Condensed Consolidated
Interim Financial Statements
30 June 2014

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Endorsement and Statement
by the Board of Directors and the CEO

The Condensed Consolidated Interim Financial Statements of MP banki hf. for the period 1 January to 30 June 2014 have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting as adopted by the European Union, and additional Icelandic disclosure requirements where applicable. The Condensed Consolidated Interim Financial Statements comprise MP banki hf. and its subsidiaries. The Financial Statements for the year 2013 were approved on 27 March 2014.

According to the Consolidated Income Statement, loss for the period 1 January to 30 June 2014 amounted to ISK 159 million. According to the Consolidated Statement of Financial Position, the Group's equity at the end of this period amounted to ISK 4,847 million. As at 30 June 2014, the Group's total assets amounted to ISK 52,575 million.

The Bank's issued share capital amounted to ISK 1,171 million as at 30 June 2014 (31.12.2013: ISK 5,854 million). At the end of the period the Bank held treasury shares with a nominal value of ISK 1 million (31.12.2013: ISK 4 million).

The Bank had 49 shareholders at the end of the period (31.12.2013: 49), none of which held more than 10% of shares in the Bank (31.12.2013: 0).

Rationalization continues

The Bank implemented rationalization measures in Q4 2013 to adjust the cost base to a smaller equity than initial plans had assumed. The rationalization measures continued in 1H 2014 and included the sale of the Bank‘s asset finance business (Lykill) and a redundancy plan.

The sale of Lykill was successfully completed in first half and the Bank has reduced full-time employees (FTE) in the group by 38, or 28%, since beginning of Q4 2013 as plans that required growth capital have been abandoned. The rationalization measures incur cost that is fully charged in 1H 2014. The cost base in the parent company going forward has been reduced by approximately 30% year-on-year.

Risk management

The Bank is exposed to various types of risk in its operations. The Bank enforces a risk management framework which is further structured and outlined in the Bank‘s risk policy guide and rules on risk management. We refer to notes 33-45 on analysis of exposure to various types of risk.

The Bank has reduced risk-weighted assets and is maintaining high capitalization and liquidity. The Capital Adequacy Ratio (Tier 1) of the Group was 15.1% at the end of first half and is well above the Bank's internal capital assessment and regulatory requirements. The Bank also already meets the additional capital conservation buffer of 2.5%, which is expected to be implemented in one step as early as 1 January 2015.

Corporate Governance

The Board of Directors emphasizes good corporate governance and following accepted guidelines on corporate governance. The Board has laid down comprehensive rules in which the authority of the Board is defined and its scope of work in conjunction with the CEO. They cover e.g. order at meetings, competence of Board members to participate in individual decisions, confidentiality and information disclosure between the CEO and the Board. Majority of Board members are independent of the Bank and there are no executive directors on the Board.

The Board determines compensation for the CEO. The Board of Directors has delegated certain tasks to two subcommittees, the Remuneration Committee and the Audit Committee. Each committee has three members appointed by the Board, the majority of which is independent of the Bank.

Endorsement and Statement
by the Board of Directors and the CEO

Statement by the Board of Directors and the CEO

To the best of our knowledge the Condensed Consolidated Interim Financial Statements of MP banki hf. for the period 1 January to 30 June 2014 comply with IAS 34 Interim Financial Reporting as adopted by the EU, and give a true and fair view of the Group's assets, liabilities and financial position as at 30 June 2014 and the financial performance of the Group and changes of cash flows for the period 1 January to 30 June 2014.

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

The Board of Directors and the CEO of the Bank have today discussed the Condensed Consolidated Interim Financial Statements for the period 1 January to 30 June 2014, and confirm them by the means of their signatures.

Reykjavík, 21 August 2014.

Board of Directors

CEO

Independent Auditor's Report

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

We have reviewed the accompanying condensed consolidated statement of financial position of MP Bank hf. as at 30 June 2014 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the six month period then ended and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 “Interim Financial Reporting”.

Reykjavík, 21 August 2014.

KPMG ehf.

Sigurður Jónsson

Hrafnhildur Helgadóttir

MP banki hf. Amounts are in ISK thousands

Consolidated Income Statement

For the period 1 January 2014 to 30 June 2014

	Notes	6m 2014	6m 2013
Interest income		1,549,167	1,892,950
Interest expense		(875,656)	(1,014,002)
Net interest income	4	673,512	878,947
Fee and commission income		872,682	902,991
Fee and commission expense		(58,490)	(40,390)
Net fee and commission income		814,192	862,600
Net financial (expense) income	5-6	(53,627)	172,357
Share in (loss) profit of associates, net of income tax	19	(14,364)	13,643
Other operating income		72,595	73,429
Other operating income		4,604	259,429
Net operating income		1,492,307	2,000,977
Administrative expenses	7, 9	(1,615,192)	(1,817,750)
Impairment of loans and receivables	16	(18,762)	184,653
(Loss) profit from assets held for sale		(3,548)	9,927
(Loss) profit before taxes		(145,194)	377,806
Income tax	10	(13,373)	82,416
(Loss) profit for the period		(158,566)	460,222

	Notes	6m 2014	6m 2013
Attributable to the shareholders of MP banki hf.		(162,637)	455,313
Attributable to non-controlling interest	18	4,071	4,909
(Loss) profit for the period		(158,566)	460,222

The notes on pages 9 to 36 are an integral part of these Condensed Consolidated Interim Financial Statements.

MP banki hf. Amounts are in ISK thousands

Consolidated Statement of Comprehensive Income

For the period 1 January 2014 to 30 June 2014

	Notes	6m 2014	6m 2013
(Loss) profit for the period		(158,566)	460,222
Available for sale financial assets			
Fair value changes of securities classified as available for sale		(2,067)	(5,734)
Reclassified to profit and loss on sale of securities		0	(16,131)
Translation of foreign operations			
Exchange difference on translation of foreign operations		(2,938)	(3,262)
Other comprehensive income that may be reclassified to profit and loss, net of tax		(5,005)	(25,128)
Total comprehensive (loss) income for the period		(163,572)	435,094

	Notes	6m 2014	6m 2013
Attributable to the shareholders of MP banki hf.		(167,643)	430,185
Attributable to non-controlling interest		4,071	4,909
Total comprehensive (loss) income for the period		(163,572)	435,094

The notes on pages 9 to 36 are an integral part of these Condensed Consolidated Interim Financial Statements.

MP banki hf. Amounts are in ISK thousands

Consolidated Statement of Financial Position

As at 30 June 2014

Assets	Notes	30.6.2014	31.12.2013
Cash and cash equivalents	11	16,199,701	22,306,495
Fixed income securities	12	5,376,045	4,284,835
Shares and other variable income securities	13	589,996	953,747
Securities used for hedging	14	4,309,090	2,853,272
Loans to customers	15-16	23,010,881	27,242,120
Derivatives	17	515,966	504,341
Investment in associates	19	294,657	309,021
Intangible assets	20	276,079	305,028
Property and equipment	21	84,403	99,465
Deferred tax asset		602,479	613,777
Other assets	16, 22	347,684	731,371
Assets classified as held for sale	23	968,456	305,390
Total assets		52,575,437	60,508,862

Liabilities			
Deposits from customers	24	31,803,725	35,229,708
Deposits from credit institutions	25	2,060,408	2,346,121
Borrowings	26	6,163,230	8,327,416
Short positions used for trading	27	4,283,851	4,492,682
Short positions used for hedging	28	1,139,306	3,174,046
Derivatives	17	66,959	184,109
Current tax liabilities		11,685	20,045
Deferred tax liabilities		8,012	334
Other liabilities	29	2,191,364	1,697,634
Total liabilities		47,728,541	55,472,095

Equity			
Share capital	30	1,170,000	5,850,000
Share premium		9,069	8,088
Option reserve		3,639	2,388
Special reserve	30	3,850,917	0
Other reserves		(6,584)	22,420
Accumulated deficit		(184,540)	(851,402)
Total equity attributable to the shareholders of MP banki hf.		4,842,501	5,031,493
Non-controlling interest		4,395	5,274
Total equity		4,846,896	5,036,767
Total liabilities and equity		52,575,437	60,508,862

The notes on pages 9 to 36 are an integral part of these Condensed Consolidated Interim Financial Statements.

Amounts are in ISK thousands

Consolidated Statement of Changes in Equity

For the period 1 January 2014 to 30 June 2014

1 January 2014 to 30 June 2014	Notes	Share capital	Share premium	Option reserve	Special reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2014		5,850,000	8,088	2,388	0	22,420	(851,402)	5,031,493	5,274	5,036,767
Total comprehensive loss for the period						(5,522)	(162,120)	(167,643)	4,071	(163,572)
Reduction in share capital	30	(4,680,000)			3,850,917		828,983	(100)		(100)
Treasury shares acquired	31	(25,000)	2,500					(22,500)		(22,500)
Equity instrument related to ALFA verðbréf hf. acquisition converted to equity	31	25,000	(1,518)			(23,482)		0		0
Share-based payment transactions				1,251				1,251		1,251
Dividend paid to non-controlling interest								0	(4,950)	(4,950)
Equity as at 30 June 2014		1,170,000	9,069	3,639	3,850,917	(6,584)	(184,540)	4,842,501	4,395	4,846,896

1 January 2013 to 30 June 2013	Notes	Share capital	Share premium	Option reserve	Special reserve	Other reserves	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
Equity as at 1 January 2013		5,550,000	7,500	518	0	66,975	(371,368)	5,253,625	(4,003)	5,249,622
Total comprehensive income for the period						(25,128)	455,313	430,185	4,909	435,094
New share capital sold		300,000						300,000		300,000
Treasury shares acquired		(25,000)	1,250					(23,750)		(23,750)
Equity instrument related to ALFA verðbréf hf. acquisition		25,000	(662)			(24,338)		0		0
Share-based payment transactions				1,579				1,579		1,579
Equity as at 30 June 2013		5,850,000	8,088	2,097	0	17,509	83,945	5,961,639	907	5,962,546

The notes on pages 9 to 36 are an integral part of these Condensed Consolidated Interim Financial Statements.

MP banki hf. Amounts are in ISK thousands

Consolidated Statement of Cash Flows

For the period 1 January 2014 to 30 June 2014

Cash flows from operating activities	Notes	6m 2014	6m 2013
(Loss) profit for the period		(158,566)	460,222
Adjustments for:			
Indexation and exchange rate difference		(49,711)	(64,649)
Share in (loss) profit of associates, net of income tax	19	14,364	(13,643)
Depreciation and amortisation	20-21	48,263	55,842
Net interest income	4	(673,512)	(878,947)
Impairment of loans and receivables	16	18,762	(184,653)
Income tax	10	13,373	(82,416)
Other adjustments		5,863	(32,996)
		(781,165)	(741,240)
Changes in:			
Securities		(2,062,231)	269,452
Loans to customers		3,520,620	(1,238,753)
Derivatives - assets		(11,625)	(150,461)
Other financial assets		(1,551)	(21,865)
Deposits from customers		(3,244,376)	(1,207,976)
Deposits from credit institutions		(285,713)	0
Short positions		(2,243,570)	(539,958)
Derivatives - liabilities		(117,150)	(74,795)
Other financial liabilities		(23,482)	(24,338)
Other assets and liabilities		870,246	(1,407,045)
		(4,379,997)	(5,136,980)
Interest received		1,449,762	1,721,096
Interest paid		(897,296)	(1,127,210)
Net cash to operating activities		(3,827,531)	(4,543,094)

Cash flows from investing activities	Notes	6m 2014	6m 2013
Investment in shares in associates		0	(206,804)
Acquisition of intangible assets	20	0	(14,436)
Acquisition of property and equipment	21	(14,424)	(52,248)
Proceeds from the sale of property and equipment		5,347	485,343
Proceeds from the sale of a non-controlling interest		(4,950)	0
Proceeds from the sale (acquisition) of assets classified as held for sale		7,081	305,000
Net cash (to) from investing activities		(6,946)	516,854

Cash flows from financing activities	Notes	6m 2014	6m 2013
Proceeds from borrowings		46,656,713	41,027,626
Repayment of borrowings		(48,820,899)	(38,935,629)
Proceeds from issue of new share capital		0	300,000
Net cash (to) from financing activities		(2,164,186)	2,391,997

Cash and cash equivalents at the beginning of the year	11	14,795,993	17,289,559
Net decrease in cash and cash equivalents		(5,998,663)	(1,634,243)
Changes in restricted cash equivalents		2,583,993	1,371,409
Effects of exchange rate fluctuations on cash and cash equivalents held		(108,131)	(231,390)
Cash and cash equivalents at the end of the period	11	11,273,191	16,795,334

Operating and investing activities without cash flows	Notes	6m 2014	6m 2013
Changes in loans to customers		670,000	0
Acquisition of assets classified as held for sale		(670,000)	0

The notes on pages 9 to 36 are an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Consolidated Financial Statements

General information

1. Reporting entity

MP banki hf. (the Bank) is a limited liability company incorporated and domiciled in Iceland, with registered offices at Ármúli 13a, Reykjavík. The Condensed Consolidated Interim Financial Statements for the period ended 30 June 2014 comprise MP banki hf. and its subsidiaries (together referred to as the Group). The Group is primarily involved in investment, corporate and retail banking, and in providing asset management services.

The Condensed Consolidated Interim Financial Statements were approved and authorised for issue by the Board of Directors and CEO on 21 August 2014.

2. Basis of preparation

a. Statement of compliance
The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard IAS 34 Interim Financial Reporting, as adopted by the European Union.

The Condensed Consolidated Interim Financial Statements do not include all of the information required for full Consolidated Financial Statements, and should be read in conjunction with the Bank's Consolidated Financial Statements for the financial year ending 31 December 2013, which are available at www.mp.is.

b. Basis of measurement
The Condensed Consolidated Interim Financial Statements have been prepared using the historical cost basis except for financial instruments at fair value through profit or loss, available for sale financial assets, non-current assets classified as held for sale and short positions, which are measured at fair value. A breakdown of the accounting classification of financial assets and financial liabilities is provided in note 46.

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

d. Going concern
The Bank's management has assessed the Group's ability to continue as a going concern and it is satisfied that the Group has the resources to continue its operations.

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

The estimates and underlying assumptions are based on historical result 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.

The estimates and underlying assumptions are reviewed on an on going 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 and future periods if the revision affects both current and future periods.

Information about areas of estimation uncertainty and critical judgements made by management in applying accounting policies that can have a significant effect on the amounts recognised in the Condensed Consolidated Interim Financial Statements is provided in the Consolidated Financial Statements as at and for the year ended 31 December 2013.

3. Significant accounting policies

Except as described below, the accounting policies applied in the Consolidated Interim Financial Statements Financial Statements are consistent with those applied in the Consolidated Financial Statements as at and for the year ended 31 December 2013 The accounting policies applied have been applied consistently to all periods presented.

The Bank has adopted IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interest in Other Entities, which include a revised definition of control and introduces new disclosure requirements. The adoption of IFRS 10 and IFRS 12, which was effective 1 January 2014, did not have a material effect on the financial statements.

Special tax on financial institutions is no longer presented as a separate line item in the Income Statement but included in Administrative expenses. Receivables from Central Bank of Iceland are no longer presented as a separate line item in the Statement of Financial Position but included in Cash and cash equivalents. Liabilites related to payment and settlement services, which were previously included in Other liabilities, are now presented as a separate line item in the Statement of Financial Position, Deposits from credit institutions. These changes have been made to better reflect the nature of the corresponding line items. Comparative information in the Notes has been updated to reflect these changes.

As of 1 January 2014 the Group does not include in cash equivalents treasury bills with maturity greater than three months.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Income statement

4. Net interest income

Interest income is specified as follows:

	6m 2014	6m 2013
Cash and cash equivalents	291,703	314,212
Fixed income securities	28,973	53,213
Derivatives	127,162	168,504
Loans to customers	1,080,217	1,336,484
Other interest income	21,112	20,537
Total	1,549,167	1,892,950

Interest expense is specified as follows:

	6m 2014	6m 2013
Deposits from customers	528,461	756,868
Deposits from credit institutions	56,299	0
Borrowings	241,249	236,569
Other interest expense	49,647	20,565
Total	875,656	1,014,002

5. Net financial (expense) income

Net financial (expense) income is specified as follows:

	6m 2014	6m 2013
Financial assets held for trading		
Fixed income securities	(24,583)	139,178
Shares and other variable income securities	(8,943)	46,947
Derivatives	30,852	(4,222)
Financial assets designated at fair value through profit and loss		
Fixed income securities	5,890	36,390
Shares and other variable income securities	(5,670)	(1,157)
Available for sale financial assets		
Fixed income securities	0	16,131
Foreign currency exchange difference	(51,174)	(56,136)
Fair value changes	0	(4,773)
Total	(53,627)	172,357

6. Foreign currency exchange difference

Foreign currency exchange difference is specified as follows:

	6m 2014	6m 2013
Loss on financial instruments at fair value through profit and loss	(69,698)	(19,222)
Gain (loss) on other financial instruments	18,524	(36,914)
Total	(51,174)	(56,136)
Change in the ISK trade index during the period	-2.3%	-6.7%

Note 44 provides information about the development of foreign exchange rates against the Icelandic krona.

7. Administrative expenses

Administrative expenses are specified as follows:

	6m 2014	6m 2013
Salaries and related expenses	972,547	1,067,077
Other operating expenses	556,340	627,915
Depositors' and Investors' Guarantee Fund contributions	38,042	54,551
Depreciation and amortisation	48,263	55,842
Special tax on financial institutions	0	12,366
Total	1,615,192	1,817,750

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

8. Salaries and related expenses

Salaries and related expenses are specified as follows:

	6m 2014	6m 2013
Salaries	742,202	782,205
Performance based payments excluding share-based payments	19,963	54,191
Share-based payment expenses	1,251	1,579
Pension fund contributions	109,602	101,644
Tax on financial activity	48,928	56,891
Other salary related expenses	50,602	70,568
Total	972,547	1,067,077
Average number of full time employees during the period	108	130
Total number of full time employees at the end of the period	97	132

According to Act No. 165/2011, passed in 2011, banks and other financial institutions providing VAT exempt services, must pay a tax based on salary payments, called tax on financial activity. The current tax rate is 5.50% (2013: 6.75%).

9. Special tax on financial institutions

According to Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including banks, must pay annually a tax based on the carrying amount of their liabilities as determined for tax purposes in excess of ISK 50 billion. The tax rate is set at 0.376% (2013: 0.376%) for taxes payable in 2014 and beyond. This tax is not a deductible expense for income tax purposes.

10. Income tax

Reconciliation of effective tax rate:

		6m 2014		6m 2013
(Loss) profit before income tax		(145,194)		377,806
Income tax using the domestic corporation tax rate	20.0%	29,086	20.0%	(75,561)
Effect of tax rates in foreign jurisdictions	(0.5%)	(757)	(0.9%)	3,217
Non-deductible expenses	(9.6%)	(13,882)	0.8%	(3,132)
Non-taxable income	1.2%	1,730	(34.7%)	131,018
Recognition of previously unrecognised tax losses	(0.2%)	(239)	3.4%	(12,793)
Other changes	(20.2%)	(29,310)	(10.5%)	39,667
Effective income tax	(9.2%)	(13,373)	(21.8%)	82,416

Loss before taxes amounts to ISK 145.2 million. Income tax amounts to ISK 13.4 million, resulting in an effective tax rate of -9.2%. This is substantially different from the Icelandic corporate tax rate of 20% due to non-taxable income, mainly from shares.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Statement of Financial Position

11. Cash and cash equivalents

Cash and cash equivalents are specified as follows:

	30.6.2014	31.12.2013
Deposits	9,721,792	3,898,984
Cash collateral for security borrowings	1,926,510	4,510,503
Certificates of deposit	0	7,517,655
Balances with the Central Bank of Iceland	11,648,302	15,927,141
Cash on hand	136,356	71,056
Balances with banks	3,636,945	4,185,962
Treasury bills	778,098	2,122,337
Total	16,199,701	22,306,495
Pledged cash equivalents	4,926,510	7,510,503
Total unrestricted cash and cash equivalents	11,273,191	14,795,993

The Group has pledged assets, including cash equivalents, in the ordinary course of banking business.

12. Fixed income securities

Fixed income securities are specified as follows:

	30.6.2014	31.12.2013
Government bonds and bonds with government guarantees	3,522,359	2,919,271
Treasury bills	90,644	0
Listed bonds	1,523,056	1,168,028
Unlisted bonds	239,986	197,537
Total	5,376,045	4,284,835

13. Shares and other variable income securities

Shares and other variable income securities are specified as follows:

	30.6.2014	31.12.2013
Listed shares	260,380	400,662
Listed unit shares	229	221
Unlisted shares	182,491	182,379
Unlisted unit shares	146,895	370,485
Total	589,996	953,747

14. Securities used for hedging

Securities used for hedging are specified as follows:

	30.6.2014	31.12.2013
Government bonds and bonds with government guarantees	2,169,402	0
Listed bonds	0	54,241
Listed shares	2,136,445	2,799,031
Unlisted unit shares	3,242	0
Total	4,309,090	2,853,272

15. Loans to customers

Loans to customers are specified as follows:

	30.6.2014	31.12.2013
	23,458,723	27,747,012
Specific allowance for impairment losses	(262,852)	(294,306)
Collective allowance for impairment losses	(184,990)	(210,587)
Total	23,010,881	27,242,120

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

16. Allowance for impairment losses

Change in allowance for impairment losses is specified as follows:

a. Loans to customers

30.6.2014	**Specific**	**Collective**	**Total**
Balance as at 1 January 2014	294,306	210,587	504,893
Charge to the income statement for the period	9,766	4,681	14,447
Write-offs	(41,220)	0	(41,220)
Sold loans	0	(30,278)	(30,278)
Balance as at 30 June 2014	262,852	184,990	447,842

31.12.2013	**Specific**	**Collective**	**Total**
Balance as at 1 January 2013	661,360	169,190	830,550
Charge to the income statement for the period	(91,862)	41,397	(50,465)
Write-offs	(275,193)	0	(275,193)
Balance as at 31 December 2013	294,306	210,587	504,893

b. Other assets - accounts receivable

30.6.2014	**Specific**	**Collective**	**Total**
Balance as at 1 January 2014	23,251	10,608	33,859
Charge to the income statement for the period	751	3,564	4,315
Write-offs	(751)	0	(751)
Balance as at 30 June 2014	23,251	14,171	37,422

31.12.2013	**Specific**	**Collective**	**Total**
Balance as at 1 January 2013	23,251	6,977	30,228
Charge to the income statement for the period	0	3,631	3,631
Balance as at 31 December 2013	23,251	10,608	33,859

17. Derivatives

Derivatives are specified as follows:

			30.6.2014			**31.12.2013**
	Notional	**Assets**	**Liabilities**	**Notional**	**Assets**	**Liabilities**
Interest rate derivatives	2,500,000	243,085		243,085	216,918	
Currency forwards	564,300		10,050	(10,050)	20,620	
Bond and equity total return swaps	7,174,065	271,078	46,149	224,929	265,884	174,019
Equity options	626,315	1,803	10,760	(8,957)	919	10,089
	10,864,680	515,966	66,959	449,007	504,341	184,109

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

18. Group entities

The Group held 13 subsidiaries at the end of period (31.12.2013: 10), all of which are included in the Condensed Consolidated Interim Financial Statements. They are specified as follows:

Entity	Nature of operations	Domicile	Share 30.6.2014	Share 31.12.2013
Axia Asset Management UAB	Dormant	Lithuania	100%	100%
Ármúli fasteignir ehf.	Holding company	Iceland	100%	100%
Fasteignastýring ehf.	Dormant	Iceland	100%	-
FÍ Fasteignafélag GP ehf.	Real estate fund management	Iceland	70%	70%
H12 ehf.	Holding company	Iceland	100%	-
Heildun UAB	Holding company	Lithuania	100%	100%
Horn Florida Ltd.	Holding company	UK	100%	100%
KG6 ehf.	Holding company	Iceland	100%	-
KM ehf.	Holding company	Iceland	100%	-
Júpíter rekstrarfélag hf.	Fund management	Iceland	100%	100%
Lykillán ehf.	Disposed	Iceland	-	100%
M-Investments ehf.	Holding company	Iceland	100%	100%
Mánatún GP ehf.	Dormant	Iceland	100%	100%
MP Pension Funds Baltic UAB	Private pension plans	Lithuania	100%	100%

A subsidiary of the Bank, LV31 ehf., changed its name to Ármúli fasteignir ehf. in 2014. The Bank sold its share in Lykillán ehf. in February 2014. The sale had an immaterial effect on the income statement and statement of financial position.

19. Investment in associates

a. Associated companies at the end of the period:

Entity	Nature of operations	Domicile	Share 30.6.2014	Share 31.12.2013
Londonderry Associates LLC	Holding company	USA	38%	38%
Teris	Holding company	Iceland	50%	50%

The Bank's share in Londonderry Associates is classified and presented as an asset held for sale in the Statement of Financial Position.

Teris sold all material assets and operations to Reiknistofa Bankanna hf. in 2012, and is currently in a voluntary dissolution process which is expected to be completed in 2014-2015. The company currently has no operations and remaining assets consist primarily of cash and cash equivalents. Due to the circumstances the Bank does not consider Teris a subsidiary despite holding 50.4% of voting interest.

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

	30.6.2014	31.12.2013
Balance at the beginning of the year	309,021	560,825
Disposal of shares in associates	0	(332,518)
Reclassification	0	88,552
Share in (loss) profit of associates, net of income tax	(14,364)	(3,715)
Translation difference	0	(4,122)
Total	294,657	309,021

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

20. Intangible assets

Intangible assets are specified as follows:

30.6.2014	Software	Goodwill	Other	Total
Balance as at 1 January 2014	171,519	0	133,509	305,028
Amortisation	(19,737)	0	(9,208)	(28,944)
Translation difference	(4)	0	0	(4)
Balance as at 30 June 2014	151,778	0	124,301	276,079

31.12.2013	Software	Goodwill	Other	Total
Balance as at 1 January 2013	179,975	599,930	323,924	1,103,829
Acquisitions	28,874	0	0	28,874
Impairment losses	0	(599,930)	(172,000)	(771,930)
Amortisation	(37,330)	0	(18,415)	(55,745)
Balance as at 31 December 2013	171,519	0	133,509	305,028

21. Property and equipment

Property and equipment is specified as follows:

30.6.2014	Real estate	Other	Total
Balance as at 1 January 2014	0	99,465	99,465
Additions	0	14,424	14,424
Disposals	0	(9,959)	(9,959)
Reclassified to assets classified as held for sale	0	(147)	(147)
Depreciation	0	(19,318)	(19,318)
Translation difference	0	(62)	(62)
Balance as at 30 June 2014	0	84,403	84,403
Gross carrying amount	0	192,729	192,729
Accumulated depreciation	0	(108,326)	(108,326)
Balance as at 30 June 2014	0	84,403	84,403

31.12.2013	Real estate	Other	Total
Balance as at 1 January 2012	613,923	124,176	738,099
Additions	33,000	24,526	57,526
Disposals	(525,078)	(6,684)	(531,762)
Reclassified to assets classified as held for sale	(94,456)	0	(94,456)
Depreciation	(26,159)	(42,349)	(68,508)
Translation difference	(1,230)	(205)	(1,434)
Balance as at 31 December 2013	0	99,465	99,465
Gross carrying amount	0	196,484	196,484
Accumulated depreciation	0	(97,019)	(97,019)
Balance as at 31 December 2013	0	99,465	99,465

22. Other assets

Other assets are specified as follows:

	30.6.2014	31.12.2013
Accounts receivable	219,550	339,403
Sundry assets	128,134	391,968
Total	347,684	731,371

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

23. Assets classified as held for sale

The Group has classified certain assets as held for sale. The Group intends to dispose of the majority of these assets in 2014, and they are included in Other operations for segment reporting purposes as disclosed in note 50.

24. Deposits from customers

Deposits from customers are specified as follows:

	30.6.2014	31.12.2013
Demand deposits	24,394,186	26,480,832
Time deposits	7,409,539	8,748,877
Total	31,803,725	35,229,708

25. Deposits from credit institutions

Deposits from credit institutions consist primarily of funds held by the Bank on behalf of savings banks who signed a payment and settlement services agreement with the Bank in 2012.

26. Borrowings

Borrowings are specified as follows:

	30.6.2014	31.12.2013
Loans from credit institutions	3,264	0
Money market deposits	6,159,966	8,327,416
Total	6,163,230	8,327,416

Money market deposits typically have a principal of ISK 5-200 million and maturity between 1 week and 3 months and pay fixed interest rates.

27. Short positions used for trading

Short positions used for trading are specified as follows:

	30.6.2014	31.12.2013
Government bonds and bonds with government guarantees	4,207,072	4,431,398
Listed bonds	43,651	0
Listed shares	33,121	57,594
Unlisted shares	6	6
Unlisted unit shares	0	3,683
Total	4,283,851	4,492,682

28. Short positions used for hedging

Short positions used for hedging are specified as follows:

	30.6.2014	31.12.2013
Government bonds and bonds with government guarantees	1,139,306	3,174,046
Total	1,139,306	3,174,046

29. Other liabilities

Other liabilities are specified as follows:

	30.6.2014	31.12.2013
Unsettled securities transactions	1,223,648	336,538
Accounts payable	225,637	329,913
Taxes, other than income tax	27,128	20,515
Withholding taxes	101,753	335,579
Other liabilities	613,197	675,089
Total	2,191,364	1,697,634

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

30. Equity

a. Share capital

The nominal value of shares issued by the Bank is ISK 1 per share. The holders of shares are entitled to receive dividends as approved by the general meeting and are entitled to one vote per share at shareholders' meetings.

	30.6.2014	31.12.2013
Share capital according to the Bank's Articles of Association	1,170,800	5,854,000
Nominal amount of treasury shares	800	4,000

The Bank's Annual General Meeting in April 2014 approved a resolution reducing the share capital of the Bank from ISK 5,854.0 million to ISK 1,170.8 million. The reduction was used to create a special equity reserve of ISK 3,850.9 million, which can only be used with the approval of a shareholders' meeting, to reduce accumulated deficit by ISK 829.0 million and to pay out ISK 100 thousand to shareholders in proportion to their holdings. As the Bank's equity was only reduced by ISK 100 thousand this move had a negligible impact on the Bank's financial strength and equity ratio.

b. Capital management

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 Icelandic Financial Supervisory Authority 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. The Bank's regulatory capital calculations for credit risk and market risk are based on the standardised approach and the capital calculations for operational risk are based on the basic indicator approach.

c. Share capital increase authorizations

The Bank's Annual General Meeting in April 2014 approved five temporary provisions to the Bank's Articles of Association which authorize the Board of Directors to issue new share capital, issue subscription rights, buy own shares, issue convertible debt and issue compensation shares. A copy of the Bank's Articles of Association, including the temporary provisions, can be found on the Bank's website, www.mp.is.

The provisions authorize the Board of Directors to issue up to ISK 3 billion in new share capital to meet new subscriptions, subscription rights or convertible debt up until 11 April 2019. Pre-emptive rights of existing shareholders are waived and the Board has the right to approve share price, payment terms and forms of payment.

The Board of Directors was also authorized to increase share capital by up to ISK 1 billion in stages up until 11 April 2019 to fulfil obligations rising from the Bank's share-based incentive scheme.

31. Acquisition of treasury shares to settle a share-based payment obligation

The Bank purchased 25 million treasury shares during the period to settle an obligation arising from the acquisition of ALFA verðbréf hf. in 2011. There are no further outstanding obligations related to this acquisition.

32. Capital adequacy ratio (CAD)

Equity at the end of the period was ISK 4,847 million (31.12.2013: 5,037 million), equivalent to 9.2% (31.12.2013: 8.3%) of total assets according to the statement of financial position. The capital adequacy ratio of the Group, calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 15.1% (31.12.2013: 14.2%). The minimum according to the Act is 8.0%. The ratio is calculated as follows:

Tier 1 capital base	**30.6.2014**	**31.12.2013**
Total equity	4,846,896	5,036,767
Goodwill and intangibles	(276,079)	(305,028)
Shares in financial institutions	(7,197)	(2,595)
Subordinated fixed income securities	(100,860)	(61,851)
Deferred tax asset	(602,479)	(613,777)
Total	3,860,280	4,053,515

Capital requirements	**30.6.2014**	**31.12.2013**
Credit risk	1,409,301	1,703,380
Market risk	166,152	110,200
Operational risk	471,455	471,455
Total	2,046,908	2,285,035

Surplus capital	1,813,372	1,768,480
Capital adequacy ratio (CAD)	15.1%	14.2%

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Risk management

33. Maximum exposure to credit risk

The maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements, is specified as follows:

	Public entities	Financial institutions	Corporate customers	Individuals	Other	30.6.2014
Cash and cash equivalents	12,562,756	3,636,945				16,199,701
Fixed income securities	4,002,555	1,012,959	360,531			5,376,045
Securities used for hedging	2,169,402					2,169,402
Loans to customers	268	2,051,036	15,000,607	5,958,322	649	23,010,881
Derivatives		337,397	159,963	18,605		515,966
Other assets	60,197	20,882	64,989	73,481		219,550
	18,795,178	7,059,220	15,586,090	6,050,409	649	47,491,546
Loan commitments	3,830	149,910	2,067,475	1,060,657	671	3,282,543
Financial guarantee contracts			165,791	10,538		176,329
Total	18,799,008	7,209,130	17,819,356	7,121,603	1,320	50,950,417

	Public entities	Financial institutions	Corporate customers	Individuals	Other	31.12.2013
Cash and cash equivalents	18,120,533	4,185,962				22,306,495
Fixed income securities	3,183,738	716,713	384,384			4,284,835
Securities used for hedging		54,241				54,241
Loans to customers	156,493	1,776,846	16,737,896	8,558,863	12,021	27,242,120
Derivatives		282,480	209,517	12,344		504,341
Other assets	10,414	24,050	251,073	53,865		339,403
	21,471,179	7,040,292	17,582,870	8,625,073	12,021	54,731,435
Loan commitments	962	4,105	2,074,286	1,110,465	44,239	3,234,058
Financial guarantee contracts			517,932	23,922	600	542,453
Total	21,472,141	7,044,397	20,175,088	9,759,460	56,860	58,507,946

34. Credit quality of financial assets

a. Breakdown

Credit quality of financial assets are specified as follows:

30.6.2014	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Less specific impairment allowance	Less collective impairment allowance	Carrying amount
Cash and cash equivalents	16,199,701			16,199,701			16,199,701
Fixed income securities	5,376,045			5,376,045			5,376,045
Securities used for hedging	2,169,402			2,169,402			2,169,402
Loans to customers	21,211,982	1,916,413	330,328	23,458,723	(262,852)	(184,990)	23,010,881
Derivatives	515,966			515,966			515,966
Other assets	226,325		30,647	256,972	(23,251)	(14,171)	219,550
Total	45,699,421	1,916,413	360,975	47,976,810	(286,103)	(199,161)	47,491,546

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

34. Credit quality of financial assets (cont.)

31.12.2013	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	Less specific impairment allowance	Less collective impairment allowance	Carrying amount
Cash and cash equivalents	22,306,495			22,306,495			22,306,495
Fixed income securities	4,284,835			4,284,835			4,284,835
Securities used for hedging	54,241			54,241			54,241
Loans to customers	24,228,954	3,124,583	393,476	27,747,012	(294,306)	(210,587)	27,242,120
Derivatives	504,341			504,341			504,341
Other assets	344,881		28,381	373,262	(23,251)	(10,608)	339,403
Total	51,723,746	3,124,583	421,857	55,270,186	(317,557)	(221,194)	54,731,435

b. Past due but not individually impaired

Past due but not impaired financial assets are those assets where contractual payments are 1 or more days past due but the Group 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 claim value and not only those payments that are past due.

	30.6.2014	31.12.2013
Past due 1-30 days	903,502	1,858,208
Past due 31-60 days	508,564	772,756
Past due 61-90 days	46,366	211,380
Past due more than 90 days	457,982	282,239
Total	1,916,413	3,124,583

c. Individually impaired

Individually impaired financial assets are those assets where there is objective evidence of impairment, the asset has been individually assessed and comparison of the carrying amount and the present value of the expected cash flow from the asset reveals a need for impairment. All individually impaired assets are considered non-performing.

30.6.2014	Past due 1-30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Claim value
Services				5,765	5,765
Individuals	17,283	3	7,080	84,137	108,504
Holding companies				228,210	228,210
Retail			8	10,399	10,407
Real estate, construction and industry	2,737		409	4,943	8,089
Total	20,021	3	7,497	333,454	360,975

31.12.2013	Past due 1-30 days	Past due 31-60 days	Past due 60-90 days	Past due over 90 days	Claim value
Services				14,594	14,594
Individuals		1,422	686	120,425	122,533
Holding companies	19,666	464	95	212,016	232,242
Retail				10,317	10,317
Other			1,559	40,612	42,171
Total	19,666	1,886	2,340	397,964	421,857

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

35. Breakdown of loans to customers

a. By industry

The breakdown of the loan portfolio by industries is specified as follows:

30.6.2014	Claim value	Impairment allowance	Carrying amount	%
Services	7,582,648	(63,834)	7,518,815	32.7%
Individuals	6,073,982	(115,660)	5,958,322	25.9%
Holding companies	3,145,113	(198,339)	2,946,773	12.8%
Retail	2,922,196	(33,692)	2,888,504	12.6%
Financial institutions	2,067,569	(16,533)	2,051,036	8.9%
Real estate, construction and industry	1,309,277	(16,921)	1,292,356	5.6%
Other	357,938	(2,862)	355,076	1.5%
Total	23,458,723	(447,842)	23,010,881	100.0%

31.12.2013	Claim value	Impairment allowance	Carrying amount	%
Services	8,747,858	(101,165)	8,646,693	31.7%
Individuals	8,182,202	(138,555)	8,043,647	29.5%
Holding companies	3,173,116	(23,805)	3,149,312	11.6%
Retail	2,852,387	(45,351)	2,807,036	10.3%
Financial institutions	1,789,616	(12,770)	1,776,846	6.5%
Real estate, construction and industry	1,491,881	(11,566)	1,480,314	5.4%
Other	1,509,953	(171,681)	1,338,272	4.9%
Total	27,747,012	(504,893)	27,242,120	100.0%

b. By seniority

The following definitions are used when ranking its loan portfolio by seniority:

- Senior I loans are loans which have first priority claims on the borrower's assets, are secured with collateral which can be marked to market and have asset coverage exceeding 100%
- Senior II loans have sufficient coverage and liquid collateral, but the collateral can in some cases not be marked to market, e.g. unlisted shares
- Junior loans have second lien claims on the borrower's assets or lower levels of collateral coverage
- Mezzanine loans are loans which are unsecured and subordinated to all of the borrower's liabilities

The breakdown of loans by categories is as follows:

	Senior I	Senior II	Junior	Mezzanine	30.6.2014
Neither past due nor individually impaired	7,882,865	6,747,424	3,311,521	3,093,922	21,035,732
Past due but not individually impaired	789,507	266,775	687,468	163,924	1,907,673
Individually impaired		10,797	2,520	54,159	67,476
Total	8,672,372	7,024,996	4,001,509	3,312,004	23,010,881

	Senior I	Senior II	Junior	Mezzanine	31.12.2013
Neither past due nor individually impaired	8,575,784	11,185,373	2,276,808	2,004,268	24,042,232
Past due but not individually impaired	792,015	1,091,016	784,035	433,651	3,100,718
Individually impaired		25,233	4,557	69,380	99,170
Total	9,367,799	12,301,622	3,065,399	2,507,299	27,242,120

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

36. Collateral types

Collateral held by the Group against loans to customers is specified as follows:

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	30.6.2014
Financial institutions		930,401					930,401
Corporate customers	547,573	65,545	2,036,591	8,307,911	494,551	2,550,773	14,002,944
Individuals	28,627	17,542	7,200	4,035,893	63,318	90,675	4,243,255
Other		325					325
Total	576,199	1,013,814	2,043,791	12,343,804	557,869	2,641,448	19,176,926

	Deposits	Fixed income securities	Variable income securities	Real estate	Other fixed assets	Other	31.12.2013
Public entities		151,192			2,140		153,332
Financial institutions	54	1,577,681					1,577,735
Corporate customers	397,118	519,112	1,718,758	8,636,933	1,982,214	2,577,223	15,831,358
Individuals	11,937	19,262	43,712	3,853,277	2,625,773	94,162	6,648,122
Other					2,701		2,701
Total	409,109	2,267,247	1,762,470	12,490,210	4,612,827	2,671,385	24,213,248

Amounts have been adjusted to exclude collateral in excess of claim value, i.e. overcollateralization. Other collateral includes financial claims, inventories and receivables.

37. Loan-to-value

a. General

The loan-to-value ratio (LTV) is the ratio of the gross amount of the loan to the value of the collateral, if any. The general creditworthiness of a customer is viewed as the most reliable indicator of credit quality of a loan. Therefore, no routinely update of the valuation of collateral held against all loan is done. Valuation of a collateral is updated, however, if changes in the creditworthiness of a customer cause the loan to be monitored more closely.

b. Breakdown

The breakdown of loans to customers by LTV is specified as follows:

	30.6.2014	%	31.12.2013	%
Less than 50%	5,847,566	25.4%	5,403,697	19.8%
51-70%	6,034,631	26.2%	8,653,589	31.8%
71-90%	4,549,412	19.8%	6,119,251	22.5%
91-100%	1,667,045	7.2%	3,123,000	11.5%
More than 100%	1,316,758	5.7%	1,200,876	4.4%
No collateral	3,595,469	15.6%	2,741,707	10.1%
Total	23,010,881	100.0%	27,242,120	100.0%

38. Foreclosed assets

The Group's policy is to sell foreclosed assets as soon as possible. The Group did not hold or take possession of collateral held as security in 2014 or 2013.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

39. Large exposures

In accordance with the Financial Supervisory Authority's regulation no. 625/2013 on financial institutions' large exposures, total exposure towards a customer is classified as a large exposure if it exceeds 10% of the Bank's capital base (see note 32). According to the regulation a single exposure, net of risk adjusted mitigation, cannot exceed 25% of the capital base.

	30.6.2014		31.12.2013	
Large exposures net of collateralised assets	**Number**	**Amount**	**Number**	**Amount**
10-20% of capital base	10	4,939,642	9	5,340,921
20-25% of capital base	1	828,398	2	1,941,754
Exceeding 25% of capital base	1	1,000,821	0	0
Total	12	6,768,860	11	7,282,675
Thereof nostro accounts with foreign banks with S&P rating of A- or higher	4	2,435,063	3	2,681,805

As at 30 June 2014 there was one large exposure exceeding the limit set by the Icelandic FSA. The exposure was a short-term exposure related to the settlement of the sale of the assets of Lykill, which was finalized at the end of June 2014. The FSA was notified of this breach and the Bank took corrective measures. The exposure is no longer classified as a large exposure.

40. Liquidity risk

a. Maturity analysis of financial assets and financial liabilities

The following table shows a maturity analysis of financial assets and financial liabilities, for both on-balance sheet and off-balance sheet items. The analysis is based on contractual maturities and amounts presented are undiscounted cash flows, including both principal and interest cash flows. If an amount receivable or payable is not fixed, e.g. for inflation indexed assets and liabilities, the maturity analysis is based on estimates that refer to current conditions.

When the timing of a cash flow is not fixed, e.g. for demand deposits, the analysis assumes the earliest possible payment of amounts due and the latest possible payment of amounts receivable, which is the worst case scenario from the Group's perspective.

The analysis only takes into account the contractual maturity of financial assets and liabilities and does not account for measures the Group could take to improve its liquidity, e.g. the sale of listed securities. The Group also holds market securities with a carrying amount of ISK 2.0 billion at the reporting date, which can be converted to cash through repurchase agreements within two days.

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

40. Liquidity risk (cont.)

30.6.2014

Financial assets	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No stated maturity**	**Total**	**Carrying amount**
Cash and cash equivalents	3,773,273	12,426,428					16,199,701	16,199,701
Fixed income securities		1,504,011	1,171,746	1,963,684	2,160,154	5,903	6,805,498	5,376,045
Shares and other variable income securities						589,996	589,996	589,996
Securities used for hedging		4,309,360					4,309,360	4,309,090
Loans to customers	2,388,402	4,249,283	5,374,894	6,157,253	5,982,822		24,152,654	23,010,881
Other assets	21,990	77,724	119,836				219,550	219,550
Financial assets excluding derivatives	6,183,665	22,566,807	6,666,476	8,120,937	8,142,976	595,899	52,276,759	49,705,263
Derivatives	197	487,112		30,016			517,324	515,966
Total	6,183,862	23,053,919	6,666,476	8,150,953	8,142,976	595,899	52,794,084	50,221,229

Financial liabilities	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No stated maturity**	**Total**	**Carrying amount**
Deposits from customers	24,457,936	2,249,904	940,689	3,979,818	109,211		31,737,557	31,803,725
Deposits from credit institutions	2,060,408						2,060,408	2,060,408
Borrowings		5,870,186	330,891				6,201,077	6,163,230
Short positions used for trading	4,251,324						4,251,324	4,283,851
Short positions used for hedging	1,139,441						1,139,441	1,139,306
Other liabilities	266,983	1,592,146	278,511	53,725			2,191,364	2,191,364
Loan commitments	3,282,543						3,282,543	
Financial guarantee contracts	176,329						176,329	
Financial liabilities excluding derivatives	35,634,964	9,712,236	1,550,090	4,033,543	109,211	0	51,040,044	47,641,885
Derivatives		64,181					64,181	66,959
Total	35,634,964	9,776,417	1,550,090	4,033,543	109,211	0	51,104,224	47,708,844

	On demand	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No stated maturity**	**Total**	**Carrying amount**
Financial assets	6,183,862	23,053,919	6,666,476	8,150,953	8,142,976	595,899	52,794,084	50,221,229
Financial liabilities	(35,634,964)	(9,776,417)	(1,550,090)	(4,033,543)	(109,211)		(51,104,224)	(47,708,844)
Net financial assets (liabilities)	(29,451,102)	13,277,502	5,116,385	4,117,410	8,033,765	595,899	1,689,859	2,512,385

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

40. Liquidity risk (cont.)

31.12.2013

Financial assets	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No stated maturity**	**Total**	**Carrying amount**
Cash and cash equivalents	8,156,001	13,509,565	640,929				22,306,495	22,306,495
Fixed income securities		1,097,000	985,625	1,230,196	2,320,895	14,468	5,648,183	4,284,835
Shares and other variable income securities						953,747	953,747	953,747
Securities used for hedging		2,853,297					2,853,297	2,853,272
Loans to customers	1,555,011	6,882,759	5,221,822	8,812,266	5,671,189		28,143,046	27,242,120
Other assets	27,840	68,586	242,977				339,403	339,403
Financial assets excluding derivatives	9,738,852	24,411,206	7,091,353	10,042,462	7,992,083	968,215	60,244,171	57,979,872
Derivatives	442	309,543	187,895	29,023			526,903	504,341
Total	9,739,294	24,720,750	7,279,248	10,071,484	7,992,083	968,215	60,771,074	58,484,213

Financial liabilities	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No stated maturity**	**Total**	**Carrying amount**
Deposits from customers	26,474,219	3,946,844	1,759,947	3,153,336	364,003		35,698,349	35,229,708
Deposits from credit institutions	2,346,121						2,346,121	2,346,121
Borrowings		8,631,262					8,631,262	8,327,416
Short positions used for trading		6,273,089					6,273,089	4,492,682
Short positions used for hedging		3,175,178					3,175,178	3,174,046
Other liabilities	401,986	1,092,108	149,815	53,725			1,697,634	1,697,634
Loan commitments		3,234,058					3,234,058	
Financial guarantee contracts		542,453					542,453	
Financial liabilities excluding derivatives	29,222,326	26,894,993	1,909,762	3,207,061	364,003	0	61,598,145	55,267,607
Derivatives	1,724	197,124					198,848	184,109
Total	29,224,050	27,092,117	1,909,762	3,207,061	364,003	0	61,796,994	55,451,716

	On demand	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No stated maturity**	**Total**	**Carrying amount**
Financial assets	9,739,294	24,720,750	7,279,248	10,071,484	7,992,083	968,215	60,771,074	58,484,213
Financial liabilities	(29,224,050)	(27,092,117)	(1,909,762)	(3,207,061)	(364,003)		(61,796,994)	(55,451,716)
Net financial assets (liabilities)	(19,484,756)	(2,371,367)	5,369,486	6,864,423	7,628,080	968,215	(1,025,920)	3,032,497

Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

41. Interest rate risk associated with trading portfolios

a. Breakdown

The breakdown of financial assets and liabilities in trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	30.6.2014
Fixed income securities		1,454,766	151,341	2,380,769	1,389,168	5,376,045
Short positions - fixed income securities			(2,630,463)	(462,356)	(1,157,904)	(4,250,723)
Net imbalance	0	1,454,766	(2,479,122)	1,918,413	231,264	1,125,321

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	31.12.2013
Fixed income securities	50		1,654,298	1,408,501	1,221,987	4,284,835
Short positions - fixed income securities		(1,931,140)		(874,544)	(1,625,715)	(4,431,398)
Net imbalance	50	(1,931,140)	1,654,298	533,957	(403,728)	(146,563)

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in trading portfolios that are subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

	Shift in basis points	30.6.2014 Downward	30.6.2014 Upward	31.12.2013 Downward	31.12.2013 Upward
Indexed	50	36,070	(36,070)	15,465	(15,465)
Non-indexed	100	(26,953)	26,953	(21,001)	21,001
Total		9,117	(9,117)	(5,536)	5,536

42. Interest rate risk associated with non-trading portfolios

a. Breakdown

The breakdown of financial assets and liabilities in non-trading portfolios by the earlier of interest repricing time or maturity is specified as follows:

30.6.2014

Financial assets	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and cash equivalents	15,671,177	528,524				16,199,701
Loans to customers	14,456,131	5,842,444	1,247,759	1,215,418	249,129	23,010,881
Financial assets excluding derivatives	30,127,308	6,370,969	1,247,759	1,215,418	249,129	39,210,582
Effect of derivatives held for risk management	5,832,310			2,772,230		8,604,540
Total	35,959,618	6,370,969	1,247,759	3,987,648	249,129	47,815,122

Financial liabilities	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits from customers	31,667,051	5,510	10,762	120,402		31,803,725
Deposits from credit institutions	2,060,408					2,060,408
Borrowings	3,110,614	2,729,371	323,245			6,163,230
Financial liabilities excluding derivatives	36,838,073	2,734,881	334,007	120,402	0	40,027,364
Effect of derivatives held for risk management	5,006,409					5,006,409
Total	41,844,482	2,734,881	334,007	120,402	0	45,033,773
Total interest repricing gap	(5,884,864)	3,636,087	913,752	3,867,245	249,129	2,781,349

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

42. Interest rate risk associated with non-trading portfolios (cont.)

31.12.2013

Financial assets	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	20,651,956	547,014	1,107,526			22,306,495
Loans to customers	16,104,568	8,072,589	1,054,369	1,728,509	282,085	27,242,120
Financial assets excluding derivatives	36,756,524	8,619,602	2,161,895	1,728,509	282,085	49,548,615
Effect of derivatives held for risk management	3,500,595	248,521		2,746,970		6,496,087
Total	40,257,119	8,868,124	2,161,895	4,475,480	282,085	56,044,702

Financial liabilities	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits from customers	34,945,172	23,939	144,954	115,643		35,229,708
Deposits from credit institutions	2,346,121					2,346,121
Borrowings	4,685,067	3,642,349				8,327,416
Financial liabilities excluding derivatives	41,976,360	3,666,288	144,954	115,643	0	45,903,245
Effect of derivatives held for risk management	6,263,282	239,698				6,502,980
Total	48,239,642	3,905,986	144,954	115,643	0	52,406,226
Total interest repricing gap	(7,982,523)	4,962,138	2,016,940	4,359,836	282,085	3,638,476

b. Sensitivity analysis

The Group performs monthly sensitivity analysis on financial assets and liabilities in non-trading portfolios subject to interest rate risk. The sensitivity analysis assumes a shift in the yield curves for all currencies. A parallel shift in yield curves would have the following impact on the Group's pre-tax profit and equity, assuming all other risk factors remain constant:

	Shift in		**30.6.2014**		**31.12.2013**
Currency	**basis points**	**Downward**	**Upward**	**Downward**	**Upward**
ISK, indexed	50	26,317	(26,317)	35,625	(35,625)
ISK, non-indexed	100	29,852	(29,852)	37,133	(37,133)
Other currencies	20	215	(215)	1,209	(1,209)
Total		56,384	(56,384)	73,967	(73,967)

43. Exposure towards changes in the CPI

a. Definition

Exposure towards changes in CPI is the risk that fluctuations in the Icelandic Consumer Price Index (CPI) will affect the balance and cash flow of indexed financial instruments.

The Group is exposed to Icelandic inflation since CPI indexed liabilities exceed CPI indexed assets. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in CPI are recognised in the income statement as interest.

b. Management

The Group controls its indexation risk through derivatives contracts and sales and purchases of indexed bonds, mostly government bonds, and thus keeps its inflationary position within the limits set by the ALCO committee.

c. Balance of CPI linked assets and liabilities

The net balance of CPI linked assets and liabilities is specified as follows:

	30.6.2014	**31.12.2013**
Assets	10,783,241	8,897,489
Liabilities	(5,790,937)	(6,170,250)
Total	4,992,304	2,727,239

44. Currency risk

a. Exchange rates

The following exchange rates have been used by the Group in the preparation of these financial statements:

	Closing 30.6.2014	**Average 6m 2014**	**Closing 31.12.2013**	**Average 6m 2013**
EUR/ISK	154.1	155.8	158.5	162.9
USD/ISK	112.9	113.6	115.0	124.0
ISK trade index	193.6	195.1	198.1	208.9

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

44. Currency risk (cont.)

b. Breakdown of financial assets and financial liabilities denominated in foreign currencies

30.6.2014

Financial assets	**EUR**	**USD**	**Other currencies**	**Total**
Cash and cash equivalents	2,036,876	939,964	839,451	3,816,292
Fixed income securities			5,903	5,903
Shares and other variable income securities	684	72,992	112,815	186,491
Securities used for hedging		362	0	362
Loans to customers	660,965	92,171	49,358	802,494
Other assets			257,491	257,491
Financial assets excluding derivatives	2,698,525	1,105,489	1,265,018	5,069,033
Derivatives		566,833		566,833
Total	2,698,525	1,672,322	1,265,018	5,635,866

Financial liabilities	**EUR**	**USD**	**Other currencies**	**Total**
Deposits from customers	2,643,262	1,369,164	1,009,253	5,021,679
Short positions used for trading		134		134
Short positions used for hedging		362	0	362
Financial liabilities excluding derivatives	2,643,262	1,369,660	1,009,253	5,022,175
Derivatives				0
Total	2,643,262	1,369,660	1,009,253	5,022,175

Net currency position	**EUR**	**USD**	**Other currencies**	**Total**
Net on-balance sheet position	55,264	302,662	255,765	613,691
Financial guarantee contracts	(61,628)	(39,501)	(31,200)	(132,329)
Total	(6,364)	263,161	224,566	481,363

31.12.2013

Financial assets	**EUR**	**USD**	**Other currencies**	**Total**
Cash and cash equivalents	1,075,562	723,636	1,329,127	3,128,324
Fixed income securities	1,109,257	919,053	108,495	2,136,805
Shares and other variable income securities	847	78,272	78,768	157,886
Securities used for hedging	67,152	95,533	0	162,685
Loans to customers	690,747	214,015	49,722	954,484
Other assets		67,596	290,717	358,313
Financial assets excluding derivatives	2,943,565	2,098,104	1,856,828	6,898,497
Derivatives	62,375	2,475		64,850
Total	3,005,940	2,100,579	1,856,828	6,963,347

Financial liabilities	**EUR**	**USD**	**Other currencies**	**Total**
Deposits from customers	2,803,783	1,682,091	1,398,415	5,884,290
Short positions used for trading		185	48	233
Financial liabilities excluding derivatives	2,803,783	1,682,276	1,398,463	5,884,522
Derivatives	47,550	334,047	51,834	433,432
Total	2,851,333	2,016,323	1,450,298	6,317,954

Net currency position	**EUR**	**USD**	**Other currencies**	**Total**
Net on-balance sheet position	154,607	84,256	406,530	645,393
Financial guarantee contracts	(34,078)	(83,136)	(50,033)	(167,247)
Total	120,530	1,120	356,496	478,146

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

44. Currency risk (cont.)

e. Sensitivity to currency risk

Given the net currency position, a 10% change in the value of the ISK would, with other things constant, result in the following changes to the Group's pre-tax profit.

	30.6.2014		31.12.2013	
Assets and liabilities denominated in foreign currencies	**-10%**	**+10%**	**-10%**	**+10%**
EUR	(636)	636	12,053	(12,053)
USD	26,316	(26,316)	112	(112)
Other currencies	22,457	(22,457)	35,650	(35,650)
Total	48,136	(48,136)	47,815	(47,815)

The effect on equity would be the same, net of income tax.

45. Other price risk

Other price risk arises from changes in the market prices of equity securities in the Group's portfolio. The Group invests primarily in equity securities listed on regulated markets, but has also invested in unlisted equities. A breakdown of shares and other variable income securities is provided in note 13. The Group's risk is the general risk involved in investing in equity securities. Efforts are made to reduce this risk through active risk management.

	30.6.2014			31.12.2013		
	Average	**Max**	**Carrying amount**	**Average**	**Max**	**Carrying amount**
Listed shares	334,718	500,743	260,380	278,700	524,633	400,662
Listed unit shares	228	237	229	208	231	221
Unlisted shares	186,690	242,355	182,491	244,189	587,835	182,379
Unlisted unit shares	240,933	374,099	146,895	892,923	1,314,089	370,485
Total			589,996			953,747

The Group is also exposed to changes in the market prices of equity options as specified in note 17 and equities included in short positions used for trading as specified in note 27.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Financial assets and liabilities

46. Accounting classification of financial assets and liabilities

The accounting classification of financial assets and liabilities is specified as follows:

30.6.2014 **Financial assets**	**Held for trading**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other at amortised cost**	**Total carrying amount**
Cash and cash equivalents				16,199,701		16,199,701
Fixed income securities	3,814,105	239,986	1,321,953			5,376,045
Shares and other variable income securities	335,349	254,647				589,996
Securities used for hedging		4,309,090				4,309,090
Loans to customers				23,010,881		23,010,881
Derivatives	515,966					515,966
Other assets				219,550		219,550
Total	4,665,420	4,803,723	1,321,953	39,430,133	0	50,221,229

Financial liabilities	**Held for trading**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other at amortised cost**	**Total carrying amount**
Deposits from customers					31,803,725	31,803,725
Deposits from credit institutions					2,060,408	2,060,408
Borrowings					6,163,230	6,163,230
Short positions used for trading	4,283,851					4,283,851
Short positions used for hedging	1,139,306					1,139,306
Derivatives	66,959					66,959
Other liabilities					2,191,364	2,191,364
Total	5,490,117	0	0	0	42,218,728	47,708,844

31.12.2013 **Financial assets**	**Held for trading**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other at amortised cost**	**Total carrying amount**
Cash and cash equivalents				22,306,495		22,306,495
Fixed income securities	2,416,145	197,537	1,671,154			4,284,835
Shares and other variable income securities	692,893	260,854				953,747
Securities used for hedging		2,853,272				2,853,272
Loans to customers				27,242,120		27,242,120
Derivatives	504,341					504,341
Other assets				339,403		339,403
Total	3,613,378	3,311,663	1,671,154	49,888,018	0	58,484,213

Financial liabilities	**Held for trading**	**Designated at fair value**	**Available for sale**	**Loans and receivables**	**Other at amortised cost**	**Total carrying amount**
Deposits from customers					35,229,708	35,229,708
Deposits from credit institutions					2,346,121	2,346,121
Borrowings					8,327,416	8,327,416
Short positions used for trading	4,492,682					4,492,682
Short positions used for hedging	3,174,046					3,174,046
Derivatives	184,109					184,109
Other liabilities					1,697,634	1,697,634
Total	7,850,836	0	0	0	47,600,880	55,451,716

Notes to the Consolidated Financial Statements

47. Financial assets and liabilities measured at fair value

a. Fair value hierarchy

The fair value of financial assets and liabilities that are traded in active markets are based on quoted market prices. For other financial instruments the Bank determines fair value using various valuation techniques. IFRS 13 specifies a fair value hierarchy based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources whereas unobservable inputs reflect the Bank's market assumptions. These two types of inputs result in the following fair value hierarchy:

- Level 1
  Inputs are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2
  Inputs are not quoted market prices but are observable either directly, i.e. as prices, or indirectly, i.e. derived from prices. This category includes financial instruments valued using quoted prices in active markets for similar instruments, quoted prices for similar or identical instruments in markets that are considered less than active and other instruments which are valued using techniques which rely primarily on inputs that are directly or indirectly observable from market data.

- Level 3
  Inputs are not observable or unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments are required to reflect the differences between the instruments.

b. Valuation process

The Bank's ALCO committee is responsible for fair value measurements of financial assets and liabilities classified as level 2 or level 3 instruments. The valuation is carried out by personnel from Risk and Treasury and is revised at least quarterly, or when there are indications of significant changes in the underlying inputs.

c. Valuation techniques

The Group uses widely recognized valuation techniques, including net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and other valuation models.

Valuation techniques include recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of other instruments that are substantially the same, the discounted cash flow analysis and option pricing models. Valuation techniques incorporate all factors that market participants would consider in setting a price and are consistent with accepted methodologies for pricing financial instruments. Periodically, the Group calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument, without modification or repackaging, or based on any available observable market data.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase in fair value, indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and no 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.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

47. Financial assets and liabilities measured at fair value (cont.)

d. Fair value hierarchy classification

The fair value of financial assets and liabilities measured at fair value in the statement of financial position is classified into the fair value hierarchy as follows:

30.6.2014

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Held for trading				
Fixed income securities	3,814,105			3,814,105
Shares and other variable income securities	335,349			335,349
Derivatives		515,966		515,966
Designated at fair value				
Fixed income securities			239,986	239,986
Shares and other variable income securities		3,244	251,403	254,647
Securities used for hedging	4,309,090			4,309,090
Available for sale				
Fixed income securities	1,321,953			1,321,953
Total	9,780,498	519,210	491,389	10,791,097

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Held for trading				
Short positions used for trading	4,283,845	6		4,283,851
Short positions used for hedging	1,139,306			1,139,306
Derivatives		66,959		66,959
Total	5,423,151	66,965	0	5,490,117

There were no transfers between levels during the period.

31.12.2013

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Held for trading				
Fixed income securities	2,416,145			2,416,145
Shares and other variable income securities	692,893			692,893
Derivatives		504,341		504,341
Designated at fair value				
Fixed income securities			197,537	197,537
Shares and other variable income securities		3,260	257,594	260,854
Securities used for hedging	2,853,272			2,853,272
Available for sale				
Fixed income securities	1,671,154			1,671,154
Total	7,633,463	507,600	455,131	8,596,195

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Carrying amount**
Held for trading				
Short positions used for trading	4,492,675	6		4,492,682
Short positions used for hedging	3,174,046			3,174,046
Derivatives		184,109		184,109
Total	7,666,721	184,115	0	7,850,836

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

47. Financial assets and liabilities measured at fair value (cont.)

e. Reconciliation of changes in Level 3 fair value measurements

30.6.2014	Fixed income securities	Shares and other var. income securities	Total
Balance as at 1 January 2014	197,537	257,594	455,131
Total gains and losses in profit or loss	47,833	(2,977)	44,855
Purchases		816	816
Settlements	(5,383)	(4,030)	(9,413)
Balance as at 30 June 2014	239,986	251,403	491,389

31.12.2013	Fixed income securities	Shares and other var. income securities	Total
Balance as at 1 January 2013	197,455	217,005	414,459
Total gains and losses in profit or loss	39,867	(16,765)	23,102
Purchases	61,851	1,665	63,516
Settlements	(101,635)		(101,635)
Sales		(27,500)	(27,500)
Transfers into Level 3		83,190	83,190
Balance as at 31 December 2013	197,537	257,594	455,131

f. Change in unrealised gains or losses related to Level 3 financial assets held at end of the period

Net financial income - 6m 2014	Fixed income securities	Shares and other var. income securities	Total
Financial assets designated at fair value through profit and loss	47,833	(2,977)	44,855
Total	47,833	(2,977)	44,855

Net financial income - 6m 2013	Fixed income securities	Shares and other var. income securities	Total
Financial assets designated at fair value through profit and loss	34,087	(6,140)	27,947
Total	34,087	(6,140)	27,947

g. Fair value measurements for Level 3 financial assets

Level 3 assets consist primarily of highly illiquid, unlisted bonds, shares and share certificates. Each asset is evaluated separately but assets within an asset group share a valuation method. The following valuation methods are in use:

Asset class	Method	Significant unobservable input	Range	Book value 30.6.2014
Unlisted bonds (performing)	Expected recovery	Value of assets	85-100%	239,936
Unlisted shares	P/B multiplier	Equity	1.07-1.08	70,514
Unlisted unit shares	Investment multiplier	Original investment	0.65	180,890
Other assets (distressed/non-performing)	Fixed, nominal value			50
Total				491,389

Given the methods used, the possible range of the significant unobservable inputs is wide. When determining the values used the Group considers the financial strength of the entity in question, recent trades if any, multipliers for comparable instrument etc.

h. The effect of unobservable inputs in Level 3 fair value measurements

The Group believes its estimates represent appropriate approximations of fair value and that the use of different valuation methodologies and reasonable changes in assumptions or unobservable inputs would not significantly change the estimates.

A 10% change in the estimates would have the following effect on profit before taxes:

	+10%	-10%
Fixed income securities	23,999	(23,999)
Shares and other variable income securities	25,140	(25,140)
Total	49,139	(49,139)

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

48. Financial assets and liabilities not measured at fair value

Financial assets and liabilities not measured at fair value have either a short time to maturity or settlement, variable interest rates or other attributes which result in the carrying amount being a reasonable approximation of their fair value.

a. Fair value hierarchy classification

The carrying amount of financial assets and liabilities not measured at fair value in the statement of financial position is classified into a fair value hierarchy as follows:

30.6.2014

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Fair value**
Cash and cash equivalents		16,199,701		16,199,701
Loans to customers		22,680,553	330,328	23,010,881
Other assets		188,903	30,647	219,550
Total	0	39,069,157	360,975	39,430,133

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Fair value**
Deposits from customers		31,803,725		31,803,725
Deposits from credit institutions		2,060,408		2,060,408
Borrowings		6,163,230		6,163,230
Other liabilities		2,191,364		2,191,364
Total	0	42,218,728	0	42,218,728

31.12.2013

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Fair value**
Cash and cash equivalents		22,306,495		22,306,495
Loans to customers		26,848,644	393,476	27,242,120
Other assets		311,022	28,381	339,403
Total	0	49,466,161	421,857	49,888,018

Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Fair value**
Deposits from customers		35,229,708		35,229,708
Deposits from credit institutions		2,346,121		2,346,121
Borrowings		8,327,416		8,327,416
Other liabilities		1,697,634		1,697,634
Total	0	47,600,880	0	47,600,880

b. Determination of fair value

Cash and cash equivalents includes several components as detailed in note 11. Cash equivalent assets are either balances available on-demand or on very short notice, or other assets easily converted to cash. The carrying amount of these assets is therefore a reasonable approximation of their fair value.

Loans to customers are substantially all either short-term or have variable interest rates and the Group considers their carrying amount to be a reasonable estimate of their fair value.

Other financial assets consist primarily of short-term receivables and their fair value is considered to be the same as carrying value.

Deposits, deposits from credit institutions and borrowings are typically either short-term or have variable interest rates and their carrying amount is considered a reasonable approximation of their fair value.

Other liabilities consist primarily of accounts payables, withholding taxes and other short-term payables, and their fair value is considered to be the same as their carrying value.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Segment information

49. Geographical information

Net operating income is based on the customer's country of domicile and assets are based on the geographical location of the assets.

Net operating income	6m 2014	6m 2013
Iceland	1,470,847	2,033,907
Other regions	15,746	33,215
Eliminations	5,715	(66,145)
Total	1,492,307	2,000,977

Total assets	30.6.2014	31.12.2013
Iceland	53,446,459	60,689,382
Other regions	383,652	425,115
Eliminations	(1,254,674)	(605,636)
Total	52,575,437	60,508,862

50. Business segments

Segment reporting is based on the same principles and structure as internal reporting to senior management and the board of directors. Segment performance is evaluated on earnings before tax.

Assets and liabilities which support revenue generation are allocated to business segments. All equity is allocated to Treasury. The segments pay and receive interest from Treasury to reflect the allocation of capital and funding costs, with inter segment pricing being determined on an arm's length basis. Administrative expenses of support functions are allocated to business segments based on the underlying cost drivers.

a. Reportable segments

The Group defines four reportable segments which reflect the reporting structure of the Bank.

- **Asset Management** manages assets on behalf of its clients, who consist primarily of institutional investors and high net worth individuals, and offers a variety of products and services to meet their diverse needs.
- **Banking** provides selected banking services with a special focus on SME's and professionals and also provides Treasury services to the Bank.
- **Markets** provides securities and foreign currency brokerage, specialized lending and market making activities and merger and acquisition advisory services to clients, which include institutional investors, corporates and high net worth individuals.
- **Asset Financing** provides equipment financing to individuals and corporate clients.

Subsidiaries, other divisions of the Bank and certain legacy assets form a fifth reportable segment, **Other Operations**.

A substantial change in the definition of reportable segments took effect on 1 January 2014. The change was introduced to support organizational changes and a renewed focus on core competencies and involved the introduction of two new segments, Banking and Markets, which replaced two segments which were phased out, Investment Banking and Retail Banking. The change also involved the transfer of certain products and revenue streams between segments. As a result no comparative information is available.

b. Business segment balance sheet

30.6.2014	**Asset Management**	**Banking**	**Markets**	**Other**	**Elimination entries**	**Total**
Segment assets 30.6.2014	112,143	83,231,885	15,934,725	2,289,168	(48,992,485)	52,575,437
Segment liabilities 30.6.2014	112,143	78,384,990	15,934,725	2,289,168	(48,992,485)	47,728,541
Segment equity 30.6.2014	0	4,846,896	0	0	0	4,846,896

31.12.2013	**Asset Management**	**Banking**	**Markets**	**Other**	**Elimination entries**	**Total**
Segment assets 31.12.2013	130,492	94,437,261	16,029,729	5,966,472	(56,055,092)	60,508,862
Segment liabilities 31.12.2013	130,492	89,400,494	16,029,729	5,966,472	(56,055,092)	55,472,095
Segment equity 31.12.2013	0	5,036,767	0	0	0	5,036,767

The Other column includes Asset Financing and Other Operations.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

50. Business segments (cont.)

c. Business segments results

6m 2014	Asset Management	Banking	Markets	Other	Elimination entries	Total
Net interest income	(21)	329,914	159,665	183,953	0	673,512
Net fee and commission income	122,627	146,338	376,526	181,913	(13,211)	814,192
Net financial (expense) income	(166)	(493)	(49,169)	(3,799)	0	(53,627)
Share in profit of associates, net of income tax	8,560	0	0	(41,850)	18,926	(14,364)
Other operating income	0	2,268	703	69,625	0	72,595
Net operating income from external customers	130,999	478,027	487,725	389,842	5,715	1,492,307
Net operating income from internal customers	2,148	268,793	(100,852)	(170,088)	0	0
Net operating income	133,147	746,819	386,873	219,754	5,715	1,492,307
Administrative expenses	(187,883)	(623,425)	(426,800)	(390,295)	13,211	(1,615,192)
Impairment of loans and receivables	0	(19,111)	0	349	0	(18,762)
(Loss) profit from assets held for sale	0	0	0	(3,548)	0	(3,548)
(Loss) profit before taxes	(54,736)	104,283	(39,928)	(173,740)	18,926	(145,194)

The Other column includes Asset Financing and Other Operations.

MP banki hf. Amounts are in ISK thousands

Notes to the Consolidated Financial Statements

Other information

51. Related parties

a. Definition of related parties

The Group has a related party relationship with the board members of the Bank, the CEO of the Bank and key employees (together referred to as management), associates as disclosed in note 19, shareholders with significant influence over the Bank, close family members of individuals identified as related parties and entities under the control or joint control of related parties.

b. Arm's length

Transactions with related parties are carried out at arm's length and subject to an annual review by the Bank's internal auditors.

c. Effects on statement of financial position

30.6.2014	Loans & receivables	Deposits & payables
Management and board members	7,541	276,681
Associates	0	200,488
Total	7,541	477,170

31.12.2013	Loans & receivables	Deposits & payables
Management and board members	10,784	188,940
Associates	2,307	314,172
Total	13,091	503,112

d. Off-balance sheet obligations

As at 30 June 2014 and 31 December 2013 there were no off-balance sheet obligations with related parties.

e. Effects on income statement

6m 2014	Interest income	Interest expense	Impairment expense	Fees received	Fees paid
Management and board members	37	2,755	0	2	2,016
Associates	0	3,569	0	0	133
Total	37	6,324	0	2	2,149

6m 2013	Interest income	Interest expense	Impairment expense	Fees received	Fees paid
Management and board members	1,533	3,906	0	2,347	1,326
Associates	0	1,898	0	0	1,694
Total	1,533	5,804	0	2,347	3,020

52. Other matters

The Bank has sold the majority of the assets of its equipment financing business, which operated under the brand name Lykill. The assets transferred consisted primarily of equipment financing contracts with individuals and accounted for approximately 7% of the Bank's total assets at the date of closing. The sale did not have a significant impact on the Bank's income statement.