



Press release

Interim Financial Statement for the first 6 months of 2009

1 January 2009 to 30 June 2009

31 July 2009

MP Bank's results for the first half of 2009

The operations of MP Bank hf. during the first half of 2009 resulted in a loss of 412 million ISK. MP Bank started its commercial banking activities in May. Preparation and initial costs of those activities were high while revenue generation will start to be significant in the 2nd half of the year. Net interest income was only 48 million ISK or considerably less than 1% on an annualized basis, while in the same period the year before it was ISK 762 million. Fee income decreased by 23% from the same period last year and amounted to ISK 444 million compared to ISK 578 million during the first half of 2008. Net impairment charges were ISK 192 million but were ISK 45 million one year ago. The bank has now total reserves of ISK 2,263 million, out of which ISK 1,723 are reserves against loan impairments. That is 15.6% of the total portfolio of loans to clients. During the period a final write off was made of ISK 166 million on irrecoverable loans and claims.

Loss due to associated companies was ISK 72 million during the reporting period but returned a profit of ISK 83 million the year before. The loss stems from MP Pension Funds Baltic which is a pension fund company operating in Lithuania, 50% owned by MP Bank. The progress of the company is going according to plan but no expenses are capitalized as goodwill. The associated company Hraunbjarg was delivered to shareholders of MP Bank as a special dividend so its results are no longer calculated in the accounts of the bank.

The equity of the bank was ISK 5,294 million ISK and total assets ISK 56,720 million. The capital ratio as calculated under the law on financial institutions (CAD ratio) was 17.5% but the minimum legal requirement is 8%.

The liquidity of the bank was very strong at the end of the reporting period. Claims on the Central Bank of Iceland, holdings of Icelandic government bonds and deposits in foreign banks amounted to a total of ISK 35 billion. Deposits increased substantially during the reporting period due to the increase in commercial banking operation or from ISK 8.6 billion at the end of 2008 to ISK 31 billion on June 30th.



The operational loss during the first half of 2009 reflects the cost of entering into new operations and adjustments to new conditions on the Icelandic financial market. Those conditions were extremely adverse during the reporting period. The Central Bank of Iceland lowered its deposit rate significantly down to 9.5% which led to decreased interest income for MP Bank. At the same time the Central Bank kept its benchmark refinancing rate at 12% or 2.5% higher than the deposit rate.

In spite of the large increase in deposits MP Bank scaled back its loan portfolio during the period. The Icelandic economy has far from recovered from the collapse of Kaupthing bank, Landsbanki and Glitnir bank last fall. With a clearer outlook the bank can restart lending programs and thereby increase its profitability.

MP Bank became the largest broker and market maker of government issued bonds in the Iceland Stock Exchange during the period, which is a large step in the history of the bank. It is extremely important that the government has good access to credit markets at favorable rates during the period of high budget deficit. During the first half of the year MP Bank had slight losses from this important function but in the long run it will most like become profitable again.

The currency restrictions imposed by Icelandic authorities in late 2008 hamper the activities of MP Bank severely. After the collapse of the three large banks it has not been possible for the bank to reduce its currency exposure to the Icelandic krona through hedging activities. MP Bank has a branch in the EU located in Vilnius, Lithuania, which has foreign denominated assets which no longer can be hedged. During the reporting period MP Bank paid off all its loans from non-Icelandic entities and is not accepting deposits outside of Iceland.

The first half of 2009 was a period of difficult and challenging adjustment for the operations of MP Bank, especially during the first months of the year. Mr. Gunnar Karl Guðmundsson became the new CEO of the bank on June 1st. 2009. Commercial banking activities have however started very well and client inflows have been far higher than expected. It is the opinion of the Board of MP Bank that the operational results of the bank will improve during the 2nd half of the year.

Further information:

Gunnar Karl Guðmundsson, CEO tel. +354-8583260

Margeir Pétursson, Chairman of the Board, tel. +354-5403230

A copy of the Interim Financial Statement for the first 6 months of 2009 can be accessed on the bank's website, www.mp.is

Income Statement	2009	2008	Changes
	1.1-30.6	1.1-30.6	
Interest income	2.021.365	3.189.762	-36,6%
Interest expense	-1.973.145	-2.427.360	-18,7%
Net interest income	48.220	762.402	-93,7%
Fees and commission income	444.115	578.001	-23,2%
Fees and commission expense	-7.486	-19.900	-62,4%
Net fees and commissions	436.629	558.101	-21,8%
Net financial (expense) income	-8.253	678.860	-101,2%
Share in (loss) profit of associates	-72.358	83.218	-186,9%
Other income	5.759	0	
Net operating income	409.997	2.082.581	-80,3%
Administrative expenses	-622.985	-497.984	25,1%
Impairment on loans	-192.100	-44.938	327%
(Loss) Profit before tax	-405.088	1.539.659	-126,3%
Income tax	-9.033	-14.838	-39,1%
Net (loss) profit	-414.121	1.524.821	-127,2%

Balance sheet	30.6.2009	31.12.2008	Changes
Assets			
Cash and balances with the Central Bank	20.559.744	20.536.217	0,1%
Securities	19.048.950	10.266.874	85,5%
Securities used for hedging	4.726.491	7.337.259	-35,6%
Loans to customers	9.324.752	10.310.113	-9,6%
Other assets	3.059.612	4.927.350	-37,9%
Total assets	56.719.549	53.377.813	6,3%
Liabilities & Equity			
Short positions in listed securities	7.550.934	15.825.079	-52,3%
Securities used for hedging	3.486.448	5.212.949	-33,1%
Deposits	31.033.406	8.575.692	261,9%
Borrowings	6.752.181	13.624.594	-50,4%
Other liabilities	2.602.184	3.515.493	-26,0%
Equity	5.294.396	6.624.006	-20,1%
Total Liabilities & Equity	56.719.549	53.377.813	6,3%