



BANK

Consolidated Financial Statements 2009

MP Bank hf.
Ármúli 13a
108 Reykjavík
Iceland

Reg. no.: 540599-2469

Contents

Endorsement and Statement by the Board of Directors and the CEO	3
Independent Auditor's Report	4
Consolidated Income Statement	5
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes	10

Endorsement and Statement by the Board of Directors and the CEO

The consolidated financial statements of MP Bank hf. for the year ended 31 December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and additional disclosure requirements applicable. The consolidated financial statements comprise MP Bank hf. and its subsidiaries (together referred to as the "Bank").

According to the income statement, loss for the year amounted to ISK 1,180 million. The Bank's equity at the end of 2009 amounted to ISK 5,040 million. The Bank's capital adequacy ratio, calculated in accordance with the Act on Financial Undertakings, was 14.9% at year-end. As of 31 December 2009 the Bank's total assets amounted to ISK 62,567 million.

The Board of Directors propose that no dividend will be paid in the year 2010 on 2009 operations.

The Bank's share capital was increased by 100 million during the year and amounted to 1,200 million at the end of the year 2009. Of that amount treasury shares were 29 million. At year end there were 59 shareholders in the Bank, compared to 63 at the beginning of the year. Four shareholders held more than 10.0% of the shares in the Bank at year-end 2009. Their shareholding is specified as follows:

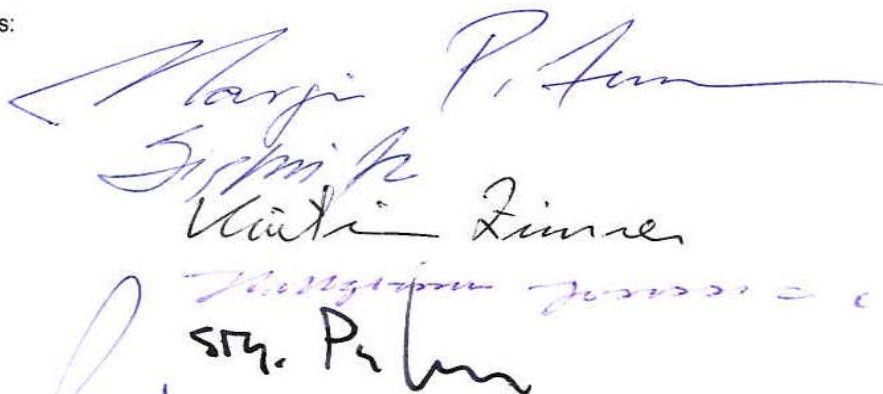
	Ownership
Margeir Pétursson and companies under his control	26,0%
BYR sparisjóður (Savings Bank)	12,3%
Sigurður Gísli Pálmason and company under his control	11,7%
Jón Pálmason and company under his control	11,6%

To the best of our knowledge, the consolidated financial statements of MP Bank hf. for the year 2009 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.

The Board of Directors and the CEO of the Bank have today discussed the annual consolidated financial statements of MP Bank hf. for the year 2009 and confirm them by the means of their signatures.

Reykjavik, 19 March 2010.

The Board of Directors:



Handwritten signatures of the Board of Directors in blue ink. The signatures are: Margeir P. Pétursson, Sigurður Gísli Pálmason, and Jón Pálmason. There is also a signature that appears to be 'Kjartanur Zinnar'.

CEO:



Handwritten signature of the CEO in blue ink, appearing to be 'Guðmundur Guðmundsson'.

Independent Auditor's Report

To the Board of Directors and Shareholders of MP Bank hf.

We have audited the accompanying consolidated financial statements of MP Bank hf. and its subsidiaries, (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2009, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 consolidated 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 audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of MP Bank hf. as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavik, 19 March 2010.

KPMG hf.



Consolidated Income Statement for the Year 2009

	Notes	2009	2008
Interest income		3.984.355	6.000.772
Interest expense		(3.537.982)	(5.202.554)
Net interest income	6,53	446.373	798.218
Fee and commission income	54	999.036	1.073.657
Fee and commission expense		(45.768)	(32.624)
Net fee and commission income	7	953.268	1.041.033
Net financial income	8,9,55-57	339.629	2.207.786
Share in loss of associates	4,70	(79.276)	(77.499)
Other income		22.245	1.937
Net operating income		1.682.239	3.971.475
Administrative expenses	58,59	(1.652.677)	(1.032.477)
Impairment losses on financial assets	22,69	(1.356.155)	(2.247.655)
(Loss) profit before income tax		(1.326.593)	691.343
Income tax	10,79	146.107	168.812
(Loss) profit for the year		(1.180.486)	860.155
Loss for the year attributable to owners of the Parent		(1.180.486)	860.155
Loss for the year attributable to non-controlling interests		0	0
(Loss) profit for the year		(1.180.486)	860.155
Basic and diluted (loss) earnings per share	63	(1,12)	0,81

The notes on pages 10 to 46 are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income for the Year 2009

	Notes	2009	2008
(Loss) profit for the year		(1.180.486)	860.155
Other comprehensive income:			
Exchange difference on translation of foreign operations		(4.582)	66.670
Exchange difference transferred to P&L on disposal		(62.088)	0
Total comprehensive (loss) income for the year		(1.247.156)	926.825
Total comprehensive (loss) income attributable to owners of the Parent		(1.247.156)	926.825
Total comprehensive income attributable to non-controlling interest		0	0
Total comprehensive (loss) income for the year		(1.247.156)	926.825

The notes on pages 10 to 46 are an integral part of these consolidated financial statements

Consolidated Statement of Financial Position as at 31 December 2009

	Notes	31.12.2009	31.12.2008
Assets			
Cash and cash equivalents	16,64	15.981.012	15.524.332
Loans to Central Bank	65	3.010.941	5.011.885
Derivatives	17	297.001	1.419.923
Fixed income securities	18,66	14.136.102	9.626.049
Equity investments and other variable income securities	19,67	1.596.982	640.825
Securities used for hedging	20,68	12.689.324	7.337.259
Loans to customers	21,39,69	11.698.205	10.310.113
Investments in associates	4,70	336.539	1.328.125
Intangible assets	24,71	321.380	0
Property and equipment	23,72	582.770	653.626
Deferred tax assets	79	183.701	0
Other assets	73	1.733.099	1.525.676
Total assets		62.567.056	53.377.813
Liabilities			
Short positions in listed securities	25,74	7.760.337	15.825.079
Short positions in securities used for hedging	20,75	1.412.497	5.212.949
Derivatives	17	121.297	30.127
Deposits	26,76	42.098.606	8.575.692
Borrowings	27,77	3.687.722	13.624.594
Subordinated liabilities	28,78	14.480	29.411
Current tax liabilities	29	16.635	11.435
Deferred tax liabilities	29,79	0	17.895
Other liabilities	30,80	2.415.980	3.426.625
Total liabilities		57.527.554	46.753.807
Equity			
Share capital	33,82	1.170.738	1.045.339
Share premium		1.315.592	813.368
Reserves		(1.923)	6.986
Retained earnings		2.555.095	4.758.313
Total equity		5.039.502	6.624.006
Total liabilities and equity		62.567.056	53.377.813

The notes on pages 10 to 46 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity for the Year 2009

	Reserves					Total
	Share Capital	Share Premium	Translation Reserve	Option Reserve	Retained Earnings	
2009						
Equity at 1.1.2009	1.045.339	813.368	64.747	(57.761)	4.758.313	6.624.006
Loss for the year					(1.180.486)	(1.180.486)
Translation of foreign operations			(4.582)			(4.582)
Translation transferred to P&L on disposal			(62.088)			(62.088)
Total comprehensive income	0	0	(66.670)	0	(1.180.486)	(1.247.156)
Share based payments				136.152		136.152
New share capital sold	100.000	400.000				500.000
Purchases of own shares	(24.601)	(197.776)				(222.377)
Sales of own shares	50.000	300.000				350.000
Option reserve transferred to retained earnings				(78.391)	78.391	0
Cash dividend					(369.203)	(369.203)
Dividend in the form of shares in Hraunbjarg					(731.920)	(731.920)
Equity at 31.12.2009	1.170.738	1.315.592	(1.923)	0	2.555.095	5.039.502
2008						
Equity at 1.1.2008	1.063.776	942.368	(1.923)	(37.496)	4.220.361	6.187.086
Profit for the year					860.155	860.155
Translation of foreign operations			66.670			66.670
Total comprehensive income	0	0	66.670	0	860.155	926.825
Share based payments				(20.265)		(20.265)
Purchases of own shares	(18.437)	(129.000)				(147.437)
Dividends paid					(322.203)	(322.203)
Equity at 31.12.2008	1.045.339	813.368	64.747	(57.761)	4.758.313	6.624.006

The notes on pages 10 to 46 are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows for the Year 2009

	Notes	2009	2008
Cash flows from operating activities:			
(Loss) profit for the year		(1.180.486)	860.155
Adjustments for:			
Indexation and exchange rate difference		(118.807)	(1.420.441)
Effects of associates	70	79.276	77.499
Depreciation and amortisation		77.168	33.077
Impairment on loans	69	1.510.475	1.353.136
Deferred income tax, change	79	(201.595)	(175.968)
		166.031	727.458
Change in operating assets and liabilities		(736.768)	404.478
Net cash (to) from operating activities		(570.737)	1.131.936
Cash flows from investing activities:			
Loans to customers, change		(3.054.738)	1.172.783
Other financial assets, change		(7.692.422)	12.457.011
Dividend received from associates		294.000	98.000
Associated companies		767	(174.455)
Investment in property, plant, equipment and intangibles		(311.429)	(108.211)
Net cash (used in) provided by investing activities		(10.763.822)	13.445.128
Cash flows from financing activities:			
Deposits from customers, change		34.204.343	8.575.692
Borrowings and debt issued, change		(10.367.742)	(29.743.242)
Other financial liabilities, change		(11.895.321)	15.328.495
Subordinated liabilities, change		(14.931)	(14.435)
Dividends paid		(369.203)	(322.203)
Share capital purchased and sold		127.623	(147.437)
Cash flows from (to) financing activities		11.684.769	(6.323.130)
Net (decrease) increase in cash and cash equivalents		350.210	8.253.934
Effects of exchange rate fluctuations on cash held		106.470	28.541
Cash and cash equivalents at the beginning of the year		15.524.332	7.241.857
Cash and cash equivalents at the end of the year	16,64	15.981.012	15.524.332
Investing and financing activities without cash movements:			
Dividend paid in the form of shares in Hraunbjarg		731.920	
Capital increase, unpaid at year-end		500.000	

The notes on pages 10 to 46 are an integral part of these consolidated financial statements

Notes

General Information

1. Reporting Entity

MP Bank hf. is a company incorporated and domiciled in Iceland. The consolidated financial statements as at and for the year ended 31 December 2009 comprise MP Bank hf. (the Parent) and its subsidiaries (together referred to as the "Bank") and the Bank's interest in associates. The address of the Bank is Ármúli 13a in Reykjavík. The Bank has offices in Reykjavík and Vilnius, Lithuania.

MP Bank's main purpose is to offer banking services to individuals, corporates, and institutional investors. The Bank offers services in areas of lending, deposit taking, brokerage services, capital market services, asset management services and fund management.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union.

The consolidated financial statements were approved by the board of directors and the CEO on 19 March 2010.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- securities used for hedging are measured at fair value

c. Functional and presentation currency

These consolidated financial statements are prepared and presented in Icelandic krona (ISK), which is the parent company's functional currency. Except as indicated, financial information has been rounded to the nearest thousand.

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

d. Use of estimates and judgements

The preparation of the consolidated 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 and liabilities, 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.

Information about significant areas of estimation uncertainty and critical judgements made by management in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is provided in note 36.

Notes

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 Bank's 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 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are presently 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 combination 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 recognised 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 immediately in the income statement.

b. Funds management

The Bank manages and administers assets held in mutual funds and pension funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements.

c. Transactions eliminated on consolidation

Intra-bank balances, income and expenses, and unrealised gains and losses arising from intra-bank transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Bank's interest in the associate. 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 Bank has significant influence, but not control, over the financial and operating policies. Significant influence generally exists when the Bank holds between 20% and 50% of the voting power, including potential voting rights, if any. Investments in associates are initially recognised at cost.

The consolidated financial statements include the Bank'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 Bank's share of loss exceeds its interest in an associate, the Bank's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Bank 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.

Notes

5. Foreign currency

a. Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Icelandic krona (ISK) at the foreign exchange rate ruling at the reporting date. 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 spot exchange rate ruling at the date the fair value was determined.

b. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the presentation currency, Icelandic krona, at spot exchange rate current at the reporting date. The income and expenses of foreign operations are translated into Icelandic krona at the spot exchange rates at the dates of the transactions.

6. Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost calculated on an effective interest basis
- Interest income and expense on derivatives

7. Fee and commission income and expense

The Bank 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 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.

Other fee and commission income is recognised in the income statement as the services are provided. Fees that are performance-linked are recognised when the performance criteria is fulfilled.

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

Notes

8. Net financial income

Net financial income is comprised of the following:

- Realised and unrealised gains/losses from price changes of fixed income securities carried at fair value
- Realised and unrealised gains/losses from price changes of variable income securities.
- Interest income from fixed income securities carried at fair value
- Dividends, excluding dividends from associates and subsidiaries
- Foreign exchange difference

9. Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends, other than those from subsidiaries and associates, are reflected as component of net financial income.

10. Income tax expense

Income tax expense comprises current and deferred tax. 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.

The deferred income tax liability has been calculated and recognised in the statement of financial position. The calculation is based on the difference between balance sheet items as presented in the tax return on one hand, and in the consolidated 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 consolidated financial statements, mostly due to temporary differences arising from the recognition of revenue and expense in the tax returns and in the consolidated 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. Financial assets measured 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.

12. 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. 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. For all other financial instruments fair value is determined by using valuation techniques.

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 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.

Notes

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 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.

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 in the statement of financial position.

13. Recognition and derecognition of financial assets and liabilities

a. Recognition

The Bank 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 Bank becomes a party to the contractual provisions of the instrument.

b. Derecognition

The Bank 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 transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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 is discharged or cancelled or expires.

14. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

15. 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.

16. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, balances with banks, unrestricted balances with Central Bank and other short-term highly liquid investments with original maturities of three months or less.

Notes

17. Derivatives

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 risk and interest risk arising from operating, financing and investing activities.

Derivative assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position. Revenue from derivatives is split into interest income and net income from financial instruments at fair value and presented in the corresponding line items in the income statement.

18. Fixed income securities

Fixed income securities consist of bonds, which are initially and subsequently measured at fair value with fair value changes recognised in the income statement as financial income. Interests on fixed income securities are recognised as financial income in the income statement. Fixed income securities are either classified as held-for-trading or designated at fair value through profit or loss.

19. Equity investments and other variable income securities

Equity investments and other variable income securities consist of equity investments and unit shares in mutual funds. These investments are initially and subsequently recognised at fair value with price changes recognised in the income statement. Price changes and dividends received are recognised as financial income in the income statement.

20. Securities used for hedging

Securities used for hedging consist of non-derivative financial assets that are used to hedge the Bank's risk exposure arising from derivative contracts with customers.

21. Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances include loans provided by the Bank to its customers, participation in loans from other lenders and purchased loans that are not quoted in an active market and which the Bank has no intention of selling immediately or in the near future.

When the Bank 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 and the underlying asset is not recognised in the Bank'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.

Notes

22. Impairment

The carrying amount of the Bank's financial assets not at fair value through profit and loss, 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 instalments or on interest or principal payments;
- (iii) the Bank 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 Bank 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 Bank'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.

Notes

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 Bank 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. 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 reduction of cost in the income statement.

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.

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.

23. Property and equipment

a. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Where parts of an item of property and equipment have different useful lives, those components are accounted for as separate items of property and equipment.

b. Subsequent costs

The Bank recognises in the carrying amount of an item of property and 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 are added to the acquisition cost of property and 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 expensed in the income statement when incurred.

c. Depreciation

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

Real estate	50 years
Office equipment and fixtures	3-5 years

Depreciation methods, useful lives and residual value are reassessed annually.

Notes

24. Intangible assets

Intangible assets comprise separately identifiable intangible items arising from purchases of computer software licences. Intangible assets are recognised at cost. Intangible assets are amortized using the straight-line method over their estimated useful economic life. At each date of the consolidated statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The Bank chooses to use the cost model for the measurement after recognition. The estimated useful life is as follows:

Computer software	10 years
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25. Short positions in listed securities

Short positions are carried at fair value with all fair value changes recognised in the income statement under net financial income.

26. Deposits

Deposits consist of time deposits and demand deposits. Deposits are recognised at amortised cost, including accrued interests.

27. Borrowings

The Bank's borrowings consist primarily of loans from banks (including "repo" transactions) and issued bonds and bills which are listed.

When the Bank sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

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.

28. Subordinated liabilities

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

Subordinated liabilities 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.

29. Tax liabilities

Income tax expense 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 expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to the tax payable in respect of previous years.

Notes

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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 dated and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

30. Other liabilities

Other liabilities are measured at cost.

31. Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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.

32. Employee benefits

a. Defined contribution plans

Obligations for contributions pension plans are recognised as an expense in profit or loss when they are due.

b. Share-based payment transactions

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 fair value of the shares at grant 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. At the end of 2009 all share-based contracts had expired.

c. 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 consolidated financial statements the nominal value of share capital and share premium is increased, but options reserve decreased. The value is classified as a liability among other liabilities. At year-end 2009, no put-options were outstanding.

d. Fair value of share-based payments

The fair value of services received 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 received is measured based on the Black-Scholes formula. Measurement parameters include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Expectations of early exercise are not incorporated into the Black-Scholes formula.

Notes

33. Share capital

a. 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 transactions 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 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.

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 Bank. 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 accrued part of the fair value of share options. This reserve is reversed if share options are exercised or forfeited.

d. Translation reserve

Foreign exchange differences arising on translation of financial statements of foreign operations are recognised directly in a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

e. Dividends on share capital

Dividends on share capital are deducted from equity in the period in which they are approved by the Bank's shareholders.

f. Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its shares. Basic EPS is calculated by dividing the profit or loss by weighted average number of shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss for the effects of all dilutive potential shares, which comprise share options granted to employees.

34. Fiduciary activities

The Bank provides asset custody, asset management, investment management and advisory services. All of them require the Bank to make decisions on the handling, acquisition or disposal of financial instruments. Assets in Bank custody are not reported in the consolidated financial statements, since they do not comprise Bank assets. One aspect of these services is that the Bank is involved in approving objectives and criteria for investing assets in its custody.

Notes

35. New standards and interpretations

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Bank:

Amendments to IFRS 7, 'Financial instruments: Disclosures'

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

IFRS 8, 'Operating segments'

IFRS 8 was issued in November 2006. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Bank's external segment reporting will be based on the internal reporting to the Bank's executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Bank but has an impact on segment disclosure (for example, goodwill allocation) and on the measurement bases within segments. The segment results have been changed accordingly.

IAS 1 (revised), 'Presentation of financial statements'

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Bank presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings. As permitted in the revised version of IAS 1 the Bank prepares both income statement and a separate statement of total comprehensive income.

The following standards, amendments and interpretations became effective in 2009 but are not relevant for the Bank's operations or have immaterial effect on the Bank's financial statements:

IFRS 2 - Share-based payments - Vesting conditions and cancellations

IAS 23 - Borrowing costs

IAS 32 and IAS 1 - Puttable financial instruments and obligations arising on liquidation

IFRIC 16 - Hedges of a net investment in a foreign operation

IFRIC 19 - Customer loyalty programmes

The Bank did not early-adopt new or amended standards in 2009.

Notes

36. 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 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 three months 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 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. Deferred tax asset

The value of a deferred tax asset is estimated by management, based on projections about future profits and the extent to which the tax asset will be realised.

c. 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.

d. Financial asset and liability classifications

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In designating financial assets or liabilities at fair value through profit and loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

37. Capital management and allocation

a. Regulatory capital

Equity at the end of the year amounted to ISK 5,040 million, equivalent to 7.7% of total assets according to the statement of financial position. The capital adequacy ratio of the Bank, calculated in accordance to Article 84 of the Act on Financial Undertakings, is 14.9%. The minimum requirement according to that Act is 8.0%. The ratio is calculated as follows:

	31.12.2009	31.12.2008
Capital requirements for:		
Credit risk	1.156.320	1.059.198
Market risk	1.116.933	856.273
Operational risk	440.701	465.330
Total risk base	2.713.954	2.380.801
Tier 1 capital:		
Recorded capital	5.039.502	6.624.006
Total capital	5.039.502	6.624.006
Surplus capital	2.325.548	4.243.205
Capital adequacy ratio	14,9%	22,3%

Notes

b. 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.

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 in statement of financial position: share capital, share premium, other reserves, retained earnings, and subordinated liabilities. Capital also includes the collective impairment allowances held in respect of loans and advances.

The Icelandic 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.

38. Risk management disclosure

The purpose of the risk management and credit control unit is to identify, quantify, control and report on the risks that the Bank is exposed to in its daily activities. The unit also participates in drafting the overall risk policy of the Bank and has representatives on the finance committee, the credit committee and the security and IT committee. The unit's main activities include monitoring and managing credit risk, market risk, liquidity risk and operational risk. The board of directors sets the rules and guidelines regarding the Bank's risk policy and the obligations of risk management and credit control. The division reports regularly to the board of directors, the CEO and to the finance committee on the Bank's positions and exposure to risk.

Committees

The Bank operates a finance committee, a credit committee and a security and IT committee.

On the Bank's finance committee are the CEO, COO, the heads of risk management, treasury, business development, accounting and legal department and other employees as determined by the CEO. The finance committee meets regularly and each department reports on its operations and positions activity since the previous meeting. The committee addresses matters regarding the Bank's risk management, financing, capital management and proprietary trading.

The credit committee consists of the Bank's CEO, managing director of retail banking, the heads of risk management and credit control, credit department and the legal department. The CEO shall decide whether any other employees should attend the meetings. The committee addresses matters regarding the Bank's loan activities. The committee is responsible for the approval of individual loans as well as deciding on credit limits for individual clients in derivative trades. The committee is the primary forum for the discussion of loan activity policy.

The security and IT committee is responsible for supervision and implementation of information security policy of MP Bank. Members are COO, managing director of retail banking, internal auditor and head of risk management.

Notes

39. Credit risk

One of the Bank's primary sources of risk is credit risk. Counterparty credit risk means that if one or more borrowers fail to meet their financial obligations towards the Bank, the Bank has to recognize losses due to these defaults. To a very large extent the Bank's loan portfolio consists only of senior loans, most of which are highly collateralized.

a. Credit approval process

The originating department prepares a proposal for each loan or credit line which is presented to the credit committee for approval. The proposal consists of a basic description of the client, the purpose of the loan, a simple credit assessment and arguments for or against granting the loan. The committee decides whether there is need for further credit assessment and on what terms the loan may be granted.

A more thorough credit assessment may be conducted if considered appropriate and can include an assessment of a borrower's fundamental credit strength as well as the value of any collateral. To assess the borrower's capacity to meet his or her obligations the committee can request stress test analysis of the borrower's cash flow or call for third party assessments.

b. Credit collateral

The Bank places emphasis on ensuring that loans are secured with collateral that can be marked to market, and that asset coverage exceeds 100%, e.g. Senior I loans. The Bank applies appropriate haircuts on all collateral in listed securities in order to ensure proper risk mitigation. For all collateral in listed securities, the Bank maintains the right to liquidate collateral in case its market value falls below the predefined limit.

c. Credit rating, control and provisioning

The risk management and credit control unit is responsible for credit rating and reviewing the loan portfolio. In case of any significant delay of payments or defaults the unit carefully analyses the underlying assets and loan documents and organizes the process of collection.

The Bank monitors the value of collateral by listed securities on a real time basis, ensuring that prompt action can be taken if necessary.

Provisioning for loan impairments is estimated on the basis of models assessing a portfolio as a whole based on the seniority of the loans, the degree of collateralization and the Bank's history of defaulted loans. Risk management and credit control suggest a provisioning percentage for the portfolio, based on the expected loss assessment. Risk management and credit control reassess impairments in the event of collateral decay, delayed payments or other early warning signs. Provisions require approval by the CEO and the credit committee.

d. Loan portfolio management

To ensure an effective diversification of the loan portfolio the board has set a limit framework defining maximum exposure as a ratio of the Bank's equity and/or the total size of the loan portfolio. These limits include limitation on joint exposure to associated clients, exposure to individual and associated industries, single regions and countries etc. It is the responsibility of risk management and credit control to monitor that these limits are not being violated and to report discrepancies to the loan committee.

Notes

e. Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments, before taking account of any collateral held or other credit enhancements.

	2009	2008
Cash and cash equivalents	15.981.012	15.524.332
Loans to Central Bank	3.010.941	5.011.885
Derivatives	297.001	1.419.923
Fixed income securities	14.136.102	9.626.049
Securities used for hedging	12.689.324	7.337.259
Loans to customers	11.698.205	10.310.113
Other assets	1.733.099	1.525.676
Total	59.545.684	50.755.237

f. Breakdown of financial assets not at fair value

Financial assets not measured at fair value, exposed to credit risk, are summarised below:

	Neither past due nor individually impaired	Past due but not individually impaired	Individually Impaired	Gross	Less: Specific allowance for impairment	Less: Collective allowance for impairment	Net carrying amount
31 December 2009							
Cash and cash equivalents	15.981.012			15.981.012			15.981.012
Loans to Central Bank	3.010.941			3.010.941			3.010.941
Loans to banks	2.144.254			2.144.254			2.144.254
Loans to individuals	1.263.159		259.302	1.522.461	(253.832)	(6.600)	1.262.029
Corporate loans	7.697.129		3.389.170	11.086.299	(2.742.377)	(52.000)	8.291.922
Other assets	1.733.099			1.733.099			1.733.099
Total	31.829.594	0	3.648.472	35.478.066	(2.996.209)	(58.600)	32.423.257
31 December 2008							
Cash and cash equivalents	15.458.806		655.228	16.114.034	(589.702)		15.524.332
Loans to Central Bank	5.011.885			5.011.885			5.011.885
Loans to banks	1.873.523			1.873.523			1.873.523
Loans to individuals	1.520.728	482.866	11.999	2.015.593	(11.999)		2.003.594
Corporate loans	6.518.431	14.565	1.383.720	7.916.716	(1.383.720)	(100.000)	6.432.996
Other assets	1.460.359	65.317	149.175	1.674.851	(149.175)		1.525.676
Total	31.843.732	562.748	2.200.122	34.606.602	(2.134.596)	(100.000)	32.372.006

Past due but not impaired financial assets are those assets where contractual payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security, or future cash flows of the borrower. Past due loans are reported as the total loan and not only the payments that are past due.

Notes

- g. No financial assets were past due but not impaired at 31 December 2009. The comparative figures for 2008 were as follows:

31 December 2008	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Over 90 days	Total	Fair value of collateral
Loans to individuals		128.829		354.036	482.865	166.228
Corporate loans	14.565				14.565	7.844
Derivatives			65.317		65.317	
Total	14.565	128.829	65.317	354.036	562.747	174.072

- h. Breakdown of the loan portfolio by industry sectors:

	Individuals	Holding companies	Services	Loans to banks	Others	Total
31 December 2009	1.268.629	4.577.704	2.384.712	2.144.254	1.322.906	11.698.205
31 December 2008	2.003.742	4.532.963	718.209	1.873.523	1.181.676	10.310.113

- i. Breakdown of loans by seniority

The Bank's loan portfolio mainly consists of senior I loans which are secured with collateral which can be marked to market, and have asset coverage exceeding 100% and senior II loans which have first priority claims on all of the borrower's assets, and in some cases additional collateral such as unlisted shares and other collateral which cannot be marked to market. The loan portfolio contains less than 25% of junior loans which have second line claims on the borrower's assets and no mezzanine loans where the loan is unsecured and subordinated to all of the borrower's liabilities.

- j. The Bank obtained assets by taking possession of collateral held as security, as follows:

	2009	2008
Investments	294.376	1.576
Bonds	34.015	
	328.391	1.576

The Bank's policy regarding assets it obtains by taking possession of collateral held as security, is to sell those assets as soon as possible.

Notes

40. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting contractual payment obligations associated with its financial liabilities, or will only be able to do so substantially above the prevailing market cost of funds. The risk mainly arises from mismatches in the timing of cash flows. The Bank has internal rules that require certain matching of the maturities of assets and liabilities. Furthermore, to ensure the sufficiency of funds, the Bank has lines of credit, overdraft facilities and highly liquid securities such as treasury bills and treasury bonds.

Liquidity is managed by treasury and monitored by risk management. Liquidity position is reported to the finance committee. The Bank is subject to the Central Bank's requirements about minimum coverage ratio between cash flows of assets and liabilities. At the end of the year 2009, the Bank was in compliance with external liquidity requirements.

The following table shows the Bank's contractual maturity profile at 31 December 2009 and 31 December 2008, including both on and off balance sheet items. The analysis is based on the period remaining until the contractual maturity according to the requirements under IFRS 7. The table excludes future interests and therefore does not fully reflect the actual future cash flows. Furthermore, since based on contractual maturity, the table does not reflect the liquid nature of marketable fixed income securities eligible for repo-transaction. Such instruments, amounting to ISK 22.5 billion at 31 December 2009, can be converted to cash within 2 days.

2009

Assets:	0-1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Cash and cash equivalents	15.981.012						15.981.012
Loans to Central Bank	3.010.941						3.010.941
Derivatives	297.001						297.001
Fixed income securities	715.078	1.203.812	3.115.434	6.412.677	1.452.700	1.236.401	14.136.102
Equities and other variable income securities						1.596.982	1.596.982
Securities used for hedging		163.454	0	900.314	9.945.840	1.679.716	12.689.324
Loans to customers	2.790.643	2.262.147	3.072.128	3.290.930	271.079	11.278	11.698.205
Total	22.794.675	3.629.413	6.187.562	10.603.921	11.669.619	4.524.377	59.409.567
Liabilities:							
Short positions	101.740	5.987.275		1.366.853	304.469		7.760.337
Securities used for hedging		316.071	637.147	417.942		41.337	1.412.497
Derivatives	121.297						121.297
Deposits from customers	35.974.442	626.584	1.112.980	4.364.876	19.724		42.098.606
Borrowings	653.607	1.676.675	691.249	583.854		82.337	3.687.722
Subordinated liabilities			14.480				14.480
Current tax liabilities			16.635				16.635
Unused overdrafts	280.810						280.810
Total	37.131.896	8.606.605	2.472.491	6.733.525	324.193	123.674	55.392.384
Assets - Liabilities	(14.337.221)	(4.977.192)	3.715.071	3.870.396	11.345.426	4.400.703	4.017.183

Notes

2008

Assets:	0-1 months	1 to 3 months	3-12 months	1-5 years	Over 5 years	No stated maturity	Total
Cash and cash equivalents	15.524.332						15.524.332
Loan to Central Bank		5.011.885					5.011.885
Derivatives	1.419.923						1.419.923
Fixed income securities	1.190.632	964.877	577.767	2.831.458	4.061.315		9.626.049
Equities and other variable income securities						640.825	640.825
Securities used for hedging	1.707.823		40.335	886.051	4.703.050		7.337.259
Loans to customers	2.831.700	1.304.667	3.418.570	1.695.289	1.059.887		10.310.113
Total	22.674.410	7.281.429	4.036.672	5.412.798	9.824.252	640.825	49.870.386
Liabilities:							
Short positions	1.024.989		5.990.610	6.517.551	2.291.929		15.825.079
Short positions in securities used for hedging	2.478		1.876.179	2.727.168	607.124		5.212.949
Derivatives	20.145	9.982					30.127
Deposits	7.330.213	755.248	490.231				8.575.692
Borrowings	9.419.609	1.718.135	734.255	1.752.595			13.624.594
Subordinated liabilities				29.411			29.411
Current tax liabilities			11.435				11.435
Total	17.797.434	2.483.365	9.102.710	11.026.725	2.899.053	0	43.309.287
Assets - Liabilities	4.876.976	4.798.064	(5.066.038)	(5.613.927)	6.925.199	640.825	6.561.099

41. Currency risk

Currency risk arises when financial instruments are not denominated in the reporting currency and can both affect the Bank's income and statement of financial position. A large part of the Bank's financial assets and liabilities is denominated in foreign currencies. Any mismatch between assets and liabilities in each currency is monitored closely and managed within limits. Currency positions are monitored by risk management and reported to the finance committee. The Bank is subject to limits set by the Central Bank of Iceland regarding the maximum open currency position. At 31 December 2009 the Bank's position in foreign currencies exceeded those limits, mainly as a result of the bankruptcy of the Bank's counterparties in forward foreign exchange contracts. Due to current restrictions on currency transactions with the ISK such counterparties are no longer available. The currency restrictions have resulted in large discrepancies between the rate for ISK inside Iceland and rates offered for the ISK in other jurisdictions. The Bank is working in collaboration with the Central Bank on a program to gradually decrease the currency position.

The following currency exchange rates have been used by the Bank in the preparation of the financial statements:

	At 31 December 2009	At 31 December 2008	Average for the year 2009	Average for the year 2008
EUR/ISK	179,9	170,0	172,7	127,5
GBP/ISK	201,6	175,4	193,9	159,3
USD/ISK	124,9	120,9	123,6	88,1
LTL/ISK	52,1	49,2	50,0	36,9
UAH/ISK	15,6	15,7	15,9	16,7

Notes

The table below summarises the Bank's exposure to currency risk at 31 December 2009 and the comparable figures for 31 December 2008.

a. Breakdown of assets and liabilities by currency:

2009

Assets:	EUR	LTL	USD	UAH	Other	Total
Cash and cash equivalents	3.116.177	14.508	2.037.931	70.253	1.135.191	6.374.060
Derivatives	7.324	1.823	10.052		1.081	20.278
Fixed income securities	539.614		125.619	297.816	324.928	1.287.977
Equity investments and other variable income securities	940.596	45.950	426.536		39.497	1.452.579
Securities used for hedging	567.866	253.746	326.988	779	463.900	1.613.280
Loans to customers	1.034.712	126.604	817.897	1.186.730	482.772	3.648.715
Investment in associates		146.664				146.664
Total	6.206.289	589.295	3.745.023	1.555.578	2.447.368	14.543.554
Liabilities:						
Short positions	101.740					101.740
Short positions in securities used for hedging			41.337			41.337
Derivatives	10.094	682	68.011		3.412	82.199
Deposits from customers	2.764.382		766.832		282.174	3.813.388
Borrowings	49		352.426			352.475
Total	2.876.265	682	1.228.606	0	285.586	4.391.139
Net balance sheet position	3.330.023	588.613	2.516.417	1.555.578	2.161.783	10.152.414
Net off balance sheet position	0	0	0	0	0	0
Net position	3.330.023	588.613	2.516.417	1.555.578	2.161.783	10.152.414

Notes

2008

Assets:	EUR	LTL	USD	UAH	Other	Total
Cash and cash equivalents	1.045.239	18.275	579.996	25.818	356.611	2.025.939
Derivatives	805.876	125.399	134.714		49.737	1.115.726
Fixed income securities	5.086			944.912	385.877	1.335.875
Equities & other variable income securities	169.123	27.744	194.677	1.349	34.121	427.014
Securities used for hedging	215.548	165.274	42.250	456	265.585	689.113
Loans to customers	1.834.324	398.345	850.988	1.329.436	739.581	5.152.674
Investment in associates		164.833				164.833
Total	4.075.196	899.870	1.802.625	2.301.971	1.831.512	10.911.174
Liabilities:	EUR	LTL	USD	CHF	Other	Total
Short positions	184.625	92.710	134.472		138.010	549.817
Short positions for hedging	2.478					2.478
Derivatives	30.127					30.127
Deposits from customers	1.217.352		46.655		50.175	1.314.182
Borrowings	3.457.895					3.457.895
Total	4.892.477	92.710	181.127	0	188.185	5.354.499
Net balance sheet position	(817.281)	807.160	1.621.498	2.301.971	1.643.327	5.556.675
Net off balance sheet position	(14.475)	(39.873)	54.225	0	(187.813)	(187.936)
Net position	(831.756)	767.287	1.675.723	2.301.971	1.455.514	5.368.739

b. Sensitivity analysis

10% change in the value of the ISK would cause the following changes at 31 December 2009:

	Effect on income statement	Effect on Equity
10% strengthening of the ISK	(840.883)	(832.498)
10% weakening of the ISK	840.883	832.498

42. Interest rate risk

The Bank's exposure to interest rate risk is twofold. On one hand, the Bank has a proprietary portfolio of bonds, where market rates affect prices and any fluctuations are recognised in the income statement. On the other hand, the Bank has mismatch in assets and liabilities with fixed interest terms in the banking book. The banking book generally pertains to the Bank's loans and swap contracts for securities on the asset side and borrowings and deposits on the liability side. This mismatch does not create immediate effect on the income statement but nevertheless affects the Bank's economic value.

The Bank takes measures to minimise interest rate risk in the banking book by matching the interest rate profile and duration of assets with the Bank's liabilities. This is obtained in part by matching the currency and duration of the funding of the Bank with its assets, as well as using derivative and non-derivative financial instruments to manage effectively the risk of an adverse impact on the Bank's earnings. Proprietary positions which are subject to interest rate risk fall under the scope of the Bank's market risk management.

Notes

The table below breaks down assets and liabilities in the banking book according to their interest repricing time for variable interest securities or by maturity date for fixed interest securities, in each currency:

31 December 2009

Assets:	ISK	EUR	LTL	USD	CHF	Other	Total
0-1 year	18.838.471	1.438.290	364.117	911.804		333.832	21.886.514
1-2 years	1.646.180				7.093	239.590	1.892.863
2-3 years	119.455			399.722	207.998		727.175
3-4 years	1.606						1.606
over 4 years	159.947			787	971.639		1.132.373
Total	20.765.659	1.438.290	364.117	1.312.313	1.186.730	573.422	25.640.531
Liabilities:							
0-1 year	43.587.931	2.764.431	834	1.159.533	873	281.301	47.794.903
1-2 years	583.854						583.854
Total	44.171.785	2.764.431	834	1.159.533	873	281.301	48.378.757
Net interest rate gap	(23.406.126)	(1.326.141)	363.283	152.780	1.185.857	292.121	(22.738.226)

31 December 2008

Assets:	ISK	EUR	LTL	USD	CHF	Other	Total
0-1 year	5.453.054	4.223.382	568.573	165.164	204.139	495.746	11.110.058
1-2 years	313.127					206.367	519.494
2-3 years	2.944			59.476	109.695	48.238	220.353
3-4 years				506.253	174.283	192.506	873.042
over 4 years				214.711		927.574	1.142.285
Total	5.769.125	4.223.382	568.573	945.604	488.117	1.870.431	13.865.232
Liabilities:							
0-1 year	15.675.614	4.682.243		46.655		50.175	20.454.687
1-2 years	1.752.595						1.752.595
Total	17.428.209	4.682.243	0	46.655	0	50.175	22.207.282
Net interest rate gap	(11.659.084)	(458.861)	568.573	898.949	488.117	1.820.256	(8.342.050)

Notes

43. Market risk

Market risk constitutes risk due to changes in market prices of instruments and interest rates. The Bank has a strict policy on controlling the market risk and to keep the exposure within the limit framework. The risk management unit follows the market risk limits daily and reports regularly to the finance committee and to the CEO.

a. Market price risk

Market price risk arises from changes in the market values of equities in the Bank's portfolio, the size of which varies greatly. The Bank invests primarily in equities listed on regulated securities markets, but has also invested in unlisted equities and bonds. The Bank's risk is the general risk involved in investing in equities. Efforts are made to reduce this risk through active risk management. The risk management monitors the market price risk and reports regularly to the finance committee and to the CEO.

b. Interest rate risk associated with proprietary positions is summarised below. The table shows proprietary positions broken down by remaining maturity, or time until interest rate reset, if shorter.

31 December 2009

Assets:	< 1 year	1-3 years	3-5 years	5-7 years	> 7 years	Total
ISK bonds	4.865.748	117.000	6.412.677	18.728	1.433.973	12.848.125
Bonds in foreign currencies	1.287.977					1.287.977
Total	6.153.725	117.000	6.412.677	18.728	1.433.973	14.136.102

Liabilities:

ISK bonds	(5.987.275)	(1.366.853)			(304.468)	(7.658.597)
Total	(5.987.275)	(1.366.853)	0	0	(304.468)	(7.658.597)

31 December 2008

Assets:	< 1 year	1-3 years	3-5 years	5-7 years	> 7 years	Total
ISK bonds	2.339.080	1.889.779		3.548.383	512.933	8.290.175
Bonds in foreign currencies	394.196	299.737	641.941			1.335.874
Total	2.733.276	2.189.516	641.941	3.548.383	512.933	9.626.049

Liabilities:

ISK bonds	5.990.610	3.835.749	2.681.802	2.230.057	61.870	14.800.088
Total	5.990.610	3.835.749	2.681.802	2.230.057	61.870	14.800.088

Notes

44. Exposure towards inflation

The Bank is exposed to Icelandic inflation since Consumer Price Index (CPI) indexed assets exceed CPI indexed liabilities. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in CPI are therefore recognised in the income statement as interest. The balance of CPI linked assets and liabilities is specified as follows:

	31.12.2009	31.12.2008
Icelandic government bonds	6.265.096	5.166.311
Debt securities	158.742	1.344.431
Loans to customers	145.402	0
Cash equivalents	0	902.095
Liabilities	(4.481.217)	(2.963.279)
Net inflationary position	2.088.023	4.449.558

45. Operational risk

The risk involved in the Bank's operations is primarily linked to the risks inherent in each type of security in which the Bank invests, although there are a considerable number of other factors which can also affect its operations and performance, such as employee negligence, violations of rules, problems with information systems and loss of key personnel. The Bank's reputation may be damaged, either for the above reasons or as a result of other factors which are difficult to control. MP Bank hf. could suffer losses as the result of an incorrect analysis of investment options, whilst a failure of the Bank's information systems could result in losses which the company would have to cover and thereby affect its performance. A situation could arise where key personnel decide to resign and take up a position with a competitor, potentially resulting in the loss of both important expertise and clients. Decisions by the Bank's personnel in connection with specific investments are extremely important for the Bank's performance.

Operational risk can be reduced through staff training, process re-design and enhancement of the control environment. The risk management and credit control unit monitors the operational risk by tracking loss events, quality deficiencies, potential risk indicators and other early-warning signals. The unit takes an active role in internal control and quality management.

46. Hedging

A part of the Bank's portfolio consists of securities held as a hedge against derivatives positions of customers. The Bank hedges currency exposure between the Bank's loan portfolio and debts to the extent possible, but possibilities to fully hedge this exposure have been limited since late 2008 due to currency restrictions. The Bank does not use hedge accounting.

Notes

47. Financial assets and liabilities - Accounting classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities. Due to uncertainty about the value of inputs into valuation models for loans, receivables, borrowings, deposits and other liabilities, fair value of those items are not presented in the table.

2009	Trading	Designated at fair value	Loans and receivables	Other at amortised cost	Total carrying amount	Fair value
Assets:						
Cash and cash equivalents				15.981.012	15.981.012	15.981.012
Loans to Central Bank			3.010.941		3.010.941	3.010.941
Derivatives	297.001				297.001	297.001
Fixed income securities	14.028.960	107.142			14.136.102	14.136.102
Equities & other variable income securities	1.596.982				1.596.982	1.596.982
Securities used for hedging	12.689.324				12.689.324	12.689.324
Loans to customers			11.698.205		11.698.205	
Other financial assets			1.733.099		1.733.099	
Total	28.612.267	107.142	16.442.245	15.981.012	61.142.666	
Liabilities:						
Short positions in listed securities	7.760.337				7.760.337	7.760.337
Short positions used for hedging	1.412.497				1.412.497	1.412.497
Derivatives	121.297				121.297	121.297
Deposits from customers				42.098.606	42.098.606	
Borrowings				3.687.722	3.687.722	
Subordinated liabilities				14.480	14.480	
Current tax liabilities				16.635	16.635	
Other liabilities				2.415.980	2.415.980	
Total	9.294.131	0	0	48.233.423	57.527.554	
2008						
	Trading	Designated at fair value	Loans and receivables	Other at amortized cost	Total carrying amount	Fair value
Assets:						
Cash and cash equivalents				15.524.332	15.524.332	15.524.332
Loans to Central Bank				5.011.885	5.011.885	5.011.885
Derivatives	1.419.923				1.419.923	1.419.923
Fixed income securities	8.293.594	1.332.455			9.626.049	9.626.049
Equities & other variable income securities	640.825				640.825	640.825
Securities used for hedging	7.337.259				7.337.259	7.337.259
Loans to customers			10.310.113		10.310.113	
Other financial assets			1.525.676		1.525.676	
Total	17.691.601	1.332.455	11.835.789	20.536.217	51.396.062	
Liabilities:						
Short positions in listed securities	15.825.079				15.825.079	15.825.079
Securities used for hedging	5.212.949				5.212.949	5.212.949
Derivatives	30.127				30.127	30.127
Deposits from customers				8.575.692	8.575.692	
Borrowings				13.624.594	13.624.594	
Subordinated liabilities				29.411	29.411	
Current tax liabilities				11.435	11.435	
Deferred tax liabilities				17.895	17.895	
Other liabilities				3.426.625	3.426.625	
Total	21.068.155	0	0	25.685.652	46.753.807	

Notes

48. Financial instruments measured at fair value

Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Assets and liabilities measured at fair value

31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Fixed income securities	12.725.740	66.818		12.792.558
Variable income securities	605.881	52.530	938.571	1.596.982
Derivatives		297.001		297.001
Securities used for hedging	12.254.651		434.673	12.689.324
Financial assets designated at fair value				
Fixed income securities		107.142	1.236.401	1.343.543
Total assets	25.586.272	523.491	2.609.645	28.719.408
Financial liabilities held for trading				
Short positions in listed securities	7.760.337			7.760.337
Short positions in securities used for hedging	1.412.497			1.412.497
Derivatives		121.297		121.297
Total liabilities	9.172.834	121.297	0	9.294.131

Notes

49. Segment analysis

In the year 2009, segment reporting by the Bank was prepared for the first time in accordance with IFRS 8 'Operating segments'. During the year the Bank was organised into the business segments described below. Prior to that the Bank was perceived by management as a single business segment. Comparative figures for the year 2008 are therefore not presented in the segment results.

The Bank is divided into two main business segments:

Retail banking incorporates current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages. Retail banking offers services to both individuals and corporate customers.

Investment banking incorporates capital markets, corporate finance, corporate lending as well as asset management.

Other group operations comprise corporate treasury, IT, accounting, back office, head office and other support functions, none of which constitutes a separately reportable segment.

Transactions between business segments are carried out at arm's length. The revenue from external parties reported to the Bank's executive board is measured in a manner consistent with that in the consolidated income statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Bank's cost of capital. There are no other material items of income or expense between the business segments.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenue to a business segment on a reasonable basis.

The Bank's management reporting is based on measure of pre-tax profit comprising interest income and interest expense, fee income and fee expense, other income, operating expenses and loan impairment charges.

The information provided about each segment is based on the internal reports which are regularly reviewed by the Bank's executive board.

Segment assets and liabilities comprise operating assets and liabilities being the majority of the consolidated statement of financial position, but exclude items such as taxation.

50. Segment results of operations

The segment information provided to the Bank's executive board for the reportable segments for the year ended 31 December 2009 is as follows:

	Retail banking	Investment banking	All other segments	Total
2009				
Interest income from external customers	18.855	2.160.318	1.805.182	3.984.355
Inter-segment interest income	2.639.818	0	1.959.038	4.598.856
Interest expense to external parties	(2.411.734)	0	(1.126.248)	(3.537.982)
Inter-segment interest expense	(10.363)	(1.948.675)	(2.639.818)	(4.598.856)
Fee and commission income	26.978	898.323	73.735	999.036
Fee and commission expense	(13.010)	(32.758)	0	(45.768)
Net financial income, share in loss of associates and other income	0	(53.972)	336.570	282.598
Administrative expenses	(169.673)	(492.535)	(990.469)	(1.652.677)
Impairment losses on financial assets	0	(1.356.155)	0	(1.356.155)
Pre-tax profit (loss)	80.871	(825.454)	(582.010)	(1.326.593)
Total assets	45.616.845	11.335.334	50.665.574	
Total liabilities	42.098.606	10.247.124	46.757.948	

Notes

51. Reconciliation of segment results to consolidated results of operations

	Total management reporting	Consolidation and adjustments	Total consolidated
2009			
Interest income from external customers	3.984.355		3.984.355
Inter-segment interest income	4.598.856	(4.598.856)	0
Interest expense to external parties	(3.537.982)		(3.537.982)
Inter-segment interest expense	(4.598.856)	4.598.856	0
Fee and commission income	999.036		999.036
Fee and commission expense	(45.768)		(45.768)
Other income	282.598		282.598
Operating expenses	(1.652.677)		(1.652.677)
Loan impairment charges	(1.356.155)		(1.356.155)
Pre-tax loss	(1.326.593)	0	(1.326.593)
Total assets	107.617.753	(45.050.697)	62.567.056
Total liabilities	99.103.678	(41.576.124)	57.527.554

52. Geographical information

	Net operating income	Total assets
2009		
Iceland	1.568.826	60.706.746
Lithuania	102.873	951.493
Other areas and eliminations	10.540	908.817
Total	1.682.239	62.567.056

53. Net interest income

a. Interest income is specified as follows:

	2009	2008
Cash and cash equivalents	1.257.798	2.980.963
Derivatives	1.077.431	845.463
Loans to customers	1.631.282	2.145.179
Other interest income	17.844	29.167
Total interest income	3.984.355	6.000.772

Interest expense is specified as follows:

	2009	2008
Deposits	2.437.857	220.099
Borrowings	1.074.742	4.950.462
Subordinated liabilities	4.191	7.028
Other interest expense	21.192	24.965
Total interest expense	3.537.982	5.202.554
Net interest income	446.373	798.218

Notes

54. Fee and commission income

Fee and commission income is specified as follows:

	2009	2008
Securities brokerage	289.433	237.675
Swap contracts on securities	315.495	290.128
Retail banking	26.978	0
Asset management	174.452	139.902
Loans	15.498	177.331
Advisory	90.961	118.901
Other	86.219	109.720
Total	999.036	1.073.657

55. Net financial income

Net financial income is specified as follows:

	2009	2008
(Loss) gains on equities and other variable income securities	(377.727)	1.081.126
(Loss) gains on fixed income securities	(7.077)	758.879
Dividend income	(23.108)	31.616
Foreign currency exchange difference	747.541	336.165
Net financial income	339.629	2.207.786

56. Breakdown of loss/gains on fixed income securities

Loss/gains on fixed income securities are specified as follows:

	2009	2008
Loss on fixed income securities due to changes in credit risk	(324.516)	(868.884)
Other gains on fixed income securities	317.439	1.627.763
	(7.077)	758.879

57. Breakdown of foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	2009
Gain on financial instruments at fair value through profit and loss	208.886
Gain on other financial instruments	538.655
	747.541

58. Administrative expenses

Administrative expenses are specified as follows:

	2009	2008
Salaries and related expenses	731.095	552.760
Other operating expenses	844.445	446.640
Depreciation and amortisation	77.137	33.077
Total administrative expenses	1.652.677	1.032.477

Notes

59. Salaries and related expenses

Salaries and related expenses are specified as follows:

	2009	2008
Salaries	607.825	457.120
Pension fund contribution	71.629	44.542
Other salary-related expenses	51.641	31.639
Share-based payments	0	19.459
Total salary and salary related expenses	731.095	552.760
Average number of employees during the year	75	48
The Bank's total number of employees at year end	88	54

60. Employment terms for the board of directors and the CEO

Salaries paid to the board of directors and the CEO for their work for companies within the Bank and ownership in the Bank are specified as follows:

	Salaries		Ownership at year end	
	2009	2008	2009	2008
Gunnar Karl Guðmundsson, CEO	17.500	0	0	0
Styrmir Þ. Bragason, former CEO	13.310	14.400	0	10.000
Margeir Pétursson, chairman of the board	6.800	4.800	312.087	312.087
Sigfús Ingimundarson, deputy chairman	2.400	1.200	8.233	8.233
Kristinn Zimsen	150	0	20.000	0
Hallgrímur G. Jónsson	1.200	120	289	289
Sigurður Gísli Pálmason	1.200	600	140.073	140.073
Ásgeir Þór Arnason, alternative board member	150	0	0	0
Jón Pálmason, alternative board member	300	120	139.623	139.623
Sigurður R. Helgason, alternative board member	300	120	200	200
Former board members	900	1.440	4.200	12.533
	44.210	22.800	624.705	623.038

Neither the board of directors nor the CEO held any put or call options on the Bank's shares at the end of 2009 or 2008.

61. Auditors' fees

Remuneration to the Bank's auditors is specified as follows:

	2009	2008
Audit of annual accounts	31.605	10.830
Review of interim accounts	3.939	4.912
Other services	5.398	19.120
Total auditors's fees	40.942	34.862

Of the abovementioned figures, fees to auditors of the parent company amounted to ISK 25.6 million in 2009 and ISK 28.5 million in 2008

Notes

62. Income tax

Tax income (expense) recognised in the income statement is specified as follows:

	2009	2008
Current tax (expense)	(16.635)	(9.007)
Deferred tax income (expense)	162.742	177.819
Total income tax	146.107	168.812

Reconciliation of effective tax rate:

	2009		2008	
Profit before tax		(1.326.593)		691.342
Income tax using the domestic corporation tax rate	15,0%	198.989	15,0%	(103.701)
Effect of tax rates in foreign jurisdictions	(0,5%)	(6.029)	0,5%	(3.571)
Tax exempt revenue	0,0%	0	(20,8%)	134.468
Non-deductible expenses	(5,4%)	(70.974)	2,1%	0
Reduction of temporary difference due to change in tax law	0,0%	0	(15,8%)	109.305
Effects of change in statutory tax rate	1,8%	24.121	(4,7%)	32.311
Effective tax	11,0%	146.107	(24,4%)	168.812

63. Earnings per share

Earnings per share are calculated as follows:

	2009	2008
Net (loss) profit	(1.180.486)	860.155
Total average number of outstanding shares during the year	1.051.928	1.058.210
Basic and diluted (loss) earnings per share	(1,12)	0,81

64. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	31.12.2009	31.12.2008
Cash	51.693	128
Balances with banks	12.928.590	10.019.545
Central Bank depository certificates	3.000.729	5.504.659
Total cash and cash equivalents	15.981.012	15.524.332

65. Loans to Central Bank

Loans to Central Bank are specified as follows:

	31.12.2009	31.12.2008
Time deposits with Central Bank	3.010.941	5.011.885

66. Fixed income securities

Fixed income securities are specified as follows:

	31.12.2009	31.12.2008
Listed bonds on Iceland Stock Exchange	107.142	1.323.586
Listed foreign bonds	1.287.977	1.332.455
Unlisted Icelandic bonds	1.236.401	0
Treasury bills	2.348.091	1.764.300
Government bonds	9.156.491	5.205.708
Total fixed income securities	14.136.102	9.626.049

Notes

67. Equity investments and other variable income securities

Equity investments and other variable income securities are specified as follows:

	31.12.2009	31.12.2008
Listed shares on Iceland Stock Exchange	50.327	15.627
Listed foreign shares	518.393	357.568
Listed domestic unit shares	42.384	76.491
Listed foreign unit shares	94.381	59.778
Unlisted domestic shares	51.692	121.193
Unlisted foreign shares	839.805	10.168
Total equities and other variable income securities	1.596.982	640.825

68. Securities used for hedging

Securities used for hedging are specified as follows:

	31.12.2009	31.12.2008
Listed bonds on Iceland Stock Exchange	0	44.817
Government bonds	10.846.155	5.584.619
Treasury bills	163.454	0
Listed shares on Iceland Stock Exchange	66.435	8.669
Listed foreign shares	1.082.435	615.292
Listed domestic unit shares	0	787
Listed foreign unit shares	96.172	73.820
Unlisted domestic shares	0	1.009.255
Unlisted foreign shares	434.673	0
Total securities used for hedging	12.689.324	7.337.259

69. Allowance for impairment

a. Change in specific allowance is specified as follows:

	2009	2008
Balance at 1 January	2.134.596	8.684
Charge to the income statement	1.397.555	2.181.727
Final write-offs	(536.192)	(55.815)
Translation difference	250	0
Balance at 31 December	2.996.209	2.134.596

Change in collective allowance is specified as follows:

	2009	2008
Balance at 1 January	100.000	34.072
Recognised in the income statement	(41.400)	65.928
Balance at 31 December	58.600	100.000

Total charge for the year

	1.356.155	2.247.655
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b. The impairment allowance is subtracted from the following balance sheet items:

	31.12.2009	31.12.2008
Cash and cash equivalents	0	589.705
Loans to customers	3.054.809	1.495.716
Other assets	0	149.175
Total allowance at year-end	3.054.809	2.234.596

Notes

70. Investments in associates

a. Changes in investments in associates are specified as follows:

	2009	2008
Investment in associates at the beginning of the year	1.328.124	1.205.627
Reclassification	168.000	0
(Sales) purchases of shares in associates	(732.686)	174.455
Share of results	(79.276)	(77.499)
Dividends	(294.000)	(98.000)
Foreign exchange translation difference	(53.623)	123.542
Investments in associates at year-end	336.539	1.328.125

b. Information about associated companies at year-end 2009:

	Ownership	Assets 31.12.2009	Liabilities 31.12.2009	Net loss 2009
Austurbraut hf.	20%	1.969.282	1.123.794	(141.262)
GAM Management hf.	37%	16.638	6.520	(23.855)
MP Pension Funds Baltics	50%	240.376	178.120	(118.166)

71. Intangible assets

	Software
Book value at 1 January 2009	0
Reclassification	43.102
Acquisitions	300.952
Amortisation	(23.264)
Foreign exchange translation difference	590
Book value at 31 December 2009	321.380

72. Property and equipment

	Real estate	Office equipment & fixtures	Total
Book value at 1 January 2008	348.093	67.844	415.937
Acquisitions	31.761	76.450	108.211
Depreciation	(15.746)	(17.331)	(33.077)
Effects of foreign currency translation	160.382	2.173	162.555
Book value at 31 December 2008	524.490	129.136	653.626
Book value at 1 January 2009	524.490	129.136	653.626
Reclassification	11.441	(54.543)	(43.102)
Acquisitions	0	10.076	10.076
Depreciation	(29.558)	(24.315)	(53.873)
Effects of foreign currency translation	14.759	1.284	16.043
Book value at 31 December 2009	521.132	61.638	582.770

Specification of real estate:	Official value	Insurance value	Book value
Office building in Skipholt 50d, Reykjavik, Iceland	99.690	134.600	164.277
Office buildings in Vilnius, Lithuania	N/A	N/A	356.855

Notes

73. Other assets

Other assets are specified as follows:

	31.12.2009	31.12.2008
Unsettled securities transactions	789.386	956.507
Unsettled derivatives transactions	233.943	278.035
Unpaid share capital	500.000	0
Accounts receivable and prepayments	209.770	291.134
Total other assets	1.733.099	1.525.676

74. Short positions in listed securities

Short positions in listed securities are specified as follows:

	31.12.2009	31.12.2008
Government bonds	7.658.597	14.800.088
Listed foreign shares	66.726	433.906
Listed foreign unit shares	35.014	115.908
Unlisted domestic shares	0	475.088
Other	0	89
Total short positions in listed securities	7.760.337	15.825.079

75. Short positions in securities used for hedging

Securities used for hedging are specified as follows:

	31.12.2009	31.12.2008
Listed bonds on Iceland Stock exchange	1.371.160	5.210.471
Listed foreign shares	41.337	2.460
Other	0	18
Total short positions securities used for hedging	1.412.497	5.212.949

76. Deposits

Deposits are specified as follows:

	31.12.2009	31.12.2008
Deposits payable on demand	35.974.442	7.330.212
Time deposits	6.124.164	1.245.480
Total deposits	42.098.606	8.575.692

77. Borrowings

The Bank's borrowings are specified as follows:

	31.12.2009	31.12.2008
Issued bonds, listed	1.676.675	4.227.825
Issued bills, listed	0	1.366.968
Loans from credit institutions	1.709.916	7.497.258
Other debt securities	301.131	532.543
Total borrowings	3.687.722	13.624.594

Notes

78. Subordinated liabilities

	Currency	Maturity date	Book value	
			31.12.2009	31.12.2008
Loans that qualify as Tier II capital:				
Subordinated loan - Interest 6 months REIBOR	ISK	2010	14.480	29.411

79. Deferred tax assets/liabilities

Changes in deferred tax during the year are as follows:

	2009	2008
Balance at the beginning of the year (liability)	(17.895)	(193.863)
Calculated income tax for the year	146.107	168.812
Acquisition	40.369	0
Income tax payable on current year's profit	16.635	11.435
Other changes	(1.515)	(4.279)
Net tax asset (liability)	183.701	(17.895)

The Bank's deferred tax assets (liabilities) are attributable to the following balance sheet items:

	2009	2008
Property and equipment	(19.552)	(10.818)
Assets and liabilities denominated in foreign currencies	(52.546)	(7.077)
Tax losses	255.799	0
Deferred tax (assets) liabilities at year-end	183.701	(17.895)

80. Other liabilities

Other liabilities are specified as follows:

	31.12.2009	31.12.2008
Unsettled securities transactions	332.094	655.565
Unsettled derivatives transactions	1.601.436	1.686.160
Accounts payable	39.638	52.616
Withholding taxes	296.638	701.614
Various liabilities	146.174	330.670
Total other liabilities	2.415.980	3.426.625

81. Share based payments

No stock options were outstanding at 31 December 2009.

The change in outstanding stock options during the year are specified as follows:

	Weighted	Number	Weighted	Number
	average	of options	average	of options
	exercise price	2009	exercise price	2008
Outstanding at 1 January	3,5	19.133	3,5	19.647
Cancelled during the year	3,5	(19.133)	3,2	(514)
Outstanding at 31 December		0	3,5	19.133

Notes

82. Equity

According to the Parent Company's Articles of Association, total share capital amounts to ISK 1,200 million (2008: 1,100 million). The nominal amount of treasury shares at end of year 2009 and 2008 amounted to ISK 29,262 thousand and ISK 54,661 thousand respectively. 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 Bank.

At the end of the year share capital was increased by 100 million. Subscribers have committed themselves to pay a price in the range between ISK 5 and 7 per share, depending on the results of a subsequent valuation of the bank. The share increase has been recognised in the statement of financial position at the minimal price of ISK 5 per share, but excess payments, if any, will be recognised in the year 2010.

83. Related parties

Identity of related parties

The Group has a related party relationship with its associates as disclosed in note 4, with its board of directors and with the CEO and key employees (together referred to as management).

Balances and transactions with related parties are listed in the table below.

At year end:

	31.12.2009	31.12.2008
Loans to management	12.282	259.738
Loans to members of the board of directors and large shareholders	2.158.688	2.141.797
Loans to associated companies	1.113.794	1.000.540

Off-balance sheet:

Notional vale of swap contracts with related parties, long positions	2.337.148	3.825.678
Notional vale of swap contracts with related parties, short positions	1.252.000	2.718.328

During the year:

	2009	2008
Interest income from loans to management	(2.933)	11.326
Interest income from loans to members of the board of directores	232.347	227.511
Interest income from loans to associated companies	60.300	22.014
Interest income from swap contracts with related parties	181.772	315.164
Fees from related parties	41.503	127.043

Notes

84. Group entities

The Bank holds 14 subsidiaries, all of which are included in the consolidated financial statements. The direct subsidiaries included in the consolidated financial statements are specified as follows:

	Domicile	Share 31.12.2009
Amber Viking Capital	Ukraine	100%
Fleða ehf.	Iceland	100%
Horn Florida Ltd.	UK	100%
MP East European Credit Investments Ltd.	UK	100%
MP Sjóðir hf.	Iceland	100%
Max Credit Ltd.	UK	100%
Orange International Investments Ltd.	UK	100%
Palteskja hf.	Iceland	100%
Reykjavik Savings Investments Ltd.	UK	100%
Saga Credit Investments Ltd.	UK	100%
Spákonufell hf.	Iceland	100%
UAB Heildun	Lithuania	100%
Varp Invest Ltd.	UK	100%
Visoky Zamok Ltd.	UK	100%

The purpose of the UK-based entities is to invest in securities in Eastern and Central Europe. The companies are financed by third parties and by the Bank with the purpose of investing in specific securities that are specified in contracts with the third party investors. The subsidiaries do not bear the risk associated with the investments as all risk is born by the third party. The investments are therefore shown on a net basis in the consolidated financial statements, reflecting the Bank's limited exposure to the investments.

85. Off-balance sheet obligations

Rental obligations

The Bank has entered into long-term rental agreements for office premises in Ármúli 13a and Borgartún 26 in Reykjavík. The cost and time length of the agreements are listed below:

	Expiration date	Rent per month
Borgartún 26	1.5.2012	1.461
Ármúli 13a	1.1.2015	3.331

86. Events after the balance sheet date

The Bank has, on 3 March 2010, undergone an obligation to pay a maximum of ISK 217 million to Depositors' and Investors' Guarantee Fund in the case of bankruptcy of a member bank. This guarantee does not cover bankruptcies of member banks deemed unable by the FSA to honor their obligations when the guarantee was issued.

At the beginning of the year 2010, the Bank increased its share in MP Pension Funds Baltics from 50% to 100%.