

Earnings Report Askar Capital 2007

A Year of Structuring and Escalation

Annual Results Highlights:

- Net interest income ISK 0.6 billion
- Fee and commission income ISK 1.6 billion
- Write-down of subprime related investments ISK 2.1 billion
- At the end of year 2007 there were no assets related to the U.S. subprime market on the balance sheet
- Loss of the year amounts to ISK 0.8 billion
- Total assets at the end of the year were ISK 34.3 billion compared to ISK 15.0 billion at the beginning of the year
- Assets under management were ISK 33.0 billion
- The capital adequacy ratio was 18.5%

DR. TRYGGVI THOR HERBERTSSON, CEO: “During our first year we have managed to complete important tasks and we are proud of our achievements. Net interest income along with fee and commission income amounts to ISK 2.2 billion which is a good first year result. Our real estate advisory has been very successful and the auto-loan subsidiary Avant practically moved from being the smallest to become a major player in the auto loan business in Iceland”.

The year was a period of structuring and escalation for Askar. The bank recruited talented people and established partnerships on a global basis. A representative office was opened in India and the Askar Real Estate Advisory launched representative offices in Romania and Florida in addition to the office in Luxembourg. Important work was done in implementing IT and Risk systems, in finalizing the headquarters, and developing the infrastructure of the company.

The bank’s strategy is to focus on alternative investments – investments in real estate, infrastructure and private equity – in emerging as well as niche markets. The conditions in global financial markets have changed dramatically during the last months and investors are to a greater extent looking towards alternative investments. The strategy of Askar Capital aligns well with these changes in investor appetite.

At the beginning of 2007, Askar Capital invested in structured credit products with U.S. mortgages as underlying assets. Conditions in these markets changed drastically and consequently the investments have decreased severely in value. Because of this unfortunate development and in order to remove any doubts about the risks of the bank, all assets related to this asset class were written off. The write-down amounted to a total of ISK 2.1 billion. At year end no assets related to the U.S. subprime market were on the books of the bank. If these write-downs had not occurred, the profit of the bank would have been about ISK 0.9 billion.

Tasks ahead for 2008 are numerous. A new Managing Director has been hired to lead Asset Management within Askar Capital. He has an extensive experience in establishing asset management operations on a global scale and there are high expectations for the asset management business in the year ahead. Funds for qualified investors are being launched and are open to investors. Askar Capital is in the process of strengthening its infrastructure and moreover the capital structure is being modified to better match the duration of assets and liabilities.

There are turbulent times ahead in financial markets but we believe that every danger brings an opportunity for us.

Askar Capital Results

Income Statement Highlights

million ISK	Q-4 2007	Q-3 2007	Q-2 2007	Q-1 2007	2007
Net interest income.....	75	297	225	-33	564
Net fee and commission income.....	607	335	303	249	1.494
Net financial income.....	-1.258	-322	7	101	-1.472
Other net operating income.....	3	0	0	0	3
Net operating income.....	-573	310	535	317	589
Administrative expenses.....	-620	-309	-317	-269	-1.515
Impairment losses on loans.....	-52	-52	-28	14	-118
Share of profit of associates.....	40	0	0	0	40
Profit / loss before income tax.....	-1.205	-51	190	62	-1.004
Income tax.....	209	9	-34	-11	173
Profit / loss	-996	-42	156	51	-831

Operating Income

Net interest income amounted to ISK 0.6 bn. Most of the interest income originates with the auto loan subsidiary Avant hf.

Net fee income amounted to ISK 1.5 bn. in 2007. There are four profit centers within the Askar Capital group producing fee income. These are the Askar Real Estate Advisory, the Risk and Funding Advisory, Asset Management and the auto loan subsidiary Avant hf. There was net loss on financial assets and financial liabilities amounting to ISK 1.4 bn. This can be explained by a write off on asset backed CDO exposures amounting to ISK 2.1 bn.

Operating Expenses

In 2007 salaries and related expenses amounted to ISK 0.8 bn. The average number of employees was 59. At year end there were 87 employees compared to 20 at the beginning of the year.

Other operating expenses amounted to ISK 0.7 bn. Of those the single largest item was IT related as several different systems were in the implementation phase. In addition there were expenses related to the establishment of several foreign representative offices and the company's Reykjavik headquarters at Sudurlandsbraut 12.

Balance Sheet Highlights

millj. kr.	31.12.2007	1.1.2007	Q-2 2007	Q-1 2007
Cash and cash equivalents.....	2.415	111	487	410
Loans.....	22.604	4.223	10.871	5.983
Investments.....	4.328	72	5.043	2.187
Intangible assets.....	3.537	3.380	3.455	3.380
Other assets.....	1.373	7.247	617	2.447
Total assets.....	34.257	15.033	20.473	14.407
Borrowings.....	22.297	3.422	8.340	3.006
Other liabilities.....	1.397	574	562	316
Total liabilities.....	23.694	3.996	8.902	3.322
Equity.....	10.563	11.037	11.571	11.085
Total liabilities and Equity.....	34.257	15.033	20.473	14.407

Assets

At the end of 2007 total assets of Askar Capital hf amounted to ISK 34.3 bn. Loans amounted to ISK 22.6 bn. in total. Thereof Avant's auto loans amounted to ISK 17.2 bn. Investments amounted to ISK 4.3 bn. of which CLO's amounted to ISK 1.1 bn. The CLO's are invested in senior secured loans to American and European companies.

Liabilities and Equity

Total borrowing amounted to ISK 22.3 bn. at the end of the year. In 2007 Askar Capital issued a five year bullet bond amounting to ISK 2 bn. At the end of the year the company established an extendible one year credit line amounting to ISK 10 bn. In 2008 further efforts have been put into balancing the term of assets and liabilities.

At the end of 2007 the equity ratio amounted to 30.8 per cent and the CAD ratio 18.5 per cent.

Profit Center

Askar Capital's operation is divided into six profit centers: Askar Real Estate Investment Advisory, Asset Management, Risk and Funding Advisory, and the auto financing company Avant hf.

The Risk and Funding Advisory is based on the foundation of Economic Consulting and Forecasting which was founded in 1993. The division was successful during the year and earnings increased. At year end debt under management amounted to ISK 220 billion.

During the year, the Asset Management division has been in the process of structuring its funds, internal organization, and developing business relations but sales processes were not formally commenced.

The Askar Real Estate Investment Advisory is built on the foundation of Aquila Venture Partners. Earnings increased significantly during the year and year end results were very satisfactory. Assets under management amounted to ISK 25.7 billion and total number of projects were 32.

During the year 2007 the operations of Avant (previously Sjóvá Finance) were altered. The biggest change was a successful restructuring, one of the most remarkable marketing campaigns of last year, and a new web site, which was nominated for the Icelandic Web Site Award 2007. The operation grew and the results were in line with expectations.

For further information please contact:

DR. Tryggvi Thor Herbertsson, CEO, +354-412 8800

Bogi Nils Bogason, CFO, +354-665-8801

Askar Capital

Askar Capital seeks investment opportunities in international growth markets for its clients, which are primarily professional investors and financial institutions.

Askar Capital has its headquarters in Reykjavík, Iceland, and with its subsidiaries has offices in Bucharest, Luxembourg, Florida, and Mumbai. Offices in London and Hong Kong will be opened shortly.

Askar Capital's profit centers are:

Askar Real Estate Investment Advisory (AREIA) is a wholly owned subsidiary of Askar Capital. AREIA offers various profitable real estate investment projects around the world. Since inception, AREIA has managed 35 real estate projects and is currently managing 32 with a total worth of over ISK 120 billion. AREIA has 17 employees and is managed by Tomas Sigurdsson.

Asset Management manages the foundation and management of funds for Askar Capital. The division specializes in management of real estate funds, private equity funds and hedge funds. Asset Management employs 11 people and is managed by Christian Yates.

Risk and Funding Advisory (RFA) provides its clients with value adding advice on capital markets and builds on 15 year of experience from Economic Consulting and Forecasting ehf. Clients include most of Iceland's largest municipalities, pension funds, investment companies and others. RFA's main activities are in the field of risk and debt management and funding advice. Currently the advisory has debt amounting to ISK 220 billion. RFA has 8 employees and managed by Thordur Jonasson.

AVANT provides financing of autos and commercial equipment. Avant employs 27 people and is managed by Magnus Gunnarsson.

Additionally, Askar Capital has **Proprietary Investment** and **Lending**, and supporting divisions.

The investment bank Askar Capital was funded at the end of 2006 by a merger between Sjóvá Financing, Aquila Venture Partners and Economic Consulting and Forecasting ehf. The company was licensed as an investment bank in August 2007 by the Icelandic Financial Supervisory Authority.

Askar Capital is a part of the Milestone group of companies, which includes Invik Group and Sjóvá Insurance. Askar Capital is regulated by the Icelandic Financial Supervisory Authority.

The CEO of Askar Capital is Dr. Tryggvi Thor Herbertsson.

