MP Fjárfestingarbanki hf.

(MP Investment Bank)

Financial Statements
for the Year 2006
ISK

MP Fjárfestingarbanki hf.
Skipholt 50d, 105 Reykjavík, Iceland
Reg.no. 540599-2469

Contents

Endorsement by the Board of Directors and the Managing Director

The Financial Statements are prepared in accordance with the Act on Financial Statements and Rules on the Financial Statements of Credit Institutions. The Financial Statements include the Consolidated Financial Statements of the Bank and its subsidiaries, in addition to the Bank's Financial Statements. The Financial Statements have been prepared in accordance with the same accounting principles as during the previous years.

MP Investment Bank achieved it's best annual result ever in 2006 and expanded successfully in almost all areas of it's operation. This development was in spite of turmoil in the Icelandic financial markets during the year, with large fluctuations in local currency and securities markets. The policy of diversification into international markets and enhanced risk control was instrumental in achieving this result. In 2006 the Bank lowered its own exposure to the domestic stock market but foreign activities increased considerably during the year. The Board of Directors views the outlook for the Bank as very positive. The trends of increased service revenue in Iceland and solid growth in foreign markets remain intact.

According to the Income Statement, the Group's net profit for the year amounted to ISK 1,316 million. According to the Balance Sheet the Group's capital amounted to ISK 5,077 million at the end of the year. The capital ratio for the Group / Parent that is calculated in accordance with provisions of the Act on Financial Institutions is 19.2% / 19.4%. According to the Act this ratio may not be lower than 8.0%. The Board of Directors proposes that a dividend of 18% will be paid in the year 2007 on 2006 operations. Other changes in the equity and the allocation of profit are shown in the Notes.

The Bank's share capital amounted to ISK 1,070 million at the end of the year 2006 and it was increased by ISK 70 million during the year, including employee's share purchase program. The sales price of the share capital amounted to ISK 565 million. Four shareholders held more than 10.0% of the shares in the Bank at year-end 2006. Their shareholding is specified as follows:

	Ownership
Margeir Pétursson and companies under his control...	27.8%
BYR Sparisjóður (Savings Bank)..	13.4%
Sigurður Gísli Pálmason and company under his control...	12.2%
Jón Pálmason and company under his control..	12.2%

On May 9, 2006, Styrmir Þór Bragason became the Managing Director of MP Investment Bank.

The Bank's Board of Directors and Managing Director hereby confirm the Bank's Financial Statements for the year 2006 by means of their signatures.

Vilnius, March 15, 2007

Board of Directors:

Margeir Pétursson

Ágúst Sindri Karlsson

Sigurður Gísli Pálmason

Sigfús Ingimundarson

Jón Þorsteinn Jónsson

Managing Director:

Styrmir Þór Bragason

Independent Auditors´ Report

To the Board of Directors and Shareholders of MP Fjárfestingarbanki hf. (MP Investment Bank).

Report on the Financial Statements

We have audited the accompanying Financial Statements and Consolidated Financial Statements of MP Investment Bank, which comprise the Balance Sheet as at December 31, 2006, and the Income Statement and Cash Flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Icelandic Act on Financial Statements. 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the 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 policies 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 opinion.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of MP Investment Bank as of December 31, 2006, and of its financial performance and its Cash Flows for the year then ended in accordance with the Icelandic Act on Financial Statements.

Reykjavík, March 15, 2007

Sæmundur Valdimarsson
Hildur Sigurðardóttir

KPMG hf.

Income Statement for the Year 2006

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
Financial Income:					
Interest from credit institutions		129,072	88,878	129,072	63,231
Interest on loans		521,175	213,412	520,705	213,413
Interest on market securities		460,988	310,568	412,108	310,568
Other interest income	19	1,290,668	331,576	1,298,156	338,922
	5	2,401,903	944,434	2,360,041	926,134
Financial Expenses:					
Interest to credit institutions		21,687	24,660	21,687	24,660
Interest on borrowings		2,303,286	920,163	2,262,596	906,689
Interest on subordinated loans		8,759	4,651	8,759	4,651
Other interest expenses		3,028	3,688	3,028	3,688
	5	2,336,760	953,162	2,296,070	939,688
Net interest income		65,143	(8,728)	63,971	(13,554)
Other Operating Income:					
Income from shares and other holdings	6	37,023	29,217	39,001	36,946
Fee and commissions	7	1,051,566	672,998	1,048,065	670,627
Commission expenses		(38,336)	(16,594)	(38,336)	(17,126)
Net trading gain	20	1,059,251	285,518	1,059,251	285,518
Sundry operating income		157	146	157	146
		2,109,661	971,285	2,108,138	976,111
Net operating income		2,174,804	962,557	2,172,109	962,557
Other Operating Expenses:					
Salaries and related expenses	22	295,810	182,928	295,810	182,928
Other operating expenses		165,841	103,352	164,572	103,352
Depreciation	12,36	3,458	2,504	3,458	2,504
		465,109	288,784	463,840	288,784
Provision for losses	10,31	(99,967)	(6,000)	(99,967)	(6,000)
Profit before income tax		1,609,728	667,773	1,608,302	667,773
Income tax	13,42	(293,927)	(54,348)	(292,501)	(54,348)
Net Profit for the Year	46	1,315,801	613,425	1,315,801	613,425
Earnings Per Share:					
Earnings per share of one ISK	8,26	1.26	2.06	1.26	2.06

Financial Statements of MP Investment Bank hf. 2006 5 Amounts are in thousands of ISK

Balance Sheet

Assets

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
Cash and Amounts due from Credit Institutions	27	2,898,986	1,211,809	2,396,352	1,059,763
Loans	9,28-31	7,188,550	2,900,351	7,322,114	2,900,351
Market Securities and Shares in Other Companies:					
Bonds and other fixed-income securities	32	12,431,619	5,792,458	12,107,527	5,479,414
Shares and other variable-income securities	33	17,626,392	13,804,213	17,626,392	13,804,213
Shares in associated companies	34	285,976	147,449	285,976	147,449
Shares in subsidiaries	35	0	0	30,499	7,729
	11	30,343,987	19,744,120	30,050,394	19,438,805
Other Assets:					
Property and equipment	12,36	168,104	121,692	168,104	121,692
Sundry assets		1,444,174	871,048	1,463,662	1,099,617
Prepaid expenses and accrued income		672,557	252,111	672,557	252,112
Deferred tax assets	13,41	16,993	0	16,993	0
		2,301,828	1,244,851	2,321,316	1,473,421
Total Assets		42,733,351	25,101,131	42,090,176	24,872,340

Financial Statements of MP Investment Bank hf. 2006 6 Amounts are in thousands of ISK

Liabilities and Capital

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
Amounts Owed to Credit Institutions	39	7,733,282	1,178,199	7,733,282	1,178,199
Borrowings	40	25,468,798	18,997,764	24,910,907	18,769,007
Other Liabilities:					
Sundry liabilities		3,323,968	698,346	3,238,684	698,346
Accrued expenses		1,071,581	786,033	1,071,581	786,033
		4,395,549	1,484,379	4,310,265	1,484,379
Deferred Income Tax Liability	13,41	0	20,990	0	20,990
Subordinated Loans	14,43	58,437	72,632	58,437	72,632
Capital:					
Share capital	44	1,070,000	1,000,000	1,070,000	1,000,000
Share premium		1,218,275	723,315	1,218,275	723,315
Revaluation reserve		46,391	47,339	46,391	47,339
Translation reserve		792	34	792	0
Retained earnings		2,741,827	1,576,479	2,741,827	1,576,479
	45-47	5,077,285	3,347,167	5,077,285	3,347,133
Total Liabilities and Capital		42,733,351	25,101,131	42,090,176	24,872,340

Not included in the Balance Sheet:

	Notes
Obligations on behalf of customers	48
Other obligations	49

Financial Statements of MP Investment Bank hf. 2006 7 Amounts are in thousands of ISK

Statement of Cash Flows for the Year 2006

	Notes	Group 2006	Group 2005	Parent 2006	Parent 2005
Cash Flows from Operating Activities:					
Net profit for the year	46	1,315,801	613,425	1,315,801	613,425
Difference between net profit and cash from operations:					
Indexation and exchange rate difference		710,796	98,254	710,796	98,221
Depreciation	36	3,458	2,504	3,458	2,504
Provision for losses	31	99,967	6,000	99,967	6,000
Share of results in subsidiary and associated company	34,35	8,473	(17,599)	6,495	(25,328)
Deferred income tax, change		(37,776)	19,731	(37,776)	19,731
Changes in operating assets and liabilities		(134,897)	811,227	(134,897)	811,227
Net cash provided by operating activities		1,965,822	1,533,542	1,963,844	1,525,780
Cash Flows from Investing Activities:					
Deposits with credit institutions, change		(74,835)	(52,387)	(74,835)	(52,387)
Loans, change		(3,854,503)	(635,960)	(3,988,067)	(635,960)
Trading bonds, change		(6,639,161)	(714,016)	(6,628,113)	(400,972)
Trading shares, change		(3,822,179)	(10,300,708)	(3,822,179)	(10,300,708)
Investment in shares in associated company		(147,000)	(61,250)	(167,000)	(61,250)
Investment in property and equipment	36	(49,870)	(723)	(49,870)	(723)
Sundry assets, change		(573,126)	(791,147)	(364,045)	(1,019,717)
Net cash used in investing activities		(15,160,674)	(12,556,191)	(15,094,109)	(12,471,717)
Cash Flows from Financing Activities:					
Amounts owed to credit institutions, change		6,555,084	(1,393,566)	6,555,084	(1,393,566)
Borrowings, change		5,306,574	11,693,117	4,977,440	11,464,360
Other liabilities, change		2,545,622	405,892	2,460,338	405,892
Subordinated loans, change		(14,195)	(14,286)	(14,195)	(14,286)
Dividends paid	46	(151,608)	(142,992)	(151,608)	(142,992)
Capital stock purchased and sold	46	564,960	899,948	564,960	899,948
Net cash provided by financing activities		14,806,437	11,448,113	14,392,019	11,219,356
Increase in Cash and Cash Equivalents		1,611,585	425,464	1,261,754	273,419
Effect of exhange rate fluctuations on cash held		758	0	0	0
Cash and Cash Equivalents at the beginning of the Year		628,661	203,197	476,616	203,197
Cash and Cash Equivalents at the end of the Year	16	2,241,004	628,661	1,738,370	476,616
Other Information:					
Income tax paid		35,965	92,563	34,617	92,563

Financial Statements of MP Investment Bank hf. 2006 8 Amounts are in thousands of ISK

Notes to the Financial Statements

Summary of Accounting Principles

Basis of Preparation

1. The Financial Statements are prepared in accordance with Act of Financial Statements and Rules on the Financial Statement of Credit institutions. The Financial Statements contains the Financial Statements of the Bank and Consolidated Financial Statements of the Bank and its subsidiaries. Intercompany transaction between the group companies are not included in the Consolidated Financial Statements. The Financial Statements are prepared in Icelandic currency and amounts are presented in thousands of ISK. The Financial Statements are based on cost accounting except that listed trading securities valued at market value. The Financial Statements are prepared according to the same accounting principles as for the previous year.

   The Bank merged with Líftæknisjóðurinn hf. during the year and the company is a part of the group from October 1, 2006. The merger will be concluded in April 2007.

   The Bank established Rekstrarfélag MP Investment Bank hf. during the year. The capital of the new company is ISK 20 million and the bank owns 99.99% of the share capital.

2. Subsidiary is a company in which the Bank holds controlling interest. The Financial Statements of the subsidiaries are included in the Consolidated Financial Statements of the Bank from the date that control commencs until the date that control ceases. Balances between group companies, transactions and profit created in transactions between group companies are eliminated in the Financial Statements.

3. Associated company is a company where the Bank has significant influence along with others. The shares are presented at a value corresponding to the Bank's share in the company's equity.

Foreign Currencies

4. Assets and liabilities in foreign currencies are converted to ISK at the year-end 2006 exchange rate, which is ISK 94.61 per each EUR 1 and ISK 71.83 per each USD 1. Operating revenue and expences in foreign currencies are converted at the exchange rate on the date of transaction.

Interest Income and Expenses

5. Interest income and interest expenses are entered into the Income Statement as they accrue based on the effective interest rate. Interest income is calculated on amounts due from other financial institutions, loans, market securities and forwards. Interest expenses are calculated on amounts owed to financial institutions, borrowings and subordinated loans. If loans have been in default for more than three months interest income is no longer calculated.

   Revenue and expenses equalling interest, such as borrowing charges, are included among interest income and expenses as they accrue.

Income from Shares and Other Holdings

6. The item income from shares and other holdings includes shares of results from subsidiaries and associated company, including dividends from trading shares.

Fee and Commission Income

7. Service income includes income from commissions and service charges. Income from commissions is derived from the handling of securities for the Bank's customers and is accrued over the year. Service charges are derived from special projects and are accrued at the end of the projects.

Earnings Per Shares

8. Earnings per share is the ratio between profit and weighted average share capital during the year and shows the profit per each ISK 1 of share capital.

Loans

9. Loans are capitalised with accrued interest, indexation and exchange rate difference at year-end. Indexed loans are based on index in the beginning of January 2007. Loans in foreign currencies are based on the exchange rate of the relevant currencies at year-end 2006.

10. Provision for losses on the loan portfolio is made to meet the risk attached to lending operations. The loss provision is based on estimation and does not present a final write-off. The Bank contributes to the provision account in respect of estimated lending risk each time. Firstly, there are specific provisions to adjust for obligations of creditors that have received a poor risk evaluation, and secondly there is a general provision to meet the general risk of lending operations. Interest on loans, the collection of which is uncertain, is not entered as income. The provision has been deducted from loans to customers in the Balance Sheet.

Market Securities and Holdings

11. Fixed-income securities include bonds and other securities with fixed interest or with a specified interest criterion. Variable-income securities include shares and unit shares. Listed trading securities are valued at year-end market value whereas unlisted trading shares are entered at the lower of the cost price or estimated market price.

Property and Equipment

12. Property and equipment are capitalized at cost price less depreciation, except that the Bank's real estate was revalued at year end 2005. Depreciation is calculated as a fixed annual percentage based on the estimated useful life of the property and equipment until a scrap value is reached. Estimated useful life is specified as follows:

Real estate	50 years
Office equipment	5 years
Computers, software and other computer equipment	3 years

Deferred Tax Assets

13. The deferred tax assets are recorded in the Financial Statements. The asset is based on the difference between Balance Sheet items as represented in the tax return on the one hand and in the Financial Statements on the other. This difference is due to the fact that the tax assessment is based on other premises than the Financial Statements. These are mostly temporary differences because some expenses are exspensed earlier in the tax return than in the Financial Statements.

Subordinated Loans

14. The Bank has borrowed funds by issuing bonds with subordinated terms. The bonds have the characteristics of equity in being subordinate to other liabilities of the Bank. In the calculation of the capital ratio, the bonds are included with equity, as shown in Note 47.

Stock Option Contracts

15. Stock option contracts enable the Bank´s emloyees to acquire shares in the Bank. The purchase price equals the estimated market value of the shares at the grant date. Nothing has been entered due to these stock option contracts in the Income Statement.

Cash and Cash Equivalents

16. Cash and cash equivalents in the Statement of Cash Flows consist of cash and demand deposits with credit institutions.

Derivatives

17. Derivatives are financial instruments, the contracted or notional amounts of which are not included in the Bank's Balance Sheet, either because rights and obligations arise out of one and the same contract or because the notional amounts serve merely as variables for calculating purposes. The notional amounts of derivatives do not necessarily give any indication of the size of the cash flows and the market and credit risk attached to derivatives transactions. Examples of derivatives are forward exchange contracts, swaps and options. The underlying value may involve interest rate, currency rate, bond or equity products.

    Derivatives performance is entered in the Income Statement and in the Balance Sheet. Net assets are capitalized among prepaid expenses and accrued income whereas net obligations are entered among sundry liabilities.

International Financial Reporting Standards

18. According to Icelandic Financial Statements Act, companies with listed bonds must prepare their Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as of the year 2007. The Bank plans to present its report for the first half of 2007 in accordance with IFRS. The main changes in the Bank´s Financial Statements are expected to be related to share based payments, provision for loan losses, valuation of unlisted securities and the presentation of the Income Statement as well as the Balance Sheet. Notes of the Financial Statements will be more detailed.

Financial Income

19. Other interest income are specified as follows:

	Group		Parent	
	2006	2005	2006	2005
Interest from forward contracts	1,251,190	319,224	1,251,190	319,224
Other interest	39,478	12,352	46,966	19,698
Total	1,290,668	331,576	1,298,156	338,922

Financial Statements of MP Investment Bank hf. 2006 11 Amounts are in thousands of ISK

Net Trading Gain

20. Net trading gain are specified as follows:

	Group 2006	Group 2005	Parent 2006	Parent 2005
Net trading (loss) gain on currencies	(169,829)	825	(169,829)	825
Net trading gain on securities	1,229,080	284,693	1,229,080	284,693
Total	1,059,251	285,518	1,059,251	285,518

Personnel

21. The Bank's total number of employees is as follows:

	2006	2005
Average number of employees during the year	24	18
Positions at the end of the year	26	20

22. Salaries and related expenses are specified as follows:

	2006	2005
Salaries	148,120	115,737
Salary-related expenses	41,390	27,191
Accrued performance based salary	106,300	40,000
Total	295,810	182,928

23. Salaries to the Board of Directors and the Managing Director, their stock options and ownership in the Bank are specified as follows:

	Salary and fringe benefits	Ownership at year-end
Styrmir Þór Bragason, Managing Director	9,600	0
Sigurður Valtýsson, former Managing Director	13,135	4,000
Margeir Pétursson, Chairman	4,800	297,087
Sigfús Ingimundarson, Vice Chairman	1,200	8,333
Ágúst Sindri Karlsson, Board member	240	4,200
Sigurður Gísli Pálmason, Board member	240	130,593
Jón Þorsteinn Jónsson, Board member	240	0
Gunnar Árnason, Vice Board member	120	0
Jón Hjartarson, Vice Board member	120	95,783
Örn Andrésson, Vice Board member	120	8,333
Jón Pálmason, Vice Board member	120	130,593
Sigurður R. Helgason, Vice Board member	120	200
Total	30,055	679,122

24. The Bank has granted Board members and companies owned by them loans amounting to ISK 996 million. These loans are granted under the same conditions and terms as to other customers of the Bank.

Financial Statements of MP Investment Bank hf. 2006 12 Amounts are in thousands of ISK

Auditors' Fee

25. Remuneration to the Bank’s Auditors is specified as follows:

	2006	2005
Audit of Financial Statements	5,544	3,361
Review of Interim Financial Statements	1,651	2,833
Other services	1,580	1,896
Total	8,775	8,090

Earnings per Share

26. Calculation of earnings per share is based on profit and the weighted average share capital during the year:

	2006	2005
Net Profit according to the Financial Statements	1,315,801	613,425
Calculated average share capital:		
Share capital according to the Financial Statements at the beginning of the year	1,000,000	284,620
Impact of increase of share capital during the year	47,380	9,028
Impact of purchase and sale of own shares	0	4,328
Calculated average share capital	1,047,380	297,976
Earnings per share	1.26	2.06

Cash and Amounts due from Credit Institutions

27. Cash and Amounts due from credit institutions are specified as follows:

	Group		Parent	
	2006	2005	2006	2005
Cash	44	3	44	3
On demand	2,240,960	628,659	1,738,326	476,613
Over 5 years	657,982	583,147	657,982	583,147
Total	2,898,986	1,211,809	2,396,352	1,059,763

Loans

28. Loans to customers are all specified as debentures.

29. The Bank´s loans are specified by currencies as follows:

	Group		Parent	
	2006	2005	2006	2005
Loans in ISK	4,859,887	1,444,983	4,859,887	1,444,983
Loans in foreign currencies	2,328,663	1,455,368	2,462,227	1,455,368
Total	7,188,550	2,900,351	7,322,114	2,900,351

Financial Statements of MP Investment Bank hf. 2006 13 Amounts are in thousands of ISK

30. Loans to customers are specified by maturity as follows:

	Group		Parent	
	2006	2005	2006	2005
On demand	0	11,376	0	11,376
Up to 3 months	3,103,336	840,226	3,112,264	840,226
Over 3 months and up to 1 year	3,457,563	1,530,345	3,457,563	1,530,345
Over 1 year and up to 5 years	627,651	518,404	752,287	518,404
Total	7,188,550	2,900,351	7,322,114	2,900,351

31. Provision for losses are specified as follows:

	Provision for losses		2006	2005
	Specific	General	Total	Total
Provision at the beginning of the year	5,679	29,077	34,756	34,937
Provision for losses during the year	21,106	(1,139)	19,967	6,000
Actual losses during the year	(13,967)	0	(13,967)	(6,181)
Provision at year-end	12,818	27,938	40,756	34,756
Provisions for losses on the portfolio, as a percentage of loans and issued guarantees	0.2%	0.4%	0.6%	1.2%

Provision for losses in the Income Statement are specified as follows:

	2006	2005
Provision for losses on the loan portfolio	19,967	6,000
Provision for other losses	80,000	0
Total	99,967	6,000

Market Securities and Shares in Other Companies

32. Bonds and other fixed-income securities are specified as follows:

	Group		Parent	
	Market value	Book Value	Market value	Book Value
Trading bonds:				
Listed on Iceland Stock Exhange	11,459,738	11,459,738	11,459,738	11,459,738
Listed foreign bonds	359,496	359,496	35,404	35,404
Unlisted bonds		612,385		612,385
Total trading bonds		12,431,619		12,107,527

The Bank has entered into forward contracts and swaps amounting to ISK 1,665 million against its bonds.

Bonds and other fixed-income securities are specified by issuers as follows:

	Group		Parent	
	2006	2005	2006	2005
Bonds issued by public organisations	1,991,697	4,880,883	1,991,697	4,880,883
Bond issued by financial institutions	9,468,041	236,034	9,468,041	236,034
Bond issued by others	971,881	675,541	647,789	362,497
Total fixed-income securities	12,431,619	5,792,458	12,107,527	5,479,414

Financial Statements of MP Investment Bank hf. 2006 14 Amounts are in thousands of ISK

33. Shares and other variable-income securities are specified as follows:

	Market Value	Book Value
Trading shares and unit shares:		
Listed shares on Iceland Stock Exchange	6,376,447	6,376,447
Listed foreign shares	8,033,358	8,033,358
Listed domestic unit shares	3,275	3,275
Listed foreign unit shares	838,995	838,995
Unlisted domestic shares and shares in Saving Banks		2,324,346
Unlisted foreign shares		49,971
Total trading shares		17,626,392

The Bank has entered into forward contracts and swaps amounting to ISK 14,219 million against its shares and other variable-income securities.

34. MP Investment Bank ownes 49.0% shares in Hraunbjarg hf. which book value is ISK 286 million at year-end. The Banks share of net loss of Hraunbjarg hf. during the year amounted to ISK 8 million.

35. MP Investment Bank ownes all shares in Orange International Investments UK Ltd., which book value is ISK 10 million at year-end. The Banks' share of net profit of Orange International Investments UK Ltd. during the year amounted to ISK 2 million.

The Bank ownes 99.99% of all shares in Rekstrarfélag MP Investment bank hf., which book value is ISK 20 million at year-end. The Company had not started operations at year-end 2006.

Property and Equipment

36. Property and equipment are specified as follows:

	Real estate	Office equipment and fixtures	Total
Total value 1.1.2006	126,268	30,481	156,749
Previosly depreciated	(7,768)	(27,289)	(35,057)
Book value 1.1.2006	118,500	3,192	121,692
Additions during the year	23,700	26,170	49,870
Depreciation during the year	(2,525)	(933)	(3,458)
Book value 31.12.2006	139,675	28,429	168,104
Total value 31.12.2006	149,968	48,196	198,164
Total depreciation 31.12.2006	(10,293)	(19,767)	(30,060)
Book value 31.12.2006	139,675	28,429	168,104
Depreciation ratios	2%	20-33%	

The official assessment value of the real estate owned by the Bank is ISK 79 million and the insurance value of buildings is ISK 84 million.

Financial Statements of MP Investment Bank hf. 2006 15 Amounts are in thousands of ISK

Assets and Liabilities Index-linked or in Foreign Currencies

37. The total amount of indexed assets of the Group and Parent Company amounted to ISK 1,991 million, and the total amount of indexed liabilities amounted to ISK 2,939 million at year-end.

38. The total amount of assets of the Group / Parent Company denominated in foreign currencies amounted to ISK 13,720 / 12,913 million at year end and the total amount of liabilities in foreign currencies amounted to ISK 13,249 / 12,442 million. Among assets and liabilities are forward contracts as shown in Note 49.

Amounts Owed to Credit Institutions

39. Amounts owed to credit institutions is specified as follows:

	2006	2005
Amounts owed to the Central Bank	5,927,713	487,637
Amounts owed to other credit institutions	1,805,569	690,562
Total	7,733,282	1,178,199

Amounts owed to the Central Bank is due to repo transactions.

Borrowings

40. The Bank´s borrowings consist of amounts owed to credit institutions and listed bonds and notes whereof ISK 15,255 million will mature within one year.

Deferred Tax Assets

41. The change in the deferred tax assets is specified as follows:

	2006	2005
Deferred income tax liability at the beginning of the year	(20,990)	(1,259)
Income tax for the year	(292,501)	(54,348)
Additions through business combinations	198,068	0
Income tax related to decrease in revaluation reserve	208	0
Income tax payable	132,208	34,617
Deferred tax assets (liability) at year end	16,993	(20,990)

The Group's income tax expence for the year 2006 is ISK 1 million higher than the income tax of the Parent and has been paid.

The deferred tax assets is specified as follows:

Property and equipment	(12,166)	(11,102)
Other assets	29,159	(9,888)
Deferred income tax asset (liability) at year end	16,993	(20,990)

Financial Statements of MP Investment Bank hf. 2006 16 Amounts are in thousands of ISK

42. The corporate income tax rate in Iceland is 18.0% whereas the effective income tax rate in the Bank's Income Statement is 18.2%. The difference is specified as follows:

		2006
Profit before income tax		1,609,728
18.0% income tax calculated on the profit for the year	18.0%	289,494
Dividends received, exempt from tax	(0.5%)	(8,189)
Other changes	0.70%	11,196
Income tax according to the Income Statement	18.2%	292,501

Subordinated Loans

43. The subordinated loans are in ISK with six months REIBOR interest plus margin. The loan is non-indexed and is due 2010, with yearly payments.

Capital

44. The Bank´s share capital amounts to ISK 1,070 million. One vote is attached to each share of ISK 1 in the Bank. At the end of the year the bank owned no treasury shares. The share capital was increased by a nominal value of ISK 70 million during the year. The sale price was ISK 565 million.

45. The Bank has granted its employees stock options. According to the stock option contracts the Bank has committed itself to allow its emloyees to purchase shares in the Bank for nominal value of ISK 50 million at the price of ISK 150 million. The stock option rate is from 1.75 to 4.00. The employees have accrued stock options amounting to a nominal value of ISK 17 million. The Contracts can be applied during the years 2007 to 2009. No entries have been made in the Bank´s Income Statement due to these stock option contracts.

The Bank has concluded put option agreements with employees. The agreements allows the employees to purchase shares in the Bank at market value from the Bank. The employees have put option on the shares which allows them to sell them back to the Bank according to clauses in the agreements. The nominal value of shares in question amounts to ISK 34 million at the rate from 6.2 to 8.3.

Financial Statements of MP Investment Bank hf. 2006 17 Amounts are in thousands of ISK

46. Capital is specified as follows:

	Share capital	Share premium	Revaluation reserve	Translation reserve	Retained earnings	Total
Capital 1.1.2006	1,000,000	723,315	57,730	34	1,566,088	3,347,167
Deferred income tax ...			(10,391)		10,391	0
Capital 1.1.2006, restated	1,000,000	723,315	47,339	34	1,576,479	3,347,167
Sold new shares	70,000	494,960				564,960
Dividend paid					(151,608)	(151,608)
Revaluation reversed ...			(1,155)		1,155	0
Income tax effects			207			207
Translation differences				758		758
Net profit of the year ...					1,315,801	1,315,801
Capital 31.12.2006	1,070,000	1,218,275	46,391	792	2,741,827	5,077,285

Share premium is specified as follows:

Share premium	1,214,709
Statutory reserve	3,566
Total	1,218,275

47. Capital at year-end amounts to ISK 5,077 million which is 11.9% / 12.1% of the total assets in the Balance Sheet for the Group / Parent. The capital adequacy ratio for the Group / Parent, which may not be lower than 8.0% according to Article 84 of the Act on Financial Institutions, is 19.2% / 19.4%. The ratio is calculated as follows:

	Group Weighted value	**Parent** Weighted value
Risk base:		
Risk base due to credit risk in items not included in the trading book	9,270,140	9,353,164
Risk base due to currency fluctuations	1,879,360	1,879,360
Risk base due to position and counter-party risk in the trading book	14,669,752	14,272,732
Risk base, total	25,819,252	25,505,256
Tier I capital:		
Recorded capital	5,077,285	5,077,285
Assets subtracted from equity	(59,400)	(59,400)
	5,017,885	5,017,885
Tier II capital:		
Subordinated loans	35,687	35,687
Ownership in other credit institutions	(109,574)	(109,574)
Total capital	4,943,998	4,943,998
Capital adequacy ratio	19.2%	19.4%

Financial Statements of MP Investment Bank hf. 2006 18 Amounts are in thousands of ISK

Off-Balance Sheet Obligations

48. The Bank has granted its customers guarantees amounting to ISK 3 million.

49. Derivatives, remaining maturity period of principal and book value are specified as follows:

	Principal			Book value	
	Up to 3 months	Over 3 months up to 1 year	Total	Assets	Liabilities
Foreign exhange rate contracts:					
Forward exchange rate contracts	7,279,649	0	7,279,649	26,231	237,222
Securities contracts:					
Securities contracts	7,660,033	8,223,500	15,883,533	332,750	470,695
Derivatives, total............................	14,939,682	8,223,500	23,163,182	358,981	707,917

The book value of derivatives contracts is specified by counter parties as follows:

	Assets	Liabilities
Credit institutions	26,231	237,222
Other customers	332,750	673,116
Total	358,981	910,338

The objective of the above-mentioned agreements is to reduce the currency and interest rate risk of the Bank. The Bank´s risk due to these contracts includes loans, interest and currency rate differential.

Financial Statements of MP Investment Bank hf. 2006 19 Amounts are in thousands of ISK