	0	0	303.003	0	0	303.003
Other assets	0	353.683	2.496	0	0	356.179
Total	744.174	2.976.595	5.716.754	19.444.661	3.754.931	32.637.115
Liabilities:						
Borrowings	0	2.753.482	23.808.447	0	2.357.369	28.919.298
Other liabilities	0	570.420	8.435.660	0	0	9.006.080
Total	0	3.323.902	32.244.107	0	2.357.369	37.925.378
Net assets - liabilities	744.174	(347.307)	(26.527.353)	19.444.661	1.397.562	(5.288.263)

Informal agreements with lenders regarding majority of liabilities that are payable in 3 to 12 months, assumes continuing short term refinancing due to the crisis in financial markets. All else equal, the Bank does not expect changes to the aforementioned informal agreements in the near future. Also the Bank is working on a restructuring plan with the Resolution Committee of Glitnir Bank concerning other debt payable in the same period.

2007 **Assets:**	0 to 1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	1.550.481	800.313				2.350.794
Loans and receivables	237.817	5.608.975	1.972.953	11.626.423	3.157.643	22.603.811
Financial assets held for trading	35.870	279.645				315.515
Financial assets designated at fair value through profit and loss		174.053	348.471	1.056.417		1.578.941
Other assets		1.074.033	22.940			1.096.973
Total	1.824.168	7.937.019	2.344.364	12.682.840	3.157.643	27.946.034

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Liabilities:	0 to 1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
Borrowings		14.552.276	5.682.948	2.061.478		22.296.702
Financial liabilities held for trading		408.038				408.038
Other liabilities		982.990				982.990
Total	0	15.943.304	5.682.948	2.061.478	0	23.687.730
Assets - liabilities ...	1.824.168	(8.006.285)	(3.338.584)	10.621.362	3.157.643	4.258.304
Undrawn loan-commitment		6.000.000	(6.000.000)			0
Net assets - liabilities	1.824.168	(2.006.285)	(9.338.584)	10.621.362	3.157.643	4.258.304

Market risk

Market risk constitutes risk due to changes in market prices, such as interest rates, foreign exchange rates and inflation rates.

Derivatives

The Bank employs derivatives for hedging currency and interest rate risks as well as for positioning itself in the market within set limits. The types of derivatives currently used are mainly forward currency contracts but also currency and interest rate swaps as needed.

Interest rate risk

Interest rate changes on international financial markets have an effect on the Bank's performance. The difference between the lengths of the interest rate periods for loans and borrowings causes interest rate fluctuations to have an effect on interest margins. In general, there is an imbalance between the interest rate periods of assets and liabilities but an effort is made to achieve the best balance between the remaining effective term of interest bearing assets and liabilities.

Currency risk

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rates. The Bank aims to maintain foreign exchange balance in accordance with the provisions of the rules of the Central Bank of Iceland on foreign exchange balance.

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Notes, contd.:

Currency risk, contd.:

Breakdown of assets and liablities by currency:

2008

Assets:	ISK	USD	EUR	CHF	JPY	Other	Total
Cash and cash equivalents	637.039	37.644	17.321	0	0	52.170	744.174
Loans and receivables	1.813.801	799.745	1.715.415	13.140.398	12.098.132	1.666.268	31.233.759
Financial assets held for trading	0	0	0	0	0	0	0
Financial assets at fair value through P&L	1.000	115.234	186.769	0	0	0	303.003
Investment in associated companies	500	1.095.663	338.254	0	0	0	1.434.417
Equipment	46.166	0	1.530	0	0	0	47.696
Investment property	0	0	0	0	0	566.888	566.888
Intangible assets	580.465	0	0	0	0	0	580.465
Deferred tax assets	773.814	0	0	0	0	0	773.814
Forclosed mortages	99.230	0	0	0	0	0	99.230
Other assets	31.950	113.923	31.064	0	0	179.243	356.180
Total	3.983.965	2.162.209	2.290.353	13.140.398	12.098.132	2.464.569	36.139.626
Liabilities and equity:							
Borrowings	11.272.106	321.107	500.228	7.627.560	8.627.757	570.540	28.919.298
Other liabilities	8.774.274	77.453	136.989	0	0	64.870	9.053.586
Total equity	(1.833.258)	0	0	0	0		(1.833.258)
Total	18.213.122	398.560	637.217	7.627.560	8.627.757	635.410	36.139.626
Net position	(14.229.157)	1.763.649	1.653.136	5.512.838	3.470.375	1.829.159	0
Net off balance sheet position	0	0	0	0	0	0	0
Net position	(14.229.157)	1.763.649	1.653.136	5.512.838	3.470.375	1.829.159	0

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2007

Assets:	ISK	USD	EUR	CHF	JPY	Other	Total
Cash and cash equivalents	1.792.897	375.032	114.016	54	0	68.795	2.350.794
Loans and receivables	5.962.794	1.550.794	1.875.070	6.396.348	5.822.721	996.084	22.603.811
Financial assets held for trading	280.068			0	0	35.447	315.515
Financial assets at fair value through P&L	2.002	1.123.548	446.426	0	0	6.965	1.578.941
Investment in associated companies	1.500	785.806	812.486			77.962	1.677.754
Equipment	144.992	3.272	453	0	0	0	148.717
Investment property		324.697				429.826	754.523
Intangible assets	3.536.722	0	0	0	0	0	3.536.722
Deferred tax assets	187.282						187.282
Other assets	885.963	30.577	73.633	0	0	106.800	1.096.973
Total	12.794.220	4.193.726	3.322.084	6.396.402	5.822.721	1.721.879	34.251.032
Liabilities and equity:							
Borrowings	13.597.665	1.371.918	1.720.852	2.665.010	2.365.459	575.798	22.296.702
Financial liabilities held for trading	408.038	0	0	0	0	0	408.038
Other liabilities	847.521	56.443	76.159	0	0	2.867	982.990
Total equity	10.563.302	0	0	0	0	0	10.563.302
Total	25.416.526	1.428.361	1.797.011	2.665.010	2.365.459	578.665	34.251.032
Net position	(12.622.306)	2.765.365	1.525.073	3.731.392	3.457.262	1.143.214	0
Net off balance sheet position	12.878.311	(3.299.581)	(699.330)	(3.952.572)	(3.548.815)	(1.378.013)	0
Net position	256.005	(534.216)	825.743	(221.180)	(91.553)	(234.799)	0

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30. Contd.:

Inflation rate risk

The Bank's inflation rate risk is quantified using the total net balance of inflation linked assets and liabilities.

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, as environmental or competitive events. This can cause the Bank to suffer financial and non-financial loss. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the reputation with overall cost effectiveness. The Bank also aims to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of control to address operational risk is assigned to senior management within each business unit.

Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, i.e. not during a forced sale or liquidation. The existence of published price quotations in an active market is the best evidence of fair value and when it exists. It is used by the Bank to measure financial assets and financial liabilities. If a quoted price for a financial instrument fails to represent actual and regularly occurring transactions in an active market transactions or if quoted prices are not available at all, fair value is established by using an appropriate valuation technique.

For listed and liquid stocks and bonds, certain financial derivatives and other market traded securities, such as commodities, the fair value is derived directly from the market prices. These instruments are disclosed in following balance sheet items; trading financial assets and trading financial liabilities.

For financial instruments, for which the market is not active, the Bank applies specific working procedures and valuation techniques to attain a fair value using as much market information as available. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models or other commonly accepted valuations techniques used by market participants to price the instrument.

30. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Banks's classification of each class of financial assets and liabilities:

2008	Trading	Designated at fair value	Amortised cost loans	Total carrying amount
Cash and cash equivalents			744.174	744.174
Financial assets designated at fair value though profit and loss		303.003		303.003
Loans and receivables			31.233.760	31.233.760
	0	303.003	31.977.934	32.280.937
Borrowings			28.919.297	28.919.297
	0	0	28.919.297	28.919.297

2007				
Cash and cash equivalents			2.350.794	2.350.794
Financial assets held for trading	315.515			315.515
Financial assets designated at fair value though profit and loss		1.578.941		1.578.941
Loans and receivables			22.603.811	22.603.811
	315.515	1.578.941	24.954.605	26.849.061
Borrowings	0	0	22.296.702	22.296.702
	0	0	22.296.702	22.296.702

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32. Segment reporting

Segment information is presented in respect of the Bank's business segments. The primary format, business segments, is based on the Bank's management and internal reporting structure.

Business segments

The Bank comprises of the following main business segments:

Real Estate Advisory provides advisory services to institutional and private clients in respect of investments in Real Estates.

Asset Management provides banking and investment service for institutional and private clients.

Risk and funding advisory provides risk and funding advise to clients and debt management.

Proprietary Trading trades in securities for the Bank's own account.

Leasing offers auto loans to individuals and companies.

Support areas are managed under the following functional headings: Operations, Risk Management, Finance, Legal & Compliance and Information Technology.

Year 2008	Real Estate Advisory	Asset Management	Risk and funding advisory	Proprietary trading	Leasing	Other eliminations	Total
Net interest income	1.263	0	0	(1.513.222)	834.359	98.000	(579.600)
Net fee and commission income	110.960	85.492	205.399	220.159	144.261	(137.004)	629.267
Net financial income	0	0	0	(1.297.237)	0		(1.297.237)
Net foreign exchange gain	65.241	0	0	1.275.714	1.467.085	(50.602)	2.757.438
Other operating income	0	0	0	475	24.310		24.785
	177.464	85.492	205.399	(1.314.111)	2.470.015	(89.606)	1.534.653
Administrative expenses	(259.984)	(129.778)	(251.174)	(1.048.593)	(453.368)	23.096	(2.119.801)
Impairment loss of intangible assets	0	0	0	(2.880.296)	0	0	(2.880.296)
Impairment loss of investment property	0	0	0	(238.913)	0	0	(238.913)
Impairment losses of loans and receivables	(223.311)	0	0	(4.080.448)	(2.240.817)	0	(6.544.576)
Share of profit of associates	0	0	0	(2.701.683)	0	0	(2.701.683)
Loss before tax	(305.831)	(44.286)	(45.775)	(12.264.044)	(224.170)	(66.510)	(12.950.616)
Income tax						538.631	538.631
Loss for the year	(305.831)	(44.286)	(45.775)	(12.264.044)	(224.170)	472.121	(12.411.985)

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32. Segment reporting, contd.:

31.12.2008	Real Estate Advisory	Asset Manage-ment	Risk and funding advisory	Proprietary trading	Leasing	Other eliminations	Total
Segment assets							
Cash and cash equivalents	2.350	0	0	140.891	600.933	0	744.174
Loans and receivables	437.597	0	0	8.760.948	29.511.744	(7.476.529)	31.233.760
Financial assets at fair value through profit and loss	0	0	0	303.003	0	0	303.003
Investment in associated companies	0	0	0	1.434.417	0	0	1.434.417
Equipment	0	0	0	42.468	5.228	0	47.696
Investment property	0	0	0	596.823	0	(29.935)	566.888
Intangible assets	0	0	0	0	80.465	500.000	580.465
Deferred tax assets	26.905	0	0	600.000	136.932	9.977	773.814
Other assets	211.998	0	0	88.895	154.516	0	455.409
Total	678.850	0	0	11.967.445	30.489.818	(6.996.487)	36.139.626

Consolidated Financial Statements of Askar Capital hf. 2008 29 Amounts are in thousand of ISK

32. Segment reporting, contd.:

Year 2007	Real Estate Advisory	Asset Manage-ment	Risk and funding advisory	Proprietary trading	Leasing	Other eliminations	Total
Net interest income	965	0	248	177.824	384.874	0	563.911
Net fee and commission income	1.256.716	46.473	164.891	47.767	59.826	(80.993)	1.494.680
Net financial income	0	0	0	(1.555.241)	0	0	(1.555.241)
Net foreign exchange gain	11.812	52	0	41.210	27.710	2.170	82.954
Other operating income	0	0	0	2.690	0	0	2.690
	1.269.493	46.525	165.139	(1.285.750)	472.410	(78.823)	588.994
Administrative expenses	(532.848)	(108.161)	(142.215)	(12.518)	(409.172)	(310.149)	(1.515.063)
Impairment losses on loans	0	0	0	70	(118.235)	0	(118.165)
Share of profit of associates	0	0	0	39.737	0	0	39.737
Profit (loss) before income tax	736.645	(61.636)	22.924	(1.258.461)	(54.997)	(388.972)	(1.004.497)
Income tax							172.728
Profit (loss) of the year	736.645	(61.636)	22.924	(1.258.461)	(54.997)	(388.972)	(831.769)

31.12.2007

Segment assets	Real Estate Advisory	Asset Manage-ment	Risk and funding advisory	Proprietary trading	Leasing	Other eliminations	Total
Cash and cash equivalents	0	0	0	3.052.598	17.224.507	2.326.706	22.603.811
Loans and receivables	0	0	0	56.604	47.614	211.297	315.515
Financial assets at fair value through profit and loss	0	0	0	1.578.941	0	0	1.578.941
Investment in associated companies	0	0	0	1.677.754	0	0	1.677.754
Investment property	0	0	0	769.091	0	(14.568)	754.523
Intangible assets	0	0	0	0	108.566	3.428.156	3.536.722
Other assets	1.107.456	0	0	0	401.413	2.274.897	3.783.766
Total	1.107.456	0	0	7.134.988	17.782.100	8.226.488	34.251.032

Consolidated Financial Statements of Askar Capital hf. 2008 30 Amounts are in thousand of ISK

Notes, contd.:

33. Net interest income

	2008	2007
Interest income:		
Cash and cash equivalents	74.925	58.852
Loans and receivables	3.322.436	1.112.489
Financial assets held for trading	415.579	846.534
Other interest income	9.294	3.571
Total interest income	3.822.234	2.021.446
Interest expense:		
Borrowings	(3.942.125)	(1.367.610)
Financial liabilities held for trading	(431.349)	(56.536)
Other interest expense	(28.360)	(33.389)
Total interest expense	(4.401.834)	(1.457.535)
Net interest (expense) income	(579.600)	563.911

34. Net fee and commission income

Fee and commission income:		
Loans, guarantees and risk sharing	200.552	112.733
Investment advisory, structuring and management fee	325.767	1.287.710
Advisory	154.211	152.816
Asset Management	98.901	38.919
Brokerage	0	36.209
Other	14.823	2.313
Total fees and commission income	794.254	1.630.700
Fee and commission expense	(164.987)	(136.020)
Net fee and commission income	629.267	1.494.680

35. Net gains on financial assets and financial liabilities held for trading

Listed domestic shares	0	(30)
Foreign listed shares	(86.261)	(9.323)
Total net gains on financial assets and financial liabilities held for trading	(86.261)	(9.353)

36. Net loss on financial assets designated at fair value through profit and loss

Unlisted shares	(61.648)	73.227
CDO unlisted	0	(975.031)
CLO unlisted	(1.149.328)	89.328
Other unlisted structured products	0	(733.412)
Total net loss on financial assets designated at fair value through P&L	(1.210.976)	(1.545.888)

37. Aministrative expenses

Salaries and related expenses	1.037.972	847.784
Other administrative expenses	834.513	638.401
Depreciation and amortisation	247.316	28.878
Total administrative expenses	2.119.801	1.515.063

Consolidated Financial Statements of Askar Capital hf. 2008 31 Amounts are in thousand of ISK

Notes, contd.:

38. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2008	2007
Salaries	892.389	716.835
Defined contribution pension plan expense	99.871	61.695
Other salary-related expenses	45.712	69.254
Total salaries and related expenses	1.037.972	847.784

Salaries and remuneration paid to the CEO and the Deputy CEO	59.005	37.410
Salaries and remuneration paid to seven Directors	112.473	104.800
Salaries and remuneration paid to the Board	2.033	30.419
	173.511	172.629

Average number of full time equivalents during the year	84	59
Full time equivalent positions at year-end	73	82

39. Auditors' Fees

Remuneration to the Bank's Auditors is specified as follows:

Audit of Annual Accounts	13.922	3.669
Review of Interim Accounts	7.133	6.106
Other services	10.857	11.035
Total Auditors' fees	31.912	20.810

40. Income tax

Income tax recognised in the Income Statement:

Deferred tax	(538.631)	(172.728)
Total income tax	(538.631)	(172.728)

Notes to the Balance Sheet

41. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	2008	2007
Cash	50	3.300
Balances with banks	744.124	1.547.181
Money market placements	0	800.313
Total cash and cash equivalents	744.174	2.350.794

Consolidated Financial Statements of Askar Capital hf. 2008 32 Amounts are in thousand of ISK

42. Loans and receivables

	2008	2007
Loans and leasing contracts to customers	30.221.758	19.243.772
Loans to credit institutions	127.523	682.000
Other receivables	884.479	2.678.039
Total loans and receivables	31.233.760	22.603.811

43. Loans and receivables are specified as follows by sectors:

Individuals	78,6%	71,8%
Real estate	3,5%	13,4%
Services	4,6%	3,6%
Credit institutions	0,4%	3,4%
Commerce	4,3%	3,2%
Industry	0,9%	0,8%
Other	7,7%	3,8%
Total loans and receivables	100,0%	100,0%

44. The allowance account for credit losses has been deducted from Loans and recievables. Changes in the provision are specified as follows:

Provision for loan impairment	190.572	90.196
Provision for losses during the year	5.807.990	118.235
Loans written off during the year as uncollectible	(2.553.762)	(17.859)
Recovery of loans previously written off	2.047	0
The allowance account at the end of the year	3.446.847	190.572

45. Financial assets held for trading

Share and other variable-yield securities:

Listed shares on Icelandic Stock Exchange	0	423
Listed shared on foreign stock exchange	0	35.447
Total listed shares	0	35.870
Positive balance of derivatives	0	279.645
Total financial assets held for trading	0	315.515

Consolidated Financial Statements of Askar Capital hf. 2008 33 Amounts are in thousand of ISK

46. Financial assets designated at fair value through profit and loss are specified as

	2008	2007
CLO unlisted	50.000	1.052.178
Unlisted affiliated shares	0	328.194
Unlisted shares	253.003	198.569
Total	303.003	1.578.941

47. Investment in associated companies

Investment in associated companies are specified as follows:

Carrying amount at the beginning of the year	1.677.754	0
Purchased during the year	933.001	1.638.017
Sold during the year	(500.000)	0
Effect of movements in exchange rates	2.086.095	0
Askar Indland	(60.750)	0
Share of (loss) profit	(2.701.683)	39.737
Carrying amount at the end of the year	1.434.417	1.677.754

Main associates are specified as follows:

31.12.2008	Total assets	Total liabilities	Owner-ship	Profit share	Nominal value	Book value
Askar Apple ehf. ...	-	-	0%	(1.224.047)	-	0
OLC India ehf.	3.682.429	393.941	33%	(136.934)	500	1.096.163
Askar China ehf. ...	373.171	340.008	33%	(134.962)	215.184	0
Port West ehf.	-	-	0%	(826.828)	-	0
Walkine Trading	2.668.732	1.470.101	28%	(231.000)	1.005.084	338.254
Randolph Int.	2.670.710	2.365.777	41%	(147.912)	186.077	0
				(2.701.683)	1.406.845	1.434.417

31.12.2007						
Askar Apple ehf. ...	12.301.435	11.244.980	100%	(158.508)	676.171	517.663
OLC India ehf.	2.381.394	1.780.923	33%	200.120	516.140	716.260
Askar China ehf. ...	219.958	9.300	33%	(1.516)	72.061	70.545
Walkine Trading	2.368.600	1.364.015	28%	(147)	295.470	295.323
Randolph Int.	1.064.377	878.807	41%	(212)	78.175	77.963
				39.737	1.638.017	1.677.754

Consolidated Financial Statements of Askar Capital hf. 2008 34 Amounts are in thousand of ISK

48. Equipment

Equipments specifies as follows:

Cost

Balance at 1 January 2007	12.599
Additions during the year	172.310
Disposals during the year	(7.314)
Balance at 31 December 2007	177.595
Additions during the year	34.748
Disposals during the year	(22.895)
Balance at 31 December 2008	189.448

Depreciation

Depreciation during the year	(28.878)
Balance at 31 December 2007	(28.878)
Depreciation during the year	(117.514)
Disposals during the year	4.640
Balance at 31 December 2008	(141.752)

Carrying amounts

Balance at 1 January 2007	12.599
Balance at 31 December 2007	148.717
Balance at 31 December 2008	47.696

Depreciation ratios	20 - 33%

49. Investment properties

Investment property is specified as follows:

Balance at 1 January 2008	754.523
Additions during the year	95.717
Impairment losses	(238.913)
Transferred to other items	(471.124)
Translation difference	426.685
Balance at 31 December 2008	566.888

Consolidated Financial Statements of Askar Capital hf. 2008 35 Amounts are in thousand of ISK

50. Intangible assets

Intangible assets are specified as follows:

	Goodwill	Software	Total
Balance at 1 January 2007	3.380.296	0	3.380.296
Additions during the year	0	156.426	156.426
Balance at 31 December 2007	3.380.296	156.426	3.536.722
Additions during the year	0	53.841	53.841
Amortisation during the the year	0	(129.802)	(129.802)
Impairment losses	(2.880.296)	0	(2.880.296)
Balance at 31 December 2008	500.000	80.465	580.465

Impairment test

For the purpose of impairment testing, goodwill is allocated to the Bank's business units which represents the lowest level within the Group at which the goodwill is monitores for internal management purposes.

Cash flows were projected based on the next years business plan and expected growth in the next 4 years. Cash flows for a future period are extrapolated using a constant growth rate. Management believes that a constant growth rate of 5% a year is close to the expected inflation for the period.

The anticipated annual revenue growth rate in cash flows projection was 2.3% - 4.6% for the years 2009-2013 (2007: 3.5% - 10.0% for the years 2008 - 2012).

The discount rate of 17% (2007: 15% - 18%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on the companies weighted average cost of capital.

The allocation of the goodwill for each CGU is as follows:

	2008	2007
Proprietary Trading	0	272.262
Risk and funding advisory	0	116.764
Asset Management	0	334.244
Leasing	500.000	1.358.636
Real estate advisory	0	1.020.983
Unallocated	0	277.407
Total goodwill	500.000	3.380.296

Changes in key assumptions would have the following impact on the carrying amount of goodwill:

WACC +1%	(183.968)

Consolidated Financial Statements of Askar Capital hf. 2008 36 Amounts are in thousand of ISK

Notes, contd.:

51. Other assets

Other assets are specified as follows:

	2008	2007
Accounts receivable	286.110	515.314
Accrued income	0	494.846
Restricted balances in Central Bank	692	64.934
Repaid expenses	647	1.793
Other assets	68.730	20.086
Total other assets	356.179	1.096.973

52. Borrowings

The Bank's borrowings are specified as follows:

Balances with credit institutions regarding repurchase agreements	5.853.702	481.214
Loans from credit institutions	18.279.108	11.278.481
Bill of exchange	0	3.198.223
Issued bonds	2.357.369	2.061.478
Other borrowings	2.429.118	5.277.306
Total borrowings	28.919.297	22.296.702

53. Deferred Tax Asset

Changes in tax asset during the year are as follows:

Tax asset at the beginning of the year	187.282	14.554
Calculated income tax for the year	538.631	172.728
Current tax liability	47.901	0
Tax asset at the end of the year	773.814	187.282

Deferred tax asset is mainly due to tax losses carried forward.

54. Other liabilities

Other liabilities are specified as follows:

Accounts payable	489.875	312.151
Accrued expenses	107.925	182.982
Deferred income	9.635	54.600
Other liabilities	8.443.538	433.257
Total other liabilities	9.050.973	982.990

Consolidated Financial Statements of Askar Capital hf. 2008 37 Amounts are in thousand of ISK

54. Contd.:

On 6 October 2008 Althingi, the Parliament of Iceland, passed Law no. 125/2008, authorizing a disbursement of funds from the Treasury due to the unusual situation facing the financial market, which includes a change to the act on Financial Undertakings and other laws. This law authorized the Financial Supervisory Authority of Iceland (FME) inter alia, to take special measures, due to unusal circumstances, in order to minimize harm or danger of harm to the financial market. On 7 October 2008, FME took control over the Company's commercial bank Glitnir Bank hf. On 7 October 2008 Askar Capital hf. had several open derivatives with Glitnir Bank hf. These derivatives are considered, by the Company, in default on 7 October 2008 and the last extension date is considered to be the settlement date.

All derivative with Glitnir Bank hf. have been calculated based on 6 and 7 October 2008. Due to fluctuations on the ISK these calculations could change to some extent if other settlement dates would be considered. If the settlement date is considered 31 December 2008 the other liabilities would increase by approx. ISK 2,685 million.

55. Equity

According to the Parent Company's Articles of Association, total share capital amounts to ISK 588 million. One vote is attached to each share of one ISK and the holders of ordinary shares are entitled to one vote per share at meetings of the Company.

Off Balance Sheet information

56. Obligations

	2008	2007
Guarantees	0	434.000
Loan commitments	733.568	620.000
Off Balance Sheet information total	733.568	1.054.000

57. Events after the Balance Sheet date

There have been no other material post Balance Sheet events which would require disclosure or adjustments to the Financial Statements of the year 2008. On the 13th of May 2009 the Board of Directors approved the Consolidated Financial Statements and authorised for issue.

Consolidated Financial Statements of Askar Capital hf. 2008 38 Amounts are in thousand of ISK

58. Subsidiaries

Shares in subsidiaries are specified as follows:

Company:	Country	Currency	Share Capital in millions	Equity interest accum. %
Avant hf.	Iceland	ISK	3.460	100%
Gjaldeyrisvogunarsjóðurinn hf.	Iceland	ISK	100	100%
Crawley ehf.	Iceland	GBP	38	100%
Ecchinswell ehf.	Iceland	GBP	50	100%
AVP S.a.r.l.	Luxembourg	EUR	3	100%
Askar Real Estate Advisory ehf.	Iceland	EUR	100	100%
Askar Rumenia	Rumenia	EUR	5	100%
Staten Group Limited	BVI	USD	120	100%

59. Pledged assets

Pledged assets are as follows:	2008	2007
Loans and receivables	22.825.631	17.224.507
Total pledged assets	22.825.631	17.224.507

The Bank's shares in the subsidiary Avant hf. are also pledged in full.

Related parties

60. The Bank has a related party relationship with its shareholders, subsidiaries, associates, board of directors of the parent company and managing director. Companies owned by board shareholders are also considered related parties.

During the year 2008 the Bank made transactions with related parties. These transactions were priced on an arm's length basis. Net outstanding loans and receivables at year end amounted to ISK 400 million (2007: ISK 4,098 million). Interest income to related parties in the income statements amounts to ISK 120 million (2007: ISK 95 million) and interest expenses ISK 326 million (2007: ISK 412 million).

Assets under management and custody

61. Assets under management and assets under custody are specified as follows:

	2008	2007
Assets under management, ISK million	27.578	32.860

The Bank provides asset custody, asset management, investment management and advisory services to its clients. These services require the Bank to make decisions on the treatment, acquisition or disposal of financial instruments. Assets in the Bank’s custody are not reported in its accounts.

Unaudited Information

Quarterly Statements

Summary of the Bank's operating results by quarters:

	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Total
Net interest income	(71.258)	(460.803)	(264.999)	217.460	(579.600)
Net fee and commission income	(152.535)	205.347	384.937	191.518	629.267
Nef financial income	(781.081)	(899.818)	114.937	268.725	(1.297.237)
Net foreign exchange gain	2.669.900	(96.013)	(37.709)	221.260	2.757.438
Other operating income	8.840	2.321	13.624	0	24.785
	1.673.866	(1.248.966)	210.790	898.963	1.534.653
Administrative expenses	(606.808)	(478.283)	(458.020)	(576.690)	(2.119.801)
Impairment intangible assets	(2.880.296)	0	0	0	(2.880.296)
Impairment investment property .	(238.913)	0	0	0	(238.913)
Impairment losses on loans	(4.431.417)	(1.365.381)	(626.648)	(121.130)	(6.544.576)
Share of loss of associates	(1.644.187)	(664.356)	(200.984)	(192.156)	(2.701.683)
Loss before income tax	(8.127.755)	(3.756.986)	(1.074.862)	8.987	(12.950.616)
Income tax	(125.795)	559.924	102.777	1.725	538.631
Loss for the year	(8.253.550)	(3.197.062)	(972.085)	10.712	(12.411.985)

	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Total
Net interest income	75.115	296.969	225.168	(33.341)	563.911
Net fee and commission income	607.535	335.958	301.715	249.472	1.494.680
Nef financial income	(1.325.473)	(362.182)	22.990	109.424	(1.555.241)
Net foreign exchange gain	67.762	38.581	(14.722)	(8.667)	82.954
Other operating income	2.686	0	4	0	2.690
	(572.375)	309.326	535.155	316.888	588.994
Administrative expenses	(619.661)	(309.300)	(317.564)	(268.538)	(1.515.063)
Impairment losses on loans	(52.091)	(52.509)	(27.510)	13.945	(118.165)
Share of loss of associates	39.737	0	0	0	39.737
Loss before income tax	(1.204.390)	(52.483)	190.081	62.295	(1.004.497)
Income tax	208.736	9.363	(34.158)	(11.213)	172.728
Loss for the year	(995.654)	(43.120)	155.923	51.082	(831.769)

Consolidated Financial Statements of Askar Capital hf. 2008 40 Amounts are in thousand of ISK