

# **MP Investment Bank hf.**

## **Condensed Consolidated Interim Financial Statements 1 January - 30 June 2008**

MP Investment Bank hf.

Skipholt 50d

105 Reykjavík

Iceland

Reg. no. 540599-2469

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# Endorsement and Statement by the Board of Directors and the CEO

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The Condensed Consolidated Interim Financial Statements of MP Investment Bank hf. for the period from 1 January to 30 June 2008 have been prepared in accordance with International Financial Reporting Standard (IFRS) for Interim Financial Statements (IAS 34). The Interim Financial Statements comprise the Consolidated Interim Financial Statements of MP Investment Bank hf. and its subsidiaries (together referred to as the "Bank").

According to the Consolidated Interim Income Statement net profit for the period amounted to ISK 1,525 million. According to the Consolidated Interim Balance Sheet, equity at the end of the period amounted to ISK 7,502 million, including share capital in the amount of ISK 1,064 million. The Bank's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings, was 29.6% at the end of the period. As of 30 June 2008 the Bank's total assets amounted to ISK 68,220 million.

## Statement by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2008 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

To the best of our knowledge the Condensed Consolidated Interim Financial Statements give a true and fair view of the consolidated financial performance of the Bank for the period from 1 January to 30 June 2008, its assets, liabilities and consolidated financial position as at 30 June 2008 and its consolidated cash flows for the period then ended.

Further, in our opinion, the Condensed Consolidated Interim Financial Statements and the Endorsement of the Board of Directors and the CEO give a fair view of the development and performance of the Bank's operations and its financial position and fairly describes the principal risks and uncertainties faced by the Bank.

The Board of Directors and the CEO have today discussed the Condensed Consolidated Interim Financial Statements of MP Investment Bank hf. for the six-month period ended 30 June 2008 and confirm them by means of their signatures.

Reykjavík, 27 August 2008

CEO:

# Independent Auditor's Review Report

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To the Board of MP Investment Bank hf.

We have reviewed the accompanying Condensed Consolidated Financial Statements of MP Investment Bank hf., which comprise the consolidated balance sheet as at June 30, 2008 and the consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

## **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at June 30, 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 27 August 2008.

***KPMG hf.***

Jón S. Helgason

## Consolidated Interim Income Statement for the Six Months Ended 30 June 2008

	Notes	2008 1.1.-30.6.	2007 1.1.-30.6.
Interest income .....		3,189,762	2,191,174
Interest expense .....		( 2,427,360 )	( 2,031,792 )
<b>Net interest income</b> .....		762,402	159,382
Fee and commission income .....		578,001	871,987
Fee and commission expense .....		( 19,900 )	( 51,114 )
<b>Net fee and commission income</b> .....		558,101	820,873
Net income from financial assets and financial liabilities .....		678,860	626,820
Share of profit of associates .....		83,218	180,851
		762,078	807,671
<b>Operating income</b> .....		2,082,582	1,787,926
Salaries and related expenses .....		( 283,525 )	( 268,255 )
Other operating expenses .....		( 214,459 )	( 149,856 )
Impairment on loans .....		( 44,938 )	( 3,000 )
<b>Profit before income tax</b> .....		1,539,660	1,366,815
Income tax expense .....	7	( 14,838 )	( 248,719 )
<b>Profit for the period</b> .....		1,524,822	1,118,096
<b>Basic and diluted earnings per share</b> .....		1.43	1.04

## Consolidated Interim Balance Sheet as at 30 June 2008

	Notes	30.6.2008	31.12.2007
<b>Assets</b>			
Cash and cash equivalents .....	8	10,742,106	7,241,857
Derivatives .....		2,032,394	1,380,422
Financial assets at fair value through profit and loss .....	9	25,771,689	20,659,461
Securities used for hedging .....	10	13,026,879	10,418,582
Loans .....	11	13,406,166	9,599,516
Receivables and prepayments .....		1,387,668	1,627,276
Investment in associates .....		1,348,597	1,205,627
Fixed assets .....		504,744	415,937
<b>Total assets</b>		<u>68,220,242</u>	<u>52,548,678</u>
<b>Liabilities</b>			
Deposits from credit institutions and the Central Bank .....	12	9,387,735	13,450,667
Derivatives .....		243,891	273,988
Financial liabilities at fair value through profit and loss .....	9	14,788,601	5,709,533
Financial liabilities used for hedging .....	10	8,708,786	0
Borrowings .....	13	17,466,755	7,476,824
Debt securities issued .....		7,971,675	16,361,050
Subordinated liabilities .....		43,944	43,846
Income tax .....	7	227,901	193,863
Other liabilities .....		1,878,911	2,851,821
<b>Total liabilities</b>		<u>60,718,199</u>	<u>46,361,592</u>
<b>Equity</b>			
Share capital .....	14	1,064,099	1,063,776
Share premium .....		942,647	942,368
Option reserve .....		( 17,496 )	( 37,496 )
Translation reserve .....		89,813	( 1,923 )
Retained earnings .....		5,422,980	4,220,361
<b>Total equity</b>		<u>7,502,043</u>	<u>6,187,086</u>
<b>Total liabilities and equity</b>		<u>68,220,242</u>	<u>52,548,678</u>

# Consolidated Interim Statement of Changes in Equity for the Six Months Ended 30 June 2008

	Share capital	Share premium	Re- valuation reserve	Option reserve	Transl- ation reserve	Fair value reserve	Retained earnings	Total equity
<b>1 January to 30 June 2008</b>								
Equity as at 31.12.2007 .....	1,063,776	942,368	0	( 37,496 )	( 1,923 )	0	4,220,361	6,187,086
Translation difference .....					91,736			91,736
Earning recognised directly in equity .....					91,736			91,736
Profit for the period .....							1,524,822	1,524,822
Options .....				20,000				20,000
Own shares .....	323	279						602
Dividends paid .....							( 322,203 )	( 322,203 )
Equity 30.6.2008 .....	1,064,099	942,647	0	( 17,496 )	89,813	0	5,422,980	7,502,043

## **1 January to 30 June 2007**

Equity as at 31.12.2006 (IS-GAAP) .....	1,070,000	1,218,275	46,391	0	792	0	2,741,827	5,077,285
IFRSs changes .....	0	0	( 46,391 )	( 158,323 )	( 792 )	94,338	( 39,156 )	( 150,324 )
Equity at 1.1.2007 (IFRS) .....	1,070,000	1,218,275	0	( 158,323 )	0	94,338	2,702,671	4,926,961
Fair value reserve transferred to P&L .....						( 94,338 )		( 94,338 )
Earning recognised directly in equity .....						( 94,338 )		( 94,338 )
Profit for the period .....							1,118,096	1,118,096
Options .....		5,847		40,030				45,877
Dividends paid .....							( 192,576 )	( 192,576 )
Equity 30.6.2007 .....	1,070,000	1,224,122	0	( 118,293 )	0	0	3,628,191	5,804,020

## Condensed Consolidated Interim Statement of Cash Flows for the Six Months Ended 30 June 2008

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	Notes	2008 1.1.-30.6.	2007 1.1.-30.6.
Net cash from operating activities .....		1,153,921	652,713
Net cash used in (from) investing activities .....		( 17,136,852 )	86,085
Net cash from financing activities .....		<u>19,481,830</u>	<u>179,169</u>
Net increase in cash and cash equivalents .....		3,498,899	917,967
Effect of exchange rate fluctuations on cash held .....		1,350	0
Cash and cash equivalents at 1 January .....		<u>7,241,857</u>	<u>2,157,724</u>
Cash and cash equivalents at 30 June .....	8	<u><u>10,742,106</u></u>	<u><u>3,075,691</u></u>



# Notes

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## Significant accounting policies

### 1. Reporting entity

MP Investment Bank hf. is a company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2008 comprise MP Investment Bank hf. (the Parent Company) and its subsidiaries (together referred to as the "Bank") and the Group's interest in associates. The address of the Bank is Skipholt 50d in Reykjavík. The Bank has offices in Reykjavík and Vilnius.

MP Investment Bank's main purpose is to offer banking services to individuals, corporates, and institutional investors. The Bank offers services in areas of brokerage services, corporate finance, asset management services and fund management.

### 2. Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting*. They do not include all of the information required for a complete set of consolidated annual financial statements, and should be read in conjunction with the Consolidated Financial Statements of the Bank as at and for the year ended 31 December 2007.

The Interim Financial Statements were authorised for issue by the Board of Directors on 27 August 2008.

### 3. Basis of preparation

The accounting policies and methods of computation applied by the Bank in these Condensed Consolidated Interim Financial Statements are the same as those applied by the Bank in its Consolidated Financial Statements as at and for the year ended 31 December 2007. The Consolidated Financial Statements for the Bank as at and for the year ended 31 December 2007 are available upon request from the Bank's registered office at Skipholti 50d, Reykjavik or at [www.mp.is](http://www.mp.is) or at The OMX Nordic Exchange website, [www.omxnordicexchange.com](http://www.omxnordicexchange.com).

The Condensed Consolidated Interim Financial Statements are prepared in Icelandic Krona (ISK), which is the Bank's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated.

### 4. Use of estimates and judgements

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

**Notes, contd.:****Risk management disclosure****5. Liquidity risk**

Below is a breakdown by contractual maturity of financial assets and liabilities.

	0-1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
<b>30.6.2008</b>							
<b>Assets:</b>							
Cash and cash equivalents .....	10,742,106	0	0	0	0	0	10,742,106
Derivatives .....	991,016	1,028,065	13,313	0	0	0	2,032,394
Fair value assets .....	25,771,689	0	0	0	0	0	25,771,689
Securities for hedging .....	3,184,850	9,817,193	24,836	0	0	0	13,026,879
Loans .....	2,667,814	1,298,560	3,788,546	5,211,765	439,481	0	13,406,166
Receivables and prepayments .....	1,387,668	0	0	0	0	0	1,387,668
<b>Total .....</b>	<b>44,745,143</b>	<b>12,143,818</b>	<b>3,826,695</b>	<b>5,211,765</b>	<b>439,481</b>	<b>0</b>	<b>66,366,902</b>
<b>Liabilities:</b>							
Deposits .....	9,387,735	0	0	0	0	0	9,387,735
Derivatives .....	33,013	210,098	780	0	0	0	243,891
Fair value liabilities .....	14,788,601	0	0	0	0	0	14,788,601
Short positions for hedging .....	2,716,384	5,992,402	0	0	0	0	8,708,786
Borrowings .....	13,595,011	1,362,502	2,509,242	0	0	0	17,466,755
Debt securities issued .....	203,666	2,378,947	693,450	4,695,612	0	0	7,971,675
Subordinated loans .....	0	0	0	43,944	0	0	43,944
Other liabilities .....	1,878,911	0	0	0	0	0	1,878,911
<b>Total .....</b>	<b>42,603,321</b>	<b>9,943,949</b>	<b>3,203,472</b>	<b>4,739,556</b>	<b>0</b>	<b>0</b>	<b>60,490,298</b>
Assets - liabilities .....	2,141,822	2,199,869	623,223	472,209	439,481	0	5,876,604

## Notes, contd.:

### 5. Liquidity risk, contd.:

	0-1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
<b>31.12.2007</b>							
<b>Assets:</b>							
Cash and cash equivalents .....	7,241,857	0	0	0	0	0	7,241,857
Derivatives .....	783,535	433,660	8,874	154,353	0	0	1,380,422
Fair value assets .....	20,659,461	0	0	0	0	0	20,659,461
Securities for hedging .....	4,895,103	4,568,587	954,892	0	0	0	10,418,582
Loans .....	1,315,231	3,046,237	3,395,028	1,817,141	25,879	0	9,599,516
Receivables and prepayments .....	1,627,276	0	0	0	0	0	1,627,276
<b>Total .....</b>	<b>36,522,463</b>	<b>8,048,484</b>	<b>4,358,794</b>	<b>1,971,494</b>	<b>25,879</b>	<b>0</b>	<b>50,927,114</b>
<b>Liabilities:</b>							
Deposits .....	10,509,872	2,940,796	0	0	0	0	13,450,667
Derivatives .....	148,090	109,855	16,043	0	0	0	273,988
Fair value liabilities .....	5,709,533	0	0	0	0	0	5,709,533
Borrowings .....	4,428,332	1,161,918	909,644	767,215	209,716	0	7,476,824
Debt securities issued .....	4,800,356	5,515,038	1,604,029	4,441,627	0	0	16,361,050
Subordinated loans .....	0	0	0	43,846	0	0	43,846
Other liabilities .....	2,851,821	0	0	0	0	0	2,851,821
<b>Total .....</b>	<b>28,448,003</b>	<b>9,727,607</b>	<b>2,529,716</b>	<b>5,252,688</b>	<b>209,716</b>	<b>0</b>	<b>46,167,729</b>
Assets - liabilities .....	8,074,461	( 1,679,123)	1,829,078	( 3,281,194)	( 183,837)	0	4,759,385

## Notes, contd.:

### 6. Financial assets and liabilities

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

	Trading	Designated at fair value	Loans and receivables	Amortised cost	Total carrying amount
<b>30.6.2008</b>					
<b>Assets:</b>					
Cash and cash equivalents .....				10,742,106	10,742,106
Derivatives .....	2,032,394				2,032,394
Financial assets at fair value .....	25,480,822	290,867			25,771,689
Securities used for hedging .....	13,026,879				13,026,879
Loans .....			13,406,166		13,406,166
Receivables and prepayments .....				1,387,668	1,387,668
	<u>40,540,095</u>	<u>290,867</u>	<u>13,406,166</u>	<u>12,129,774</u>	<u>66,366,902</u>
<b>Liabilities:</b>					
Deposits .....				9,387,735	9,387,735
Derivatives .....	243,891				243,891
Financial liabilities at fair value .....	14,788,601				14,788,601
Liabilities for hedging .....	8,708,786				8,708,786
Borrowings .....				17,466,755	17,466,755
Debt securities issued .....				7,971,675	7,971,675
Subordinated loans .....				43,944	43,944
Deferred tax liabilities .....				227,901	227,901
Other liabilities .....				1,878,911	1,878,911
	<u>23,741,278</u>	<u>0</u>	<u>0</u>	<u>36,976,921</u>	<u>60,718,199</u>
<b>31.12.2007</b>					
<b>Assets:</b>					
Cash and cash equivalents .....				7,241,857	7,241,857
Derivatives .....	1,380,422				1,380,422
Financial assets at fair value .....	18,125,142	2,534,319			20,659,461
Securities used for hedging .....	10,418,582				10,418,582
Loans .....			9,599,516		9,599,516
Receivables and prepayments .....			1,627,276		1,627,276
	<u>29,924,146</u>	<u>2,534,319</u>	<u>11,226,792</u>	<u>7,241,857</u>	<u>50,927,114</u>
<b>Liabilities:</b>					
Deposits .....				13,450,667	13,450,667
Derivatives .....	273,988				273,988
Financial liabilities at fair value .....	5,709,533				5,709,533
Borrowings .....				7,476,824	7,476,824
Debt securities issued .....				16,361,050	16,361,050
Subordinated loans .....				43,846	43,846
Deferred tax liabilities .....				193,863	193,863
Other liabilities .....				2,851,821	2,851,821
	<u>5,983,521</u>	<u>0</u>	<u>0</u>	<u>40,378,071</u>	<u>46,361,592</u>

## Notes, contd.:

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### 7. Income tax

The effective income tax rate of the Bank in the first six months of the year 2008 was 0.9%. The difference between the expected and effective income tax rate for the period is mainly attributable to two factors:

In May 2008 the Icelandic Parliament approved a decrease in the income tax rate from 18% to 15% as of 1 January 2008. Due to this the deferred tax liability at year-end 2007 has decreased by ISK 32 million compared to 31 December 2007. The decrease was recognised in the current period, as a reduction of tax expense in the income statement.

Further amendments to Icelandic taxation legislation, adopted in May 2008, include that capital gains on equities will be tax exempt under certain conditions. The amendments take effect as of 1 January 2008. Due to this, the deferred tax liability has decreased by ISK 109 million compared to 31 December 2007. The decrease was recognised in the current period, as a reduction of tax expense in the income statement.

### 8. Cash and cash equivalents

Cash and cash equivalents are specified as follows:	30.6.2008	31.12.2007
Cash.....	34	34
Balances with banks.....	9,238,895	6,506,972
Money market placements.....	1,503,177	734,851
Total cash and cash equivalents.....	<u>10,742,106</u>	<u>7,241,857</u>

### 9. Financial assets and liabilities at fair value through profit or loss

Financial assets designated at fair value are specified as follows:

Listed shares on Iceland Stock Exchange .....	285,988	0
Listed foreign shares .....	884,687	1,766,750
Listed bonds on Iceland Stock Exchange .....	5,961,900	3,189,912
Listed foreign bonds .....	2,070,443	16,556
Listed domestic unit shares .....	122,378	132,583
Listed foreign unit shares .....	102,293	120,684
Unlisted domestic shares .....	135,500	1,421,413
Unlisted foreign shares .....	6,325	12,132
Unlisted domestic bonds .....	149,042	1,571,836
Unlisted foreign bonds .....	0	562,081
Government bonds .....	16,053,133	11,865,514
Total financial assets at fair value through profit and loss .....	<u>25,771,689</u>	<u>20,659,461</u>

Financial assets at fair value amounting to ISK 11,167 million were due from repurchase transactions at 30 June 2008.

## Notes, contd.:

9. contd.: 30.6.2008 31.12.2007

Financial liabilities designated at fair value are specified as follows:

Listed shares on Iceland Stock Exchange .....	529,771	0
Listed foreign shares .....	1,153,125	0
Listed bonds on Iceland Stock Exchange .....	13,105,705	5,709,533
	<u>14,788,601</u>	<u>5,709,533</u>
Financial liabilities at fair value through profit and loss .....	<u>14,788,601</u>	<u>5,709,533</u>

## 10. Securities used for hedging

Securities used for hedging are specified as follows:

Listed shares on Iceland Stock Exchange .....	732,852	2,496,149
Listed foreign shares .....	3,704,335	5,138,138
Listed bonds on Iceland Stock Exchange .....	6,086,362	98,714
Listed domestic unit shares .....	14,905	1,265
Listed foreign unit shares .....	403,727	713,075
Unlisted domestic shares .....	2,046,057	1,931,297
Unlisted domestic bonds .....	38,641	39,944
Total securities used for hedging, assets .....	<u>13,026,879</u>	<u>10,418,582</u>

Financial liabilities used for hedging are specified as follows:

Listed shares on Iceland Stock Exchange .....	110,752	0
Listed foreign shares .....	793,135	0
Listed bonds on Iceland Stock Exchange .....	7,804,899	0
Total securities used for hedging, liabilities .....	<u>8,708,786</u>	<u>0</u>

## 11. Loans

Loans are specified as follows:

Loans to credit institutions .....	5,020,910	1,516,694
Other loans .....	8,512,950	8,125,578
Gross loans and advances .....	<u>13,533,860</u>	<u>9,642,272</u>
Less: allowance for impairment .....	( 127,694)	( 42,756)
Total loans .....	<u>13,406,166</u>	<u>9,599,516</u>

## Notes, contd.:

### 12. Deposits from credit institutions and the Central Bank

Deposits from credit institutions and the Central Bank are specified as follows:	30.6.2008	31.12.2007
Deposits from other Banks .....	0	1,845,278
REPO transactions with the Central Bank .....	6,452,858	7,400,090
REPO transactions with other Banks .....	2,934,877	4,205,299
Total deposits from credit institutions and the Central Bank .....	<u>9,387,735</u>	<u>13,450,667</u>

### 13. Borrowings

The Bank's borrowings are specified as follows:

Loans from Banks .....	10,125,551	6,912,364
Other loans .....	7,341,204	564,460
Total borrowings .....	<u>17,466,755</u>	<u>7,476,824</u>

### 14. Equity

According to the Parent Company's Articles of Association, total share capital amounts to ISK 1,100 million. The nominal amount of treasury shares at end of the was ISK 36 million. One vote is attached to each share of one ISK. The equity ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 29.6%. According to the law the ratio may not be lower than 8.0%. At 31 December 2007 the CAD ratio and the Tier I ratio were 28.1% and 28.0% respectively, calculated according to BASEL I rules.

The ratio at 30 June 2008, according to BASEL II, is calculated as follows:

	Weighted value
Total equity .....	7,502,043
Subordinated loans .....	<u>18</u>
	<u>7,502,061</u>
Total capital requirements for:	
Credit risk .....	903,368
Market risk under standardised approach (SA) .....	767,653
Operational risk (Opr) .....	<u>361,419</u>
	<u>2,032,440</u>
Surplus of own funds .....	5,469,621
Equity ratio .....	29.6%
Thereof Tier I ratio .....	29.6%