MP Investment Bank

Condensed Consolidated Interim Financial Statements 1 January - 30 June 2007

MP Investment Bank
Skipholti 50d
105 Reykjavík

Reg. no. 540599-2469

Contents

Endorsements and Signatures of the Board of Directors and the Managing Director

The Condensed Consolidated Interim Financial Statements are prepared according to International Financial Reporting Standards (IFRSs) for interim financial statements. The Group's Financial Statements for the previous years have been prepared in accordance with the Icelandic Act on Financial Undertakings, the Rules on the Financial Statements of Credit Institutions and Icelandic Generally Accepted Accounting Principles (IS-GAAP). The total effect of the change in accounting policies on the Group's Financial Statements is that the book value of equity decreases by ISK 150 million at year-end 2006, from ISK 5,077 million at the end of the year 2006 to ISK 4,927 million at 1 January 2007. The effect of the transition to IFRSs on the Group's financial statements is explained in details in the Notes to the Condensed Consolidated Interim Financial Statements.

According to the Condensed Consolidated Interim Income Statement the Bank's net profit for the period amounted to ISK 1,118 million. According to the Condensed Consolidated Interim Balance Sheet, equity amounted to ISK 5,804 million at the end of the period. The Group's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings, is 24.7%. This ratio may not be lower than 8.0%.

The Board of Directors and the Managing Director of MP Investment Bank hereby confirm the Condensed Consolidated Interim Financial Statements for the period from 1 January to 30 June 2007 with their signatures.

Reykjavík, 27 August 2007.

Board of Director:

Margeir Pétursson
Sigfús Ingimundarson
Ágúst Sindri Karlsson
Jón Þorsteinn Jónsson
Sigurður Gísli Pálmason

Managing Director:

Styrmir Þór Bragason

Independent Auditors' Review Report

To the Board of Directors of MP Investment Bank.

Introduction

We have reviewed the accompanying Condensed Consolidated Interim Balance Sheet of MP Investment Bank as of 30 June, 2007 and the related statements of income, changes in equity and cash flows 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 Standard IAS 34, *Interim Financial Reporting* . 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, 2007, and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34, *Interim Financial Reporting* .

Reykjavík, 27 August 2007.

KPMG hf.

Jón S. Helgason

Condensed Consolidated Interim Income Statement
for the Period from 1 January to 30 June 2007

	Notes	2007 1.1.-30.6.	2006 1.1.-30.6.
Interest income		2.191.174	970.636
Interest expense		(2.031.792)	(1.239.473)
Net interest income	24	159.382	(268.837)
Fee and commission income		871.987	569.419
Fee and commission expense		(51.114)	(21.278)
Net fee and commission income		820.873	548.141
Net trading income		1.401.903	1.690.198
Net foreign exchange loss		(775.084)	(967.942)
Share of profit of associates		180.851	56.758
Other operating income		1	119
		807.671	779.133
Operating income		1.787.926	1.058.437
Salaries and related expenses		268.255	181.738
Administrations expenses		144.243	75.322
Depreciation		5.613	1.504
Impairment on loans	28	3.000	97.676
Profit before income tax		1.366.815	702.197
Income tax expense		(248.719)	(125.585)
Profit for the period		1.118.096	576.612

Earnings per share:

Basic and diluted earnings per share		1,04	0,54

Amounts are in ISK thousands

Consolidated Interim Balance Sheet
as at 30 June 2007

	Notes	30.6.2007	1.1.2007
Assets			
Cash and balances with the Central Bank	25	3.075.691	2.157.724
Derivatives		522.933	536.621
Financial assets at fair value through profit and loss	26	28.600.193	29.482.780
Available-for-sale financial assets		0	690.277
Loans	27,28	8.126.014	7.935.503
Receivables		1.279.939	1.444.174
Prepayments		29.479	135.936
Investment in associates		581.518	285.976
Operating assets		219.210	168.104
Total Assets		42.434.977	42.837.095
Liabilities			
Deposits from credit institutions and with the Central Bank		11.813.100	7.733.282
Derivatives		9.444	972.752
Financial liabilities at fair value through profit and loss		1.957.571	2.601.475
Borrowings		4.114.007	11.675.554
Debt securities issued		15.689.143	11.191.768
Subordinated liabilities		58.440	58.437
Deferred tax liabilities		232.750	4.740
Other liabilities	29	2.756.501	3.672.126
Total Liabilities		36.630.956	37.910.134
Equity			
Share capital		1.070.000	1.070.000
Share premium		1.224.122	1.218.275
Option reserve		(118.292)	(158.323)
Fair value reserve		0	94.338
Retained earnings		3.628.191	2.702.671
Total Equity	30	5.804.021	4.926.961
Total Liabilities and Equity		42.434.977	42.837.095

Amounts are in ISK thousands

Consolidated Interim Statement of Changes in Equity
for the Period from 1 January to 30 June 2007

	Share Capital	Share premium	Revaluation reserve	Translation reserve	Option reserve	Fair value reserve	Retained earnings	**Total**
Capital as at 31.12.2006 (IS-GAAP)	1.070.000	1.218.275	46.391	792	0	0	2.741.827	5.077.285
Changes due to IFRSs	0	0	(46.391)	(792)	(158.323)	94.338	(39.156)	(150.324)
Capital as at 1.1.2007 (IFRSs)	1.070.000	1.218.275	0	0	(158.323)	94.338	2.702.671	4.926.961
Profit for the period							1.118.096	1.118.096
Options		5.847			40.030			45.877
Fair value reserve transferred to P&L						(94.338)		(94.338)
Dividends paid							(192.576)	(192.576)
Equity as at 30.6.2007 (IFRSs)	1.070.000	1.224.122	0	0	(118.293)	0	3.628.191	5.804.020

	Share Capital	Share premium	Revaluation reserve	Translation reserve	Option reserve	Fair value reserve	Retained earnings	**Total**
Equity as at 31.12.2005 (IS-GAAP)	1.000.000	723.315	47.339	34	0	0	1.576.479	3.347.167
Changes due to IFRSs	0	0			30.653	0	(10.658)	19.995
Equity as at 1.1.2006 (IFRSs)	1.000.000	723.315	47.339	34	30.653	0	1.565.821	3.367.162
Profit for the period							576.612	576.612
Options					(214.160)			(214.160)
Dividends paid							(151.608)	(151.608)
Paid in new capital	70.000	494.960						564.960
Equity as at 30.6.2006	1.070.000	1.218.275	47.339	34	(183.507)	0	1.990.825	4.142.966

Amounts are in ISK thousands

Condensed Consolidated Interim Statement of Cash Flows
for the Period from 1 January to 30 June 2007

	Notes	2007 1.1.-30.6.	2006 1.1.-30.6.
Net cash provided by operating activities		652.713	140.998
Net cash used in investing activities		86.085	2.248.836
Net cash provided by financing activities		179.169	(1.719.557)
Net increase in cash and cash equivalents		917.967	670.277
Cash and cash equivalents at the beginning of the year		2.157.724	628.661
Effect of exchange rate fluctuations on cash held		0	1.656
Cash and cash equivalents at the end of the period		3.075.691	1.300.594

Amounts are in ISK thousands

Notes to the Consolidated Interim Financial Statements

General information

1. Reporting entity

MP Investment Bank is a company incorporated and domiciled in Iceland. The Condensed Consolidated Interim Financial Statements for the period 1 January - 30 June 2007 comprise MP Investment Bank (the parent) and its subsidiaries (together referred to as "the Group") and the Group´s interest in associates. The address of the Bank is Skipholt 50d in Reykjavík.

MP Investment Bank main purpose is to offer financial services to individuals and corporates.

2. Basis of preparation

a) *Statement of compliance*

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim financial statements.

The condensed interim accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) for interim accounts. These are the Group´s first IFRS condensed interim accounts for part of the period covered by the first IFRS annual accounts and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed interim accounts do not include all of the information required for full annual accounts.

The Condensed Consolidated Financial Statements were approved by the Board of Directors on 27 August 2007.

b) *Basis of measurement*

The Condensed Consolidated Interim Financial Statements are prepared on the historical cost basis except that trading assets and liabilities, available-for-sale financial assets and financial instruments designated at fair value through profit and loss are measured at fair value.

c) *Functional and presentation currency*

These Condensed Consolidated Interim Financial Statements are prepared and presented in Icelandic króna (ISK), which is the parent company´s functional currency. Except as indicated, financial information presented has been rounded to the nearest ISK thousand.

d) *Use of estimates and judgements*

The preparation of the Condensed Consolidated Interim Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions, which affect the application of accounting policies and the reported amounts of assets and liabilities as well as income and expenses. The estimates and underlying 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 amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these 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.

2. Basis of preparation, contd.:

Information about areas of estimation uncertainty and judgements made by management in applying accounting policies that have the most significant effect on the amounts recognised in the Condensed Consolidated Interim Financial Statements is provided in note 23.

Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Condensed Consolidated Interim Financial Statements. They have also been used for the preparation of the opening IFRS balance sheet at 1 January 2006 for the purpose of adopting IFRS.

3. Basis of consolidation

a) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 Group holds more than 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 Condensed Consolidated Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

b) *Transactions eliminated on consolidation*

Intragroup balances, unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in the Condensed Consolidated Interim Financial Statements. Unrealised gains arising from transactions with associates and are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

4. Associates

Associates are those entities in which the Group has significant influence over the financial and operating policy decisions but not control over those policies. Significant influence generally exists when the Group holds between 20% and 50% of the voting power, including potential voting rights, if any. Investments in associates are initially recognised at cost.

The Condensed Consolidated Interim Financial Statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date the significant influence commences until the date it ceases. When the Group's share of loss exceeds its interest in an associate, the Group's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

5. Interest income and expense

Interest income and expense are recognised in the income statement on an accrual basis using the effective interest method. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of a financial instrument and its maturity amount, calculated using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows 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 Group estimates the cash flows considering all contractual terms of the financial instrument, but it does not consider future credit losses.

Once a financial asset or a group of similar financial assets has been written down as a result of impairment loss, interest income is recognised at the rate of interest used for the purpose of calculating the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on their net carrying amount.

Interest income and expense presented in the income statement include - interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes of derivatives are split into interest income and net income from other financial instruments carried at fair value and presented in the corresponding line items in the income statement.

6. Fees and commision

The Group provides various services to its clients and earns income there from, such as income from transactions on behalf of third parties, commission from customers for equity and bond transactions and other services. Fees and commission income are recognised in the income statement as the services are provided. Fees that are performance-linked are recognised when the performance criteria are fulfilled.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

7. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

8. Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to derivatives and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences except for interest expense on derivatives that is included in interest expense.

9. Impairment

The carrying amount of the Group's assets, other than trading assets and financial assets designated at fair value, 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. An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

a) *Impairment on loans*

Two methods are used to calculate impairment losses, one based on an assessment of individual loans and the other based on a collective assessment. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence of impairment includes information about the following events and conditions:

(i) significant financial difficulty of the borrower;
(ii) a breach of contract, such as a default on installments or on interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;
(iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans, even if the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- general national or local economic conditions connected with the assets in the group.

Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. The Group assesses at each balance sheet date whether there is any objective evidence that individual loans are impaired. This procedure is applied to all loans that are considered individually significant. In making the assessment, the following factors are considered:

- the Group's aggregate exposure to the customer;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Impairment loss is calculated by comparing the carrying amount of individual loans with the present value of their expected future cash flows, discounted at their original effective interest rate. In the case of loans at variable interest rates, the discount rate used is their current effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account.

Collectively assessed loans

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

9. Impairment, contd.:

The collective impairment loss is determined after taking into account:
- future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets;
- historical loss experience in portfolios of similar risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan;
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Estimates of changes in future cash flows for groups of assets are consistent with changes in observable data from period to period, for example changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual losses.

Loan write-offs

Loans are written off, partially or in full, when there is no realistic prospect of recovery.

b) *Impairment on available-for-sale financial assets*

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquistion cost and current fair value out of equity to profit or loss.

Reversal of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is recognised as revenue in the income statement. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impaiment provisions attributable to time value are reflected as a component of interest income.

c) *Calculation of recoverable amount*

The recoverable amount of the Group'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.

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.

10. Income tax expense

Income tax expense 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.

10. Income tax expense, contd.:

The deferred income tax liability has been calculated and recognised in the balance sheet. The calculation is based on the difference between balance sheet items as presented in the tax return on one hand, and in the Condensed Consolidated Interim Financial Statements on the other, taking into consideration tax losses carried forward. This difference is due to the fact that the tax assessment is based on premises that differ from those governing the Condensed Consolidated Interim Financial Statements, mostly due to temporary differences arising from the recognition of revenues and expenses in the tax returns and in the Condensed Consolidated Interim Financial Statements.

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 reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

11. Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows consist of cash, demand deposits with the Central Bank and demand deposits with other credit institutions.

12. Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Trading assets consist of bonds and shares.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

13. Derivatives

Derivative assets and liabilities are initially recgonised and subsequently measured at fair value in the balance sheet. Fair value changes of derivatives are split into interest income and net income from other financial instruments carried at fair value and presented in the corresponding line items in the income statement.

14. Loans

Loans are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, other than those that the Group designates upon initial recognition as at fair value. Loans and advances include loans provided by the Group to its customers, participation in loans from other lenders and purchased loans that are not quoted in an active market and which the Group has no intention of selling immediately or in the near future.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (“reverse repo or stock borrowing”), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group’s financial statements.

Loans are initially recognised at fair value, which is the cash advanced, plus any transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the loans and advances.

15. Financial assets at fair value

The Group designates certain financial assets upon their initial recognition as financial assets at fair value when doing so results in more relevant information, including information provided internally to key management personnel. Fair value changes are recognised in the income statement.

a) *Fair value through profit or loss*

The Group carries some investment securities at fair value, with fair value changes recognised immediately in profit or loss.

b) *Available-for-sale*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

16. Determination of fair value

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, the 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 Group 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.

For more complex instruments, the Group 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 are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially 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.

16. Determination of fair value, contd.:

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation 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.

17. Financial assets and liabilities

a) *Recognition*

The Group initially recognises loans, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

b) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transacion in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred fiancial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

c) *Offsetting*

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.

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

d) *Amortised cost measurement*

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.

18. Operating assets

Items of operating assets are measured at cost less accumulated depreciation and impairment losses.

The Group recognises in the carrying amount of an item of operating assets 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 Group and the cost of the item can be measured reliably. All other costs are expensed in the income statement when incurred.

18. Operating assets, contd.:

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of operating assets. The estimated useful lives are as follows:

Real estate	50 years
Office equipment fixtures	3-5 years

As long as the residual value is not immaterial, it is reassessd annually.

19. Borrowings

The Group's borrowings consist of issued bonds and loans from credit institutions. Borrowings are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in their carrying amount.

20. Subordinated loans

Subordinated loans are bonds issued by the Group with subordinated terms. Subordinated loans have the characteristics of equity in being subordinated to other liabilities of the Group. In the calculation of equity ratio, these bonds are included in equity, as shown in note 29. The loans are entered as liabilities with accrued interest and indexation at year-end.

Subordinated loans are initially recognised at fair value less attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Accrued interest is included in their carrying amount.

21. Other assets and other liabilities

Other assets and other liabilities are measured at cost.

22. Equity

a) *Share capital*

When share capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in capital.

b) *Share premium*

Share premium represents excess of payment above nominal value (ISK 1 per share) that shareholders have paid for shares sold by the Company. According to Icelandic Companies Act, 25% of the nominal value of share capital must be held in reserve which can not be paid out as dividend to shareholders.

c) *Option reserve*

The reserve includes the accured part of the fair value of share options. This reserve is reversed if share options are exercised or forfeited.

d) *Fair value reserve*

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

e) *Retained earnings*

Profit for the year is recognised in reserve. Dividends paid and revaluation of primary capital decreases reserve.

f) *Dividends on share capital*

Dividends on share capital are deducted from equity in the period in which they are approved by the Group's primary capital holders.

23. Critical accounting estimates and judgements in applying accounting policies

a) *Impairment losses on loans and advances*

The Group reviews its loan portfolios to assess impairment at least on a three months basis. In determining whether an impairment loss should be recorded in the income statement, the Group 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 have been changes in the payment status of borrowers in a group or economic conditions. Management uses estimates based on historical loss experience for assets with similar 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 which are reviewed regularly by qualified independent personnel. All models that are used must be approved and calibrated to ensure that outputs reflect actual data.

Notes to the Income Statement

Net interest income

24. Interest income and expense are specified as follows:

	1.1.-30.6.2007	1.1.-30.6.2006
Interest income		
Loans to credit institutions	67.439	56.342
Loans to customers	444.648	205.673
Trading assets	323.906	204.486
Other	1.355.181	504.135
Total interest income	2.191.174	970.636
Interest expense		
Deposits from credit institutions	77.597	11.586
Borrowings and debt securities issued	1.934.828	1.216.014
Subordinated liabilities	4.325	4.242
Other	15.042	7.631
Net interest expense	2.031.792	1.239.473
Net inerest income	159.382	(268.837)

Cash and balances with the Central Bank

25. Cash and balances with the Central Bank are specified as follows:

	30.6.2007	1.1.2007
Cash and balances with banks	2.766.421	2.046.995
Unrestricted balances with the Central Bank	309.270	110.729
	3.075.691	2.157.724

Financial assets at fair value through profit and loss

26. Financial assets at fair value through profit and loss are specified as follows:

Shares and other variable-income securities:		
Listed shares on Iceland Stock Exchange	6.617.149	6.376.447
Listed foreign shares	11.611.940	8.033.358
Listed domestic unit shares	25.010	3.275
Listed foreign unit shares	64.781	838.995
Unlisted domestic shares and shares in Savings Banks	3.287.987	1.749.115
Unlisted foreign shares	111.343	49.971
Total shares and other variable-income securities	21.718.210	17.051.161
Bonds and other fixed-income securities:		
Listed on Iceland Stock Exchange	6.531.231	11.459.738
Listed foreign bonds	28.785	359.496
Unlisted bonds	321.967	612.385
Total bonds and other fixed-income securities	6.881.983	12.431.619
Total financial assets at fair value through profit and loss	28.600.193	29.482.780

Amounts are in ISK thousands

26. Financial assets at fair value through profit and loss, contd.:

The Bank has entered into forward contracts and swaps amounting to ISK 19,209 million against its shares and other variable-income securities and ISK 240 million against its bonds and other fixed-income securities.

Loans

27. Loans are specified as follows:

Loans to financial institutions	687.137	741.262
Loans to customers	7.438.877	7.194.241
Loans	8.126.014	7.935.503

28. Changes in the provision on loans are specified as follows:

Balance at the beginning of the year	41.895	40.756
Impairment on loans during the period	3.000	0
Provision transferred for IFRS	0	1.139
Provision on loans at the end of the period	44.895	41.895

Other liabilities

29. Other liabilities are specified as follows:

	30.6.2007	1.1.2007
Unsettled securities trading	1.885.781	2.868.044
Accounts payable	69.727	131.202
Sundry liabilities	800.993	672.880
Other liabilities	2.756.501	3.672.126

Equity

30. Capital at the end of the period amounts to ISK 5.804 million. The capital ratio, calculated in accordance to Article 84 of the Act on Financial Undertakings, was 24.7%. According to the law the ratio may not go below 8.0%.

	30.6.2007	
	Book value	Weighted value
Risk I:		
Assets recorded in the Consolidated Financial Statements	42.434.977	23.540.780
Capital:		
Tier I capital:		
Capital		5.804.021
Subtracted from equity		(28.314)
		5.775.707
Tier II capital:		
Subordinated loans		35.198
		35.198
Total capital		5.810.905
Capital ratio		24,7%
Thereof Tier I ratio		24,5%

Amounts are in ISK thousands

Group entities

31. Significant subsidiaries:

	Country of incorporation	Ownership	
Orange International Investments UK Ltd.	Iceland	100,0%	100,0%
Rekstrarfélag MP Investment Bank hf.	Iceland	99,9%	99,9%
MP Pension Funds Baltic UAB	Litháen	50,0%	0,0%

Employee benefits

a) *Share-based payment transactions*

32. The parent company has entered into stock option contracts with its employees, which enable them to acquire shares in the parent company at an exercise price corresponding to the market value of the shares atgrant date. The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

b) *Treasury shares stated as other liability on account of put options*

33. When the parent company sells treasury shares to its employees with put options - i.e., the right to sell the shares back to the parent company at the purchase price - equity is not increased. Equity will be increased if the put option is not exercised. In the Financial Statements the nominal value of share capital and share premium is increased, but options reserve decreased. The value is classified as liability among other liabilities.

c) *Fair value of share-based payments*

34. The fair value of services reveived in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services reveived is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model. Expectations of early exercise are not incorporated into the Black-Scholes model.

Amounts are in ISK thousands

Changes to accounting policies in accordance with International Financial Reporting Standards (IFRS)

35. As discussed in note 2, these are the Group´s first condensed interim financial accounts for part of the period covered by the first IFRS annual financial statements prepared in accordance with IFRSs, as adopted by the EU.

The Group´s condensed interim accounts for the period from 1 January to 30 June 2007 is prepared in accordance with the accounting policies specified in the notes on significant accounting policies. This also applies to comparative information for the six months ended June 2006, the financial statements for the year ended 31 December 2006 and the preparation of an opening IFRS balance sheet at 1 January 2006 (the Bank´s date of transition).

Amounts in the opening Balance Sheet of 1 January 2006 have been changed in accordance with IFRS, but were previously presented in accordance with the Annual Accounts Act and the Regulation on the Presentation and Contents of the Annual Accounts of Commerial Banks, Savings Banks and Other Financial Institutions (referred to as IS-GAAP). The following tables and notes show the effects the change from IS-GAAP to IFRS has had on the financial position of the Group and its financial results There are no significant changes to the cash flows summary according to IFRS compared with how it was previously under IS-GAAP.

Changes in equity from IS-GAAP to IFRS:		**Equity**
Equity according to IS-GAAP at 31 December 2006		5.077.285
Equity according to IFRSs at 1 January 2007		4.926.961
Change in equity from IS-GAAP to IFRSs		(150.324)
Adjustments at the beginning of the year 2006:		**Equity**
Loans	IAS 39	24.384
Effect on taxes	IAS 12	(4.389)
Total transition to IFRS 1 January 2006		19.995
Adjustments during the year 2006:		**Equity**
Treasury shares stated as other liability on account of put options	IAS 39	(230.604)
Interest income	IAS 39	(17.554)
Interest expense	IAS 39	(18.725)
Fair value changes on AFS	IAS 39	115.046
Provision for losses	IAS 39	(1.139)
Effect on taxes through profit and loss	IAS 12	3.365
Taxes directly to equity	IAS 12	(20.708)
Total transition to IFRS 2006		(170.319)
Changes from previous GAAP to IFRSs		(150.324)

The total effect on equity of the transition to IFRS is an decrease of ISK 150 million. The following describes the effects of these new accounting policies on the Bank's Balance Sheet and Income Statement.

Amounts are in ISK thousands

35. Contd.:

Impairment of loans

In accordance with IAS 39 the Bank has performed the impairment of loans. As a result the MP Investment Bank's capital increased by ISK 23 million, when income tax has been taken into consideration.

According to IAS 39 the Bank is obligated to review all loans to ascertain whether there is objective evidence of impairment that affects the size of expected cash flows from the loan. The loan will then be written down to the present value of expected future cash flows.

Borrowing charges

In accordance with IFRSs borrowing charges are an integral part of the interest income of loans and recognised over the expected life of the loan. Previously borrowing charges were recognised in the income statement on grant date of loans. The total effect of this change in the accounting policy is a decrease in equity amounting to 18 million.

Value changes on AFS assets

The Investment Bank sold the cash flow of part of its loan portfolio and according to the derecognition rules of IAS 39 it has to derecognise it from the balance sheet. These changes result in increase in capital by ISK 94 million.

Treasury shares stated as other liability on account of put options

When the parent company sells treasury shares to its employees with put options - i.e., the right to sell the shares back to the parent company at the purchase price - equity is not increased. Equity will be increased if the put option is not exercised. In the Financial Statements the nominal value of share capital and share premium is increased, but options reserve decreased. The value is classified as liability among other liabilities. This change resulted in a decrease in equity in the amount of ISK 249 million.

35. contd:

From IS-GAAP to IFRS

The following tables provide an overview of the effect of the transition to IFRS by valuation and presentation.

Income Statement for the year 2006, change from IS-GAAP to IFRS

According to IS-GAAP		Change in valuation	Change in presentation		According to IFRSs
Interest from credit institutions	129.072	0	(129.072)	0	
Interest on loans	521.175	(17.554)	(503.621)	0	
Interest on market securities	460.988	0	(460.988)	0	
Other interest income	1.290.668	0	(1.290.668)	0	
			2.384.349	2.384.349	Interest income ....
Interest to credit institutions	(21.687)	0	21.687	0	
Interest on borrowings	(2.303.286)	0	2.303.286	0	
Interest on subordinated loans	(8.759)	0	8.759	0	
Other interest expenses	(3.028)	(18.725)	21.753	0	
			(2.355.485)	(2.355.485)	Interest expense ....
Income from shares and other holdings	37.023	0	0	37.023	Net income from other financial instruments carried at fair value ....
Fee and comissions	1.051.566	0	0	1.051.566	Fee and commission income ....
Commission expenses	(38.336)	0	0	(38.336)	Fee and commission expense ...
Net trading income	1.059.251	0	0	1.059.251	Net trading income ....
				0	Net foreign exchange loss ....
				0	Share of profit of associates .....
Sundry operating income	157	0	0	157	Other operating income ....
Salary and related expenses	(295.810)	(41.627)	0	(337.437)	Salaries and related expenses ...
Other operating expenses	(165.841)	0	0	(165.841)	Administrative expenses ....
Depreciation	(3.458)	0	0	(3.458)	Depreciation ....
Provision for losses	(99.967)	(1.139)	0	(101.106)	Impairment on loans ....
Income tax	(293.927)	3.365	0	(290.562)	Income tax expense ....
Net profit according to IS-GAAP	**1.315.801**	**(75.680)**	**0**	**1.240.121**	**Profit according to IFRS**

Amounts are in ISK thousands

35. contd:

From IS-GAAP to IFRS

The following tables provide an overview of the effect of the transition to IFRS by valuation and presentation.

Income Statement for the period 1 January to 30 June 2006, change from IS-GAAP to IFRS

According to IS-GAAP		**Change in valuation**	**Change in presentation**		**According to IFRSs**
Interest from credit institutions	56.342	0	(56.342)	0	
Interest on loans	219.906	(14.233)	(205.673)	0	
Interest on market securities	204.486	0	(204.486)	0	
Other interest income	504.135	0	(504.135)	0	
			970.636	970.636	Interest income ....
Interest to credit institutions	(11.586)	0	11.586	0	
Interest on borrowings	(1.216.014)	0	1.216.014	0	
Interest on subordinated loans	(4.242)	0	4.242	0	
Other interest expenses	(3.019)	(4.612)	7.631	0	
			(1.239.473)	(1.239.473)	Interest expense ....
Income from shares and other holdings	50.598	0	(50.598)	0	Net income from other financial instruments carried at fair value ....
Fee and comissions	569.419	0	0	569.419	Fee and commission income ....
Commission expenses	(21.278)	0	0	(21.278)	Fee and commission expense ...
Net trading income	724.969	0	965.229	1.690.198	Net trading income ....
			(967.942)	(967.942)	Net foreign exchange loss ....
Share of profit of associates	3.447		53.311	56.758	Share of profit of associates .....
Sundry operating income	119	0	0	119	Other operating income ....
Salary and related expenses	(165.295)	(16.443)	0	(181.738)	Salaries and related expenses ..
Other operating expenses	(75.322)	0	0	(75.322)	Administrative expenses ....
Depreciation	(1.504)	0	0	(1.504)	Depreciation ....
Provision for losses	(96.599)	(1.077)	0	(97.676)	Impairment on loans ....
Income tax	(122.829)	(2.756)	0	(125.585)	Income tax expense ....
Net profit according to IS-GAAP	**615.733**	**(39.121)**	**0**	**576.612**	**Profit according to IFRS**

Amounts are in ISK thousands

35. contd:

Balance Sheet, change from IS-GAAP to IFRS

IS-GAAP 31 December 2006		**Change in valuation**	**Change in presentation**		**IFRS 1 January 2007**
Cash and Amounts Due from Credit Institutions	2.898.986	0	(741.262)	2.157.724	Cash and balances with the Central Bank ....
Loans	7.188.550	5.691	741.262	7.935.503	Loans ....
			536.621	536.621	Derivatives ....
Bonds and other fixed-income securities	12.431.619		(12.431.619)	0	
Shares and other variable-income securities	17.626.392		(17.626.392)	0	
			29.482.780	29.482.780	Financial assets at fair value through profit and loss ....
		115.046	575.231	690.277	Available-for-sale financial assets ....
Shares in associated companies	285.976	0	0	285.976	Investment in associates ....
Property and equipment	168.104	0	0	168.104	Operating assets ....
Sundry assets	1.444.174	0	0	1.444.174	Receivables ....
Prepaid expenses and accured income	672.557	0	(536.621)	135.936	Prepayments ....
Deferred tax asset	16.993		(16.993)	0	Deferred tax asset ....
Total Assets	42.733.351	120.737	(16.993)	42.837.095	**Total Assets**
Amounts Owed to Credit Institutions	7.733.282	0	0	7.733.282	Deposits from credit instituations and the Central Bank ....
			972.752	972.752	Derivatives ....
Borrowings	25.468.798	0	(13.793.244)	11.675.554	Borrowings ....
		0	2.601.475	2.601.475	Financial liabilities at fair value through profit and loss ....
Sundry liabilities and accrued expenses	4.395.549	249.329	(972.752)	3.672.126	Other liabilities ....
Subordinated loans	58.437	0	0	58.437	Subordinated loans ....
		0	11.191.768	11.191.768	Debt securities issued ....
		21.733	(16.993)	4.740	Deferred tax liabilities ....
Share Capital	1.070.000	0	0	1.070.000	Share capital ....
Share Premium	1.218.275	0	0	1.218.275	Share reserve ....
Revaluation reserve	46.391	0	(46.391)	0	
Translation reserve	792	0	(792)	0	
		(230.604)	72.281	(158.323)	Option reserve ....
		94.338		94.338	Fair value reserve ....
Retained earnings	2.741.827	(14.059)	(25.097)	2.702.671	Retained earnings ....
Total Liabilities and Equity	42.733.351	120.737	(16.993)	42.837.095	**Total Liabilities and Equity**

Amounts are in ISK thousands