Askar Capital hf.

Consolidated Financial Statements
for the year 2007
ISK

Askar Capital hf.
Suðurlandsbraut 12
105 Reykjavík

Reg. no. 441206-0110

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Report and Statement of the Board of Directors and the CEO

The Consolidated Financial Statements of Askar Capital hf. for the year 2007 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Consolidated Financial Statements comprise Askar Capital hf. and its subsidiaries (together referred to as the "Bank").

According to the income statement, after tax loss for the year amounted to ISK 832 million. The Bank's equity at the end of 2007 amounted to ISK 10.563 million. The Bank's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings was 18.5% at year-end. As of 31 December 2007 the Bank's total assets amounted to ISK 34.251 million.

At the end of 2007 the Bank's shareholders numbered 19. Milestone ehf., which holds 82% of the Bank's share capital, is the only shareholder with a holding exceeding 10%.

The Board of Directors recommends that no dividend will be paid to shareholders.

The Bank's total share capital at year end amounted to ISK 579 million. The share capital is divided into an equial number of shares of ISK 1 each with equal rights within a single class of shares.

To the best of our knowledge, the consolidated financial statements of Askar Capital hf. for the year 2007 give a true and fair view of the assets, liabilities, financial position and financial performance of the Bank. Further, in our opinion the consolidated financial statements and the endorsement of the Board of Directors and the Chief Executive Officer 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.

Reykjavík, 15 February 2008.

Board of Directors:

Haukur Harðarson

Guðmundur Ólason *Jóhannes Sigurðsson*

Guðmundur Arason *Linda Bentsdóttir*

Steingrímur Wernersson

CEO:

Tryggvi Þór Herbertsson

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 December 31, 2007, 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 Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Bank as at December 31, 2007, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 15 February 2008.

KPMG hf.

Helgi F. Arnarson

Margrét Guðjónsdóttir

Consolidated Income Statement
for the year 2007

	Notes	
Interest income		2.021.446
Interest expense		(1.457.535)
Net interest income	33	563.911
Fee and commission income		1.630.700
Fee and commission expense		(136.020)
Net fee and commission income	34	1.494.680
Net gains on financial assets and financial liabilities held for trading	35	(9.353)
Net gains on financial assets designated at fair value through profit and loss	36	(1.545.888)
Net foreign exchange profit		82.954
Other operating income		2.690
Net operating income		588.994
Administrative expenses	37	(1.515.063)
Impairment losses on loans and receivable	44	(118.165)
Share of profit of associates	47	39.737
Loss before tax		(1.004.497)
Income tax	40	172.728
Loss of the year	32	(831.769)

Notes on pages 9 to 42 are an ingegral part of these consolidated financial statements

Consolidated Balance Sheet
as at 31 December 2007

	Notes	31.12.2007	1.1.2007
Assets:			
Cash and cash equivalents	41	2.350.794	110.845
Loans and receivables	42-44	22.603.811	4.223.239
Financial assets held for trading	45	315.515	0
Financial assets designated at fair value through profit and loss	46	1.578.941	71.877
Investment in associated companies	47	1.677.754	0
Equipment	48	148.717	12.599
Investment property		754.523	0
Intangible assets	49	3.536.722	3.380.296
Deferred tax assets	52	187.282	14.554
Other assets	50	1.096.973	7.233.660
Total Assets		34.251.032	15.047.070
Liabilities:			
Borrowings	51	22.296.702	3.422.060
Financial liabilities held for trading		408.038	0
Current tax liabilities	52	0	26.879
Other liabilities	53	982.990	561.246
Total Liabilities		23.687.730	4.010.185
Equity:			
Share capital	54	579.602	552.700
Share premium		10.833.151	10.501.300
Translation reserve		(567)	0
Retained earnings		(848.884)	(17.115)
Total Equity		10.563.302	11.036.885
Total Liabilities and Equity		34.251.032	15.047.070

Notes on pages 9 to 42 are an ingegral part of these consolidated financial statements

Consolidated Statement of Changes in Equity
for the year 2007

	Share capital	Share premium	Trans- lation reserve	Retained earnings	Total equity
Equity as at 1.1.2007	552.700	10.501.300		(17.115)	11.036.885
Translation difference			(567)		(567)
Loss of 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

Notes on pages 9 to 42 are an ingegral part of these consolidated financial statements

Consolidated Statement of Cash Flows for the year 2007

	Notes	2007
Operating activities:		
Loss of the year		(831.769)
Adjustments for operating activities:		
Impairment on loans and advances	44	118.165
Depreciation of property and equipment	48	28.878
Net interest income	33	(563.911)
Profit from associates	47	(39.737)
Income tax expense	40	(172.728)
		(1.461.102)
Changes in operating assets and liabilities:		
Financial assets held for trading		(321.075)
Financial assets designated at fair value through P/L		(2.084.316)
Loans		(18.245.313)
Other assets		(863.313)
Deferred tax assets		(145.849)
Financial liabilities held for trading		408.038
Other liabilities and provisions		439.787
		(20.812.041)
Interest and dividends received		2.350.834
Interest paid		(815.038)
Net cash used in operating activities		(20.737.347)
Investing activities:		
Purchase of investment property		(754.523)
Purchase of property and equipment	48	(172.333)
Purchase of intangible assets	49	(156.426)
Payment for acquisition of associations		(1.638.017)
Other changes		7.314
Net cash used in investing activities		(2.713.985)
Financing activities:		
Borrowings and other liabilities		18.333.072
Issued new shares		7.712.673
Purchase and sold treasury shares		(353.920)
Net cash from financing activities		25.691.825
Increase in cash and cash equivalents		2.240.493
Cash and cash equivalents at beginning of year		110.845
Translation adjustments		(544)
Cash and cash equivalents at the end of the year		2.350.794

Notes on pages 9 to 42 are an ingegral part of these consolidated financial statements

Notes

1. Reporting entity

Askar Capital hf. (the parent) is a company incorporated and domiciled in Iceland. The address of the Banks registered office is Suðurlandsbraut 12, Reykjavik. The Consolidated Financial Statements for the year 2007 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 Milestone ehf. and the financial statement is part of consolidated financial statement of Milestone ehf.

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 Financial Statements were authorised for issue by the Board of Directors of Askar Capital hf. on February 15th 2008.

b. *Functional and presentation currency*

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

c. *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.

d. *Use of estimates and judgements*

The preparation of the Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions. These judgements, estimates and assumptions affect the reported amounts of assets and liabilities as well as, income and expenses in the Financial Statement presented. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcome can later to some extend differ from the estimates and the assumption made.

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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

Judgements made by management in the application of IFRS that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed 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 Banks' 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

b. *Transactions eliminated on consolidation*

Intra-Company balances, unrealised gains and losses or income and expenses arising from intracompany transactions, are eliminated in the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investors are eliminated against the investment to the extent of the Companies interest in the investee.

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. *Functional currencies*

Items included in the Financial Statements of each of the Bank's entities are measured using the functional currency of the respective entity.

b. *Foreign currency transactions*

Transactions in foreign currencies are translated into functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated into functional currencies at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement in a separate line. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

c. *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the presentation currency, Icelandic krona, at foreign exchange rates current at the Balance Sheet date. The revenues and expenses of foreign operations are translated to Icelandic krona at rates approximating the foreign exchange rates current at the dates of the transactions.

Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

6. Income and Expense

a. *Interest income and expense*

Interest income and expense are recognised in the Income Statement as it accrues using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised at the rate of interest used to discount the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on the net amount of the financial asset taking the write-down into consideration.

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.

b. contd.:

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 in the Income Statement on the date that the dividend is declared.

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 gains on financial assets and financial liabilities at fair value through profit or loss*

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 (including equity securities) 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.

7. a. contd.:

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing if future recoveries are regularly benchmarked against actual outcome to ensure that they remain approprate.

Impairment losses on assets carries at amortised cost are measured 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 assesses 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, calculated payments and are not listed in an effective 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 recorded at fair value, which is the cash given to orginate the loan, including andy 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 2008 and currency indexed loans are recognixed 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 depreciated when cash flow can no longer be obtained or when the group has transferred for the most part risk and gains 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.

12.b. contd.:

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, including equity instruments held by the venture capital organisation of the Bank which give the issuer but not control.

Fair value changes of financial assets classified under this category are reported in the Income Statement as Net gains on financial assets designated as at fair value, while interest are 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 and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Bank calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

The best evidence of the fair value of a derivative 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 proprietary models, which usually are developed from recognised valuation models. Some or all 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, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuations techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the Balance Sheet.

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. In repurchase agreements, the cash received, including accrued interest is recognised in the Balance Sheet. The proceeds from the legal sale of these securities are reported as borrowings.

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 losses.

18. contd.:

b. *Subsequent costs*

The Bank recognises in the carrying amount of a equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. The decision if subsequent costs is added to the acquisition cost of the equipment, is based on whether an identified component, or part of such component, has been replaced or not, or if the nature of the subsequent cost means a contribution of a new component. All other costs are recognised in the Income Statement as an expense 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.

Equipment	5 years
Vehicles	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.

20. contd.:

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

Some of 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 Company 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

a. *New standards and interpretations effective in 2007*

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures became mandatory for The Bank's 2007 financial statements. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the standards, the Bank has provided full comparative information.

IFRIC 7 – 10 became mandatory for The Bank's 2007 financial statements but their adoption had no impact on the Bank's 2007 financial statements.

b. *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 2007, and have not been applied in preparing these consolidated financial statements:

IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for The Bank's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by The Bank's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Bank presents segment information in respect of its business and geographical segments (see notes 36-38). Under the management approach, The Bank will present segment information in respect of Real estate advisory, Asset Management, Risk and funding advisory, Proprietary Trading and Leasing.

26. contd.:

IAS 1 Presentation of Financial Statements (revised in 2007) replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. IAS 1 (Revised 2007) sets the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The main change in revised IAS 1 is a requirement to present all non-owner changes in equity (changes in equity not resulting from transactions with owners in their capacity as owners) in one or two statements: either in a single statement of comprehensive income, or in an income statement plus in a statement of comprehensive income. Unlike under current IAS 1, it is not permitted to present components of comprehensive income in the statement of changes in equity. IAS 1 (revised in 2007), which becomes mandatory for The Bank's2009 financial statements if endorsed by the EU, is expected to impact the presentation of the Group's income statement and statement of changes in equity.

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. If endorsed by the EU, the revised IAS 23 will become mandatory for The Bank's 2009 financial statements and will constitute a change in accounting policy for The Bank. In accordance with the transitional provisions The Bank will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

The amendments to IFRS 2 Share Based Payment – Vesting Conditions and Cancellations (January 2008) clarify the definition of vesting conditions and the accounting treatment of cancellations. If endorsed by the EU, the amendments become mandatory for The Bank's 2009 financial statements, with retrospective application required. The amendments are not expected to have any effect on the consolidated financial statements of the Bank.

IFRS 3 *Business Combinations* (revised in 2008) and amended IAS 27 Consolidated and Separate Financial Statements introduce changes to the accounting for business combinations and for non-controlling (minority) interests. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:

IFRS 3 (2008) also applies to business combinations involving only mutual entities and to business combinations achieved by contract alone;

The definition of a business combination has been revised to focus on control;

The definition of a business has been amended;

Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;

Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;

Disposals of equity interests while retaining control are accounted for as equity transactions;

New disclosures are required.

IFRS 3 (revised in 2008) and amended IAS 27 will become mandatory for The Bank's 2010 financial statements, if endorsed by the EU. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The Bank has not yet determined the potential effect of IFRS 3 (revised in 2008) and amended IAS 27 on the consolidated financial statements.

26. contd.:

IFRIC 11 IFRS 2 – Company and Treasury Share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Company's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

IFRIC 12 Service Concession Arrangements provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Company's 2008 financial statements if endorsed by the EU, is not expected to have any effect on the consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements if endorsed by the EU, is not expected to have any impact on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Company's 2008 financial statements if endorsed by the EU, with retrospective application required. The Bank has not yet determined the potential effect of the interpretation on the consolidated financial statements.

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.

29. a. contd.:

A capital plan is prepared on an annual basis and approved by the Board with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The Bank's policy is to hold capital in a range of different forms and from diverse sources.

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

b. *Capital management and allocation*

The lcelandic 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.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year 2007.

Capital allocation

The allocation of capital between specific operations and activities is, to large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect different risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

29. contd.:

c. *Regulatory captital*

Equity at the end of the period amounted to ISK 10,563 million, equivalent to 30,8% of total assets according to the balance sheet. The capital adequacy ratio of the Bank, calculated in accordance to Article 84 of the Act on Financial Undertakings, is 18,5%. This ratio may not be lower than 8,0% according to that Act. The ratio is calculated as follows:

	Book value	Weithted value
Risk base		
Assets recorded in the balance sheet	34.251.032	37.563.278
Currency risk		377.567
Risk base, total		37.940.845
Capital:		
Tier I Capital		
Equity		10.563.303
Assets deducted from equity		(3.536.722)
Total Equity		7.026.581
Capital adequacy ratio		18,5%

30. Risk management disclosure

The Bank is exposed to a number of risks, in its daily activities, as a financial services firm. The Bank 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 Askar Capital

The task of evaluating and managing risk lies within a Risk Management Division which is responsible for assessing the company‘s financial and operational risk. The Board of Directors oversees the overall risk management of the company as well the granting of credit, by deciding on a risk policy. The Bank is in the process of adopting a new system for treasury and risk management (TRM). These systems will contribute directly to lower operational risk associated with desktop tools in addition to allow for detailed monitoring and control of risks on a continuous basis. Further, these systems will enable the Bank to develop its own analytics. This will facilitate the Bank's risk management to monitor and maintain risk at an acceptable level in accordance with the board‘s risk appetite. Risk management involves actively overlaying financial instruments to decrease and increase individual risks.

The following sections discuss the main risk factors at the Bank which may affect the earnings of the bank and its capacity to fulfill its commitments towards investors. This coverage emphasizes important risk factors; however it need not cover all the potential risk factors in the operation of the bank and its external environment. All risk factors apply to all the markets in which the bank operates, unless otherwise has been specified. The Bank focuses on alternative investments and provides service to qualified investors related to such investments. The alternative investments are in the area of real estate projects and real estate funds, lending in the form of mezzanine loans, private equity funds, structured credit and hedge funds. Furthermore, the Bank provides advisory in the field of real estate projects. In addition to the above-mentioned operations, the Bank operates a proprietary trading desk and is particularly exposed to risk related to the development of global real estate prices.

Credit risk

Credit risk estimation involves estimating potential future losses due to counterparty payment defaults or the inability to pay.The Bank’s Board of Directors has appointed a Credit Committee which determines the Bank’s credit policy involving lending and guarantees. The Credit Committee makes all decisions on non-retail lending. The Credit Committee members currently are the CEO, the deputy CEO, the CFO. In addition the Managing Director of Risk Management and the General Council are observing members.

Apart from lending by Avant hf the loans provided by the Bank are mostly mezzanine loans that have been extended to real estate projects promoted by the Askar Capital Real Estate Advisory. Mezzanine loans are unsecured and come next only to equity in the event of bankruptcy. This implies that Mezzanine loans are fairly risky and hence carry a high rate of interest. However, the Bank has only provided Mezzanine loans to projects where it has expert knowledge or extremely good information, such as real estate projects run by the bank’s Real Estate Advisory. One mezzanine loan has been provided to a private equity investment company specializing in the British retail sector. The Risk Management department monitors lending activities, including limit surveillance and loan documentation. The Lending and Risk Management departments monitor the composition of the bank’s loan portfolio. The lending committee regularly reviews information on the bank’s largest debtors and information on late payments.

***Credit risk**, contd.:*

Impairment provisions on credit exposures are assessed in order to provide for potential losses. The provision does not mean that a loss has been incurred. The provision is based on two methods. One is based on an assessment of individual loans, e.g. breach of contract, and the other based on a collective assessment based on historical statistics.

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 2007.

Allowance account for credit losses on loans

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

2007	Total
Provision for loan impairment	90.196
Provision for losses during the year	118.234
Loans written off during the year as uncollectible	(17.858)
Total	190.572

Liquidity risk

• Term liquidity risk addresses unexpected changes in the length of time the bank's capital is committed to a project, investment or a loan.

• Withdrawal or call risk is the risk that more credit lines or guarantees will be drawn than expected.

• Structural or funding liquidity risk results when funding becomes unavailable or only available at a higher cost than anticipated.

• Market liquidity risk arises when the banks positions can only be liquidated at a considerable discount.

The bank is dependent on wholesale funding for its operations, in addition to own funds, and monitors its asset and liability positions actively, including duration matching. Progress has been made to implement the bank's policy of having assets and liabilities matched for at least 365 days by, i.a. issuing listed bonds.

The breakdown by contractual maturity of financial assets and liabilities:

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				3.901.275
Loans and receivables	237.817	5.608.975	1.972.953	11.626.423	3.157.643	22.841.628
Financial assets held for trading	35.870	279.645				351.385
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	29.770.202

30. contd.:

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						0
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	6.082.472
Undrawn loan- .... commitment		6.000.000	(6.000.000)			
Net. Assets - liabilities	1.824.168	(2.006.285)	(9.338.584)	10.621.362	3.157.643	6.082.472

Market risk

Market risk constitutes risk due to changes in market prices, such as interest rates, currency rates, and prices for equites and bonds. The Banks strategy is to keep a firm grasp of the market risk and control it within limits set by Risk Management. Risk limits employed at the Bank to control and capture the risks include: Value-at-Risk, Stop-loss limits, and absolute principal amount limits.

Derivatives

The Company 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 risk arises due to changes in interest rates, resulting in duration mismatch of assets and liabilities. If not properly matched, changes in interest rates can affect net interest income. Risk Management aims at ensuring that duration mismatch is within set limits. Interest rate risk due to position taking by Proprietary Trading in market securities is controlled separately and monitored through risk limits and other risk models.

Currency risk

Foreign exchange risk is controlled by continuously monitoring the Company’s net exposure in all foreign currencies and ensuring that it is within the set net position limits. Risk Management monitors compliance with these procedures on a daily basis.

The total amount of assets in foreign currencies in the Company's Financial Statement is ISK 31,033 million, and the total amount of liabilities amounted to ISK 31,295 million, respectively, at end of the period. Included in these assets and liabilities are forward cont.

FX risk is controlled by monitoring the net exposure in all foreign currencies and ensuring that it is within the set net position limits. Risk Management has defined risk limits on individual currencies as well as the gross exposure and Risk Management monitors compliance with these procedures. The Bank’s policy is that Treasury is to stay neutral to currency risk and any currency risk taken be taken by Proprietary Trading.

Notes, contd.:

30. contd.:

Currency risk, contd.:

Breakdown of assets and liabilities by currency:

2007	ISK	USD	EUR	CHF	JPY	Other	Total
Assets:							
Cash and cashequivalents	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 profit and loss	2.002	1.123.548	446.426	0	0	6.965	1.578.941
Investment in ass.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						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

30. contd.:

Market price risk

Market price risk corresponds to the risk associated with volatile market prices for securities, currencies, and commodities. Market price risk is measured with internal models, developed by Risk Management, including VaR calculations.

Derivative financial instruments

Currency and interests rate derivatives, agreements unlisted:

	Nominal account		Carrying amount	
	Assets	Liabilities	Assets	Liabilities
Forward exchange rate agreements	26.407.926	26.525.683	279.645	397.402
Total	26.407.926	26.525.683	279.645	397.402
Equity derivatives:				
Equity swaps, agreements unlisted	115.311	125.947	0	10.636
Total	115.311	125.947	0	10.636
Total Derivative financial instruments	26.523.237	26.651.630	279.645	408.038

Business and operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic as well as reputational risk . In a recently for formed company the internal processes are less developed than with an established business and therefore carry more risk.

Of special importance are the risks associated with the banks information systems. The quality and availability of information is dependent on both the systems and processes. The operation of the banks operational systems is outsourced. Tight control of acess to systems and information is maintained in accordance with the banks security policy. The FSA has reviewed these policies and procedures.

Dependence on key employees is a risk for the bank. Good operational procedures and human resource policies serve to mitigate risk associated with the disappearance of key employees.

Undefined or ill defined processes and responsibilities are at the heart of all operational risks. The bank has been working on improving its procedures since inception. The banks representative offices pose a specific operational risk which is addressed by the bank's management.

The products the bank offers can pose operational risks manifesting in damages awarded by courts or settlements or losses from processes related to the products.

Business risk, or strategic risk, is the risk associated with earnings or capital volatility caused by strategic decisions or the implementation of strategic decisions. Business risks also entail losses resulting from impaired reputation and other losses not quantified in other categories. To control the impact of business risk, the bank has structures that can adapt quickly to a changing environment wich are reflected in versatile staff.

Business and operational risk, *contd.:*

The products the bank offers can pose business risks resulting in loss from, e.g. products which can't be sold or reflect poorly on other products that the bank offers. Also, the bank operates in geographic areas which have been prone to reputational issues so special concern is taken to adhere to anti money laundering laws and regulations. Reputation also influences the bank's ability to recruit qualified employees.

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 allows for the most accurate determination of Fair Value. In the absence of in active market fair value can be estimated through various sophisticated methods. These menthods are usually based on the principle of reconstructing the financial instrument (as nearly as possible) by a portfolio of financial instruments each of which has an active market. The Fair Value is then the sum of the constituents.

All material assets, liabilities and financial instruments are reflected at fair value in the financial statements.

Hedging

Due to the Bank's risk positions and funding structure, its risk management policies require that the Bank should minimise its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines (see also separate section on risk management). The Bank uses both derivative and non-derivative financial isstruments to manage the potential earnings impact of these risks.

Several types of derivatives can be used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the Bank's hedging activities is to protect the Bank from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank enters into transactions to ensure that it is economically hedged in accordance with risk management policies. The Bank does not apply hedge accounting.

Each hedge relationship is evidenced and driven by management's approach to risk management and the decision to hedge the particular risk.

Risk related to structured credit

A structured credit instrument is a financial product which has many of the same properties as a security. Structured credit instruments are mostly securitized portfolios of assets like corporate bonds, corporate bank loans, real estate mortgages and credit default swaps, with a cash flow designed to fulfill the different needs of investors. The cash flow from the assets is subordinated to different tranches bearing different amount of risk and the tranches are sold to investors. Each tranche is then in most cases, rated by rating agencies.

Risk related to structured credit, *contd.:*

The risk involved in a structured credit instrument depends on which tranche is being invested in, since the structure of the instrument provides investors some protection against the risk in the underlying assets. The risk in structured credit is based on the risk involved in the underlying assets. Furthermore, the value of the cash flow in the different tranches depends on the value of the underlying assets. When the value of each tranche is being estimated, the risk assessment and the price assessment becomes more complicated than of the underlying assets because of the structure of the instrument; each structured credit instrument may have special covenants. Risk factors which must be specified are for example correlation in the price change of the underlying assets, changes in correlation, changes in interest rates, changes in defaults and changes in ratings and rating methodologies from the rating agencies. Models used for pricing and risk estimation of structured credit instruments have proven to be unsatisfactory and one can therefore speak of a certain amount of model risk being involved.

Moreover, liquidity risk is in place when it comes to structured credit since the secondary market is not deep. The reason is, among other things, the heterogeneity of structured credit instruments and how hard it can be to price them accurately. The tranche which bears the highest amount of risk is the equity tranche, also called the first-loss-position. These tranches do not receive rating from the rating agencies and have the most subordinate access to the cash flow from the underlying assets.

The investments of the Bank in structured credit are all in equity tranches. The underlying assets of the structured credit investments currently on the books of the Bank are senior secured loans to American and European companies.

The concept of a “sub-prime” loan refers to the nature of the borrower. It refers to a borrower who has an impared credit history. The history of a borrower may be characterized by e.g. multiple delinquencies over a longer period of time, foreclosures, a sentence in court or a default over the last 7 years. In 2007 a part of the Bank’s investments were in structured credit with sub-prime mortgages as underlying assets. The Bank has written off all of its mortgage linked structured credit investments and thus significantly reduced it’s risk exposure.

31. **Financial assets and liabilities**

Accounting classifications and fair values

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

2007	Trading	Designated at fair value	Loans	Other amortised cost	Total carrying amount
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 through P/L		1.578.941			1.578.941
Loans			22.603.811		22.603.811
Investement property		754.523			754.523
Investments in associates		1.677.754			1.677.754
	315.515	4.011.218	24.954.605	0	29.281.338
Financial liabilities held for trading		408.038			408.038
Borrowings			22.968.702		22.968.702
	0	408.038	22.968.702	0	23.376.740

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 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 fundig 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, Information Technology and Human Resources.

	Real Estate Advisory	Asset Manage-ment	Advisory	Proprietary trading	Leasing	Other and eleminations	Total
Net interest income	965		248	177.824	384.874		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				(1.555.241)			(1.555.241)
Net foreign exchange gain	11.812	52		41.210	27.710	2.170	82.954
Other operating income				2.690			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				70	(118.235)		(118.165)
Share of profit of associates				39.737			39.737
Profit (loss) before 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)

32. **Segment reporting,** contd.:

	Real Estate Advisory	Asset Manage- ment	Advisory	Proprietary trading	Leasing	Other and eleminations	Total
Segment assets							
Loans and receivables				3.052.598	17.224.507	2.326.706	22.603.811
Financial assets held for trading				56.604	47.614	211.297	315.515
Financial assets designated at fair value through profit and loss				1.578.941			1.578.941
Investment in associated comp.				1.677.754			1.677.754
Investment properties				769.091		(14.568)	754.523
Intangible assets					108.566	3.428.156	3.536.722
Other assets	1.107.456				401.413	2.274.897	3.783.766
Total assets	1.107.456	0	0	7.134.988	17.782.100	8.226.488	34.251.032

33. Net interest income

	2007
Interest income:	
Cash and cash equivalents	58.852
Loans and receivables	1.112.489
Financial assets held for trading	846.534
Other interest income	3.571
	2.021.446
Interest expense:	
Borrowings	(1.367.610)
Financial liabilities held for trading	(56.536)
Other interest expense	(33.389)
	(1.457.535)
Net interest income	563.911

34. Net fee and commission income

Fee and commission income:	
Loans, guarantees and risk sharing	112.733
Investment advisory, structuring and management fee	1.287.710
Advisory	152.816
Asset Management	38.919
Brokerage	36.209
Other	2.313
Total fees and commission	1.630.700
Commission expenses	(136.020)
Net fee and commission income	1.494.680

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

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

36. Net gains on financial assets designated at fair value

Unlisted shares	73.227
CDO unlisted	(975.031)
CLO unlisted	89.328
Other unlisted structured products	(733.412)
Total net gains on financial assets designated at fair value	(1.545.888)

Notes, contd.:

37. Administrative expenses

	2007
Salaries and related expenses	847.784
Other administrative expenses	638.401
Depreciation	28.878
Total administrative expenses	1.515.063

38. Salaries and related expenses

Salaries and related expenses are specified as follows:

Salaries	716.835
Define contribution pension plan expense	61.695
Salary-related expenses	69.254
Total salary and salary related expenses	847.784
Salaries and remuneration paid to the CEO	37.410
Salaries and remuneration paid to seven Directors	104.800
Salaries and remuneration paid to the Board	30.419
	172.629

39. Auditors' Fees

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

Audit of Annual Accounts	3.669
Review of Interim Accounts	6.106
Other services	11.035
Total auditor's fee	20.810

40. Tax assets and tax liabilities

Tax assets and tax liabilities recognised in the Income Statement:

Current tax expense	0
Deferred tax	(172.728)
Total income tax	(172.728)

Notes to the Balance Sheet

41. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	31.12.2007	1.1.2007
Cash	3.300	5.065
Balances with banks	1.547.181	105.780
Money market placements	800.313	0
Total cash and cash equivalents	2.350.794	110.845

42. **Loans and receivables**

	31.12.2007	1.1.2007
Loans and leasing contracts to customers	19.243.772	3.867.729
Loans to credit institutions	682.000	0
Other receivables	2.678.039	355.510
Total loans and receivables	22.603.811	4.223.239

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

	31.12.2007	1.1.2007
Individuals	71,8%	77,3%
Real estate	13,4%	4,3%
Services	3,6%	8,2%
Credit institutions	3,4%	0,0%
Commerce	3,2%	4,7%
Industry	0,8%	3,8%
Other	3,8%	1,7%
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:

The Allowance account at the beginning of the year	90.196
Provision for losses during the period	118.165
Loans written off during the period as uncollectible	(17.789)
The Allowance account at period-end	190.572

45. **Financial Assets**

Financial assets held for trading are specified as follows:

	31.12.2007	1.1.2007
Share and other variable-yield securities:		
Listed shares on Icelandic stock exchange	423	
Listed shares on foreign stock exchange	35.447	
Total listed shares	35.870	0
Positive balance of derivatives	279.645	
Total financial assets held for trading	315.515	0

46. Financial assets designated as at fair value specifies as follows:

	31.12.2007	1.1.2007
CLO unlisted	1.052.178	0
Unlisted affiliated shares	328.194	0
Unlisted shares	198.569	71.877
Total	1.578.941	71.877

47. Investment in associates

Investment in associates are specified as follows:	31.12.2007
Purchased during the year	1.638.017
Share of profit	0
Carrying amount at the end of the year	1.638.017

Main associates are specified as follows:

	Total assets	Total liabilities	Owner-ship	Profit share	Nominal value	Book value
Askar Apple ehf.	12.301.435	11.244.980	49%	(158.508)	676.171	517.663
OLC India BuyCo 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	30%	(147)	295.470	295.323
Randolph International	1.064.377	878.807	42%	(212)	78.175	77.963
				39.737	1.638.017	1.677.754

48. Equipment

Fixed assets specifies as follows:

	Equipment & vehicles
Book value 1.1.2007	12.599
Additions during the year	172.310
Depreciation during the year	(28.878)
Sale during the year	(7.314)
Book value 31.12.2007	148.717
Depreciation ratios	20%

49. 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

Impairment test

At the end of the year impairment tests were performed on the Group's goodwill and trademarks. The present value of estimated future cash flows is used to decide if impairment losses have occurred. In the present value calculations, an interest rate is used that reflects the weighted average of cost of capital, or the cost of debt and equity allowed for income tax effects. If the fair value of goodwill, which is the present value of future cash flows, is lower than the carrying amount the difference is charged to the income statement. According to the outcome of the impairment tests, performed at year-end 2007, the Group's goodwill has not suffered impairment losses.

Impairment test, contd.:

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 3.5% - 10.0% for the years 2008-2012.

The discount rate of 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 and discount rate for each CGU is as follows:

	Allocation
Proprietary Trading	272.262
Risk and funding advisory	116.764
Asset Management	334.244
Leasing	1.358.636
Real estate advisory	1.020.983
Unallocated	277.407
	3.380.296

A sensitivity analysis of the budgets and key premises revealed that a significant deviation from the budget or a breakdown must take place in order to effect an impairment of the goodwill that has been distributed to any of the Company's CGU.

50. Other assets

Other assets are specified as follows:	31.12.2007	1.1.2007
Accounts receivable	515.314	203.495
Accrued income	494.846	0
Restricted balances in Central bank	64.934	0
Prepaid expenses	1.793	0
Other assets	20.086	7.030.165
Total other assets	1.096.973	7.233.660

51. Borrowings

The Companies borrowings are specified as follows:

Balances with the credit institutions regarding due to repurchase agreement	481.214	0
Loans from credit institutions	11.278.481	0
Bill of exchange	3.198.223	0
Issued bonds	2.061.478	0
Other borrowings	5.277.306	3.422.060
Total borrowings	22.296.702	3.422.060

52. Deferred Income Tax Liability

Changes in tax asset during the year are as follows:

Tax asset at the beginning of the year	(14.554)
Calculated income tax for 2007	(172.728)
Current tax liability	0
Tax asset at the end of the year	(187.282)

Deferred tax asset is mainly due to tax losses carried forward

53. Other liabilities

Other liabilities are specified as follows:	31.12.2007	1.1.2007
Account payable	312.151	85.871
Accrued expense	182.982	0
Deferred income	54.600	0
Other liabilites	433.257	475.375
Total other liabilities	982.990	561.246

54. Equity

According to the Parent Company's Articles of Association, total share capital amounts to ISK 569 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

55. Obligations

	31.12.2007
Guarantees	434.000
Loan commitments	620.000
Off Balance Sheet information total	1.054.000

56. **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 2007. On the 15th of February 2008 the Board of Directors approved the Consolidated Financial Statements and authorised for issue.

57. **Subsidiaries**

Shares in subsidiaries are specified as follows:

Company:	Country	Currency	Share Capital in millions	Equity interest accum. %
Avant hf.	Iceland	ISK	765	100%
Gjaldeyrisvogunarsjóðurinn hf.	Iceland	ISK	100	100%
Crawley ehf.	Iceland	GBP	38	100%
Ecchinswell hf.	Iceland	GBP	50	100%
AVP s.á.r.l.	Luxembourg	EUR	3	100%
Askar Advisory private Limited	India	USD	31	100%
AREIA	Iceland	ISK	100	100%
Askar Rumenia	Rumenia	EUR	5	100%
Staten Group Limited	BVI	USD	14	100%

Related parties

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

During the year 2007 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 4,098 million (2006: none). Interest income to related parties in the income statements amounts to ISK 95 million and interest expenses ISK 412 million (2006: 101).

Assets under management and under custody

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

	2007	2006
Assets under management, ISK million	32.860	9.920

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 Company's operating results by quarters:

	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
Net 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		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 profit of associates	39.737	0	0	0	39.737
Loss before 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)