

Askar Capital Interim Financial Statements 30.6.2008:

Loss but Numerous Opportunities for Askar Capital

Principal Results

- Fee and commission income was ISK 679 million, which represents an increase of 8% from the preceding year
- Net operating income was ISK 1,109 million, which represents an increase of 30% from the preceding year
- A precautionary write-down of loans amounted to ISK 748 million.
- The loss in the first half of the year was ISK 961 million, as compared to a profit of ISK 207 million in the first half of 2007
- Total assets at 30 June amounted to ISK 53.7 billion, while assets at the turn of the year amounted to ISK 34.3 billion
- Assets under management amounted to ISK 40 billion and debt under management amounted to ISK 270 billion
- Tier 1 capital ratio was 17.2%

BENEDIKT ÁRNASON, CEO OF ASKAR CAPITAL: "In the first half of the year work was continued on developing infrastructure and business relationships, since the Bank is only 18 months old and has held an operating licence for only one year. As a result of the difficulties in the international financial markets, growth in real estate and venture capital projects has been much slower than anticipated. However, the current market conditions have led to opportunities in other areas of specialised financial advisory services, including currency products, debt management and funding advisory. Although the operating loss in the first half of the year is disappointing, it is primarily a result of a precautionary write-down of loans, particularly on account of the Bank's subsidiary, Avant. We have responded to the changed environment, and our budget for the second half of the year projects fee and commission income in excess of operating expenses."

Askar Capital is an investment bank which provides advice to professional investors on financing and investment in alternative asset classes, as well as managing portfolios and funds involving such products. The bank was founded at the beginning of 2007 and grew rapidly. External conditions have changed significantly in 2008. These changes call for new priorities, and in recent months efforts have focussed on adapting the Bank to the new environment and on improving its profitability. As of 1 July the bank's business activities in India are operated through a company in which Askar Capital's partner in India holds a 50% stake. Executive management has been trimmed and streamlining measures have been taken. According to projections, the bank's operating expenses in the fourth quarter will be about 25% lower than in the second quarter. Although expenses resulting from the restructuring of the bank will be incurred in the third quarter, fee and commission income is nonetheless projected to exceed operating expenses in the second half of 2008.

Despite difficult external conditions there were numerous positive signs in Askar Capital's operations in the first half of the year. The Capital Markets division has undertaken intermediation in borrowing from foreign banks for its clients and has seen an increase in the number of clients using its advisory and debt management services. A currency hedge fund established in August 2007 has yielded excellent returns. Askar Real Estate Investment Advisory manages over twenty real estate projects in three continents and has accumulated extensive experience in this area.

In the near future, Askar Capital's opportunities lie in specialised financial advisory services in areas, such as currency products, debt management and funding advisory. Moreover, the current conditions provide a good opportunity to begin the development of private equity projects. Sales of real estate projects currently under management are also expected to yield considerable fee and commission revenues.

As a result of the current situation in the financial markets and the state of the Icelandic economy, the second half of the year will be challenging for the employees of Askar Capital. The bank's objective is to offer solid asset management services in specialised financial products and to provide advisory services concerning products of this kind. Work is in progress on restructuring of Askar Capital's balance sheet and capital structure with a view to making the bank better equipped to operate in a transformed environment. It is the opinion of the bank's management and owners that the measures that have been taken will lead to better results in the second half of 2008.

Askar Capital operations

Highlights from the income statement

ISK Million	30/06/2008	30/06/2007
Interest income	1,889	487
Interest expense	-1,937	-295
Net interest income	-48	192
Fee and commission income	679	629
Fee and commission expense	-103	-78
Net fee and commission income	576	551
Net financial income	567	109
Other net operating income	14	0
Net operating income	1,109	852
Administrative expenses	-1,034	-586
Impairment on loans and receivables	-748	-14
Share of loss of associates	-393	0
(Loss) profit before income tax	-1,066	252
Income tax	105	-45
(Loss) profit for the period	-961	207

Income

Net interest income was negative by ISK 48 million, as compared to positive ISK 192 million for the same period last year. The interest rate margin was negative, since investment income is entered under financial income while financial cost is entered under interest expenses. Most of the interest rate margin, or ISK 396 million, can be traced to the operation of the auto financing company Avant, which is a wholly-owned subsidiary of Askar Capital.

Net fee and commission income amounted to ISK 576 million, as compared to ISK 551 million for the same period of the preceding year. The net financial income was positive by ISK 1,109 million, as compared to ISK 852 million for the same period of the preceding year.

Expenses

Operating expenses amounted to ISK 1,034 million over the period, as compared to ISK 586 million for the same period last year. Of this figure, salaries and payroll expenses amounted to ISK 570 million. The average number of full-time equivalent positions at the group was 92. At the end of June the group had 95 employees, up from 87 at the beginning of the year.

Loan write-downs amounted to ISK 748 million for the first six months of the year, of which a prudential provision for losses resulting from an increase in defaults at the Avant subsidiary amounted to ISK 477 million. This is a precautionary entry in light of increasing defaults; however, final losses were insignificant during the period.

Losses due to the results of associates amounted to ISK 393 million, primarily as a result of holdings in real estate companies. The assets of the real estate companies are entered at their estimated real value at the end of June, with the real value calculated by projecting future cash flow. Changes in the financial markets have caused an increase in the required rate of return used to assess the value of such assets, which is the main reason for the decrease in the valuation.

Assets and liabilities of Askar Capital

Highlights from the balance sheet

ISK Million	30/06/2008	31/12/2007
Cash and cash equivalents	1,181	2,415
Loans and receivables	28,282	22,604
Investments	18,447	4,328
Intangible assets	3,556	3,537
Other assets	2,220	1,367
Total assets	53,686	34,251
Deposits from Central Bank	12,228	0
Borrowings	28,202	22,297
Other liabilities	3,708	1,391
Total liabilities	44,138	23,688
Equity	9,548	10,563
Total liabilities and equity	53,686	34,251

Assets

Total assets of Askar Capital amounted to ISK 53.7 billion on 30 June 2008, as compared to ISK 34.3 billion at year-end 2007. The increase is mainly a result of investments in listed bonds and changes in the exchange rate of the Icelandic krona, since a substantial part of the group's assets is denominated in foreign currencies. Lending amounted to ISK 28.3 billion, of which Avant car loans amounted to ISK 22.4 billion. Investments amounted to ISK 18.4 billion, of which investments in listed bonds amounted to ISK 12.5 billion. Investments in real estate and infrastructure projects amounted to ISK 3.2 billion, of which investments in India amounted to ISK 1.9 billion and investments in structured products backed by bank loans to business enterprises amounted to ISK 1.3 billion.

Liabilities and Equity

Askar Capital's total liabilities amounted to ISK 44.1 billion on 30 June 2008, as compared to ISK 23.7 billion at year-end 2007. The increase stems primarily from repurchase transactions, as well as changes in the exchange rate of the Icelandic krona, since a substantial part of the group's liabilities are denominated in foreign currencies. Of this figure, borrowings amounted to ISK 40.4 billion. Listed bonds with maturities in 2012 amounted to ISK 2.3 billion. The group has an ISK 17.5 billion credit line, for one year at a time, with two Icelandic banks. In 2008 efforts have been made to change the Bank's capital structure for the purpose of further balancing the lifetimes of assets and liabilities. The solvency ratio was 17.2% at the end of June and all regulatory capital was tier 1 capital.

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Askar Capital

Askar Capital is an investment bank which specialises in advising professional investors on financing and investment in specialised financial products, as well as managing portfolios and funds involving such products.

Askar Capital has its headquarters in Reykjavik, while Askar Capital Real Estate Investment Advisory also has offices in Orlando and Bucharest.

The Askar Capital profit centres are the following:

Capital Markets provides clients with value-adding financial market advice, including debt and risk management, and acts as a financing intermediary, basing its services on the 14 years of experience of Radgjof og efnahagsspar ehf in this field. Clients includes most of the largest municipalities in Iceland, pension funds, fisheries companies, investment companies, and others. The Capital Markets division has 6 employees and Thordur Jónasson is the Managing Director.

Hedge Funds operates a currency fund (the AC Absolute Return FX Fund) and provides professional investors with services in the area of specialised asset management, particularly in foreign exchange transactions. The Hedge Funds division has 5 employees and the Managing Director is Yngvi Hardarsson.

Askar Real Estate – Private equity is a subsidiary of Askar Capital, offering investors the opportunity to participate in a wide spectrum of real estate and private equity projects around the world. The company has managed over 30 real estate projects since its foundation and currently manages 26 projects worth over ISK 120 billion. Askar Real Estate – Private Equity has 15 employees and Dr. Bjarki Brynjarsson is the Managing Director.

AVANT is a subsidiary of Askar Capital offering a wide range of auto-financing services. Avant has 25 employees and Magnús Gunnarsson is the Managing Director.

Askar Capital Investment Bank was established at the end of 2006 following a three-way merger between Sjóvá fjármögnun hf, Aquila Venture Partners ehf and Radgjof og efnahagsspar ehf. The company was granted a license to operate as an investment bank at the end of August 2007.

Askar Capital is a part of the Swedish financial group Moderna Finance, which is owned entirely by Milestone ehf. Askar Capital operates under the supervision of the Financial Supervisory Authority of Iceland under an operating licence granted by that the Authority.

Benedikt Árnason is the CEO of Askar Capital.

