` çåëçäáÇ~íÉÇ=cáå~åÅá~ä=pí~íÉãÉåíë

Ñçê=íÜÉ=óÉ~ê=OMMV

Arion banki hf.
Borgartún 19
105 Reykjavík
Iceland

Reg. no. 581008 - 0150

` çåíÉåíë

Endorsement and Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Arion banki hf. for the year ended 31 December 2009 include the Financial Statements of Arion banki hf. and its subsidiaries, together referred to as "the Bank".

Late 2008, at the height of the financial crisis, the Icelandic state took control of Kaupthing banki hf. under the Emergency Act and certain assets and liabilities were transferred from Kaupthing banki hf. to a new entity. The new entity was initially named New Kaupthing banki hf. but on 21 November 2009 the name was changed to Arion banki hf. The year 2009 is the first full operating year of Arion banki hf. The Bank is a group of financial undertakings which provide comprehensive services to companies, institutions and private customers. These services include corporate banking, retail banking, capital markets services, corporate financing and recovery, asset management and comprehensive wealth management for private banking clients.

Operations for the year

Consolidated net earnings amounted to ISK 12,871 million for the year ended 31 December 2009. The Board of Directors proposes that no dividend will be paid. Consolidated total equity amounted to ISK 90,034 million at the end of the year, including share capital amounting to ISK 12,646 million. The capital adequacy ratio of the Bank, calculated according to the Act on Financial Undertakings, was 13.7%. By law this ratio is required to be no lower than 8.0%, but the Icelandic Financial Services Authority ("FME") requires it to be no less than 12%.

The transfer of ownership of assets and liabilities from Kaupthing banki hf. to Arion banki hf. and the following restructuring of assets posed several challenges in the operations of Arion banki hf. during the year 2009. The valuation of the transferred assets was a time consuming task. It was finalised with an agreement between the Icelandic State and the Resolution Committee of Kaupthing banki hf. on 20 July 2009.

The restructuring of the transferred assets is an ongoing process which receives great attention within Arion banki hf. Several structural changes were made within the Bank in 2009 that exemplify that, such as the formation of a special division to focus on the reconstruction and recovery of assets. Additionally structural changes were made to improve all aspects of Corporate Governance.

A mismatch in Arion banki hf. foreign currency balance means that the net earnings are very sensitive to changes in the exchange rate. The ISK depreciated by 7.6% against a trade weighted currency basket during the year, which is the principal reason for the net foreign exchange gain of ISK 10,250 million and increased loan impairment during the year.

With the acquisitions of two savings banks in 2009 the Bank's customer base grew by close to 25% reaching one hundred thousand. Information on the impact of these acquisitions on the Bank can be found in notes 34-35.

Arion banki hf. made numerous operational changes during 2009 to adjust the cost structure of the Bank to the new economic reality. The branch network was rationalised, IT structure and costs adjusted to the current operational needs of the Bank and the methodology of Lean Management introduced in several divisions, to name only a few. Arion banki hf. today has the most efficient branch network in Iceland.

In 2009 the Bank was entirely owned by the Icelandic State. On 8 January 2010 Kaupskil hf. signed an agreement with the Icelandic State on capitalization and future ownership of 87% shareholding in Arion banki hf. The Icelandic State will remain a 13% shareholder of the Bank. The impacts on the financial position of the Bank are exemplified in notes 111-115 and 120.

Outlook

The Bank faces significant country risk. Its exposures are concentrated within Iceland, a country which at year end 2008 experienced an economic collapse. Even though progress was made in 2009 the economic environment continues to pose a challenge to the operations of Arion banki hf. About 70% of corporate debt was currency linked prior to the crisis. The 2008 collapse of the currency therefore created substantial debt problems which add to economic difficulties created by falling output. The pass from the currency market to the goods market is rapid and Iceland thus has had to deal with both inflation and unemployment from contracting GDP. On the other hand, a lower currency stimulates the economy through exports and has undeniably created a competitive edge for the country in the rebuilding process.

The reconstruction of assets will continue to be one of the most important tasks for the Bank. Both individuals and corporations continue to face financial difficulties and inability to service their debt. Many have negative equity. The importance of this task is great for the Bank, its customers and the Icelandic economy as a whole. The Bank´s goal is to maximise the recovery of its assets at the same time as financially healthy and active corporations and households are returned back into the economy to fuel the much needed economic recovery.

båÇçêëÉãÉåí=~åÇ=pí~íÉãÉåí=Äó=íÜÉ=_ç~êÇ=çÑ= aáêÉÅíçêë=~åÇ=íÜÉ=`bl

Continuous efforts will be made to increase operational efficiency, to improve Corporate Governance procedures and to reduce the Bank's currency imbalance. Additionally the Bank will focus on diversifying both its loan portfolio as well as its funding sources and on extending the maturity profile of its funding.

The Bank continuously focuses on improving its services and building long term relationships with its customers; individuals as well as corporations. Trust is a key issue here. The Bank needs to regain trust among its customers and the Icelandic nation as a whole. To do that the Bank must excel in providing traditional banking services and channel savings to profitable investment opportunities benefitting not only our customers but the whole of the Icelandic economy.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements for the year ended 31. December 2009 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

On 18 March 2010 new Board of Directors was appointed for Arion banki hf. The new Board endorses the information as reported in the Consolidated Financial Statement for 2009.

It is our opinion that the Consolidated Financial Statements give a true and fair view of the consolidated financial performance of the Bank for the year 2009, its consolidated financial position as at 31 December 2009 and its consolidated cash flows in 2009.

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

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Arion banki hf. for the year 2009 and confirm them by means of their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements be approved at the Annual General Meeting of Arion banki hf.

Reykjavík, 5 May 2010

Board of Directors

Monica Caneman
Chairman

Gudrún Johnsen

Steen Hemmingsen

Kristján Jóhannsson

Theodór S. Sigurbergsson

Chief Executive Officer

Finnur Sveinbjörnsson

fåÇÉéÉåÇÉåí=^ìÇáíçê∂ë=oÉéçêí

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

We have audited the accompanying Consolidated Financial Statements of Arion banki hf. and its subsidiaries (the "Bank"), which comprise the Consolidated Statement of Financial Position as at 31 December 2009, the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 Bank'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 audit opinion.

Opinion

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

Emphasis of matter

Without qualifying our opinion we draw your attention to notes 2 d), 33 and 111 to the Consolidated Financial Statements concerning the carrying values of assets involving accounting estimates and judgements, and the sensitivity of these carrying values to changes in reasonably possible alternative assumptions and estimates. Actual amounts realised in the future from these assets could differ from current estimates and significant uncertainty exists over whether the differences may be material to the Consolidated Financial Statements.

Reykjavík, 5 May 2010

Ernst & Young hf.

Margrét Pétursdóttir, Partner

Consolidated Statement of Comprehensive Income
for the year 2009

	Notes	2009	2008 22.10.-31.12.
Interest income		66,905	17,367
Interest expense		(54,759)	(13,169)
Net interest income	39	12,146	4,198
Increase in value of loans and receivables	40	20,199	-
FX gain on loans and receivables from ISK income customers	47	1,535	16,906
Impairment on loans and receivables	41	(11,474)	(19,723)
Changes in compensation instrument	73	(10,556)	-
Net interest income less valuation changes on loans and receivables	39	11,850	1,381
Fee and commission income		8,291	1,658
Fee and commission expense		(2,429)	(371)
Net fee and commission income	42	5,862	1,287
Net financial income (expense)	43-46	1,638	(6,060)
Net foreign exchange gain	47	8,715	14,198
Share of profit or loss of associates	75	369	498
Other operating income	48-49	21,201	418
Operating income		49,635	11,722
Salaries and related expense	51-52	(10,413)	(1,228)
Administration expense		(5,317)	(1,392)
Depositors' and investors' guarantee fund	92	(683)	(2,969)
Depreciation and amortisation	77	(1,161)	(109)
Other operating expense	54-55	(16,279)	(57)
Net loss on non-current assets and disposal groups classified as held for sale	56	(375)	(384)
Earnings before income tax		15,407	5,583
Income tax expense	57	(2,536)	(766)
Net earnings		12,871	4,817
Other comprehensive income			
Exchange difference on translating foreign operations	90	(37)	129
Total comprehensive income for the year		12,834	4,946
Attributable to:			
Shareholder of Arion banki hf.		12,970	4,817
Non-controlling interest		(99)	-
Net earnings		12,871	4,817
Earnings per share			
Basic and diluted earnings per share attributable to the shareholder of Arion banki hf. (ISK)	58	1.02	0.38

The notes on pages 10 to 75 are an integral part of these Consolidated Financial Statements.

Arion banki hf. Consolidated Financial Statements 2009 6 Amounts are in ISK millions

Consolidated Statement of Financial Position

as at 31 December 2009

Assets	Notes	2009	2008
Cash and balances with Central Bank	59	41,906	87,555
Loans and receivables to credit institutions	60-61	38,470	47,697
Loans and receivables to customers	62-67	357,734	337,014
Unpaid share capital		-	71,225
Bonds and debt instruments	70-71	173,482	10,761
Shares and equity instruments with variable income	70	7,078	6,609
Derivatives	70,87	6	-
Securities used for hedging	70	2,236	-
Compensation instrument	73	34,371	41,156
Investment property	74	22,947	12,079
Investments in associates	75	5,985	2,843
Property and equipment	76-77	10,700	7,656
Intangible assets	78	3,512	2,432
Tax assets	83-86	1,415	551
Non-current assets and disposal groups held for sale	79	41,527	972
Other assets	80-81	15,975	12,653
Total Assets		757,344	641,203
Liabilities			
Due to credit institutions and Central Bank	70	113,647	122,733
Deposits	70	495,465	421,341
Borrowings	82	11,042	-
Financial liabilities at fair value	70	88	2
Tax liabilities	83-86	2,841	1,031
Non-current liabilities and disposal groups held for sale	79	19,230	-
Other liabilities	88	24,997	19,150
Total Liabilities		667,310	564,257
Equity			
Share capital	89	12,646	12,646
Share premium	89	59,354	59,354
Other reserves	90	1,729	129
Retained earnings		16,150	4,817
Total Shareholder's Equity		89,879	76,946
Non-controlling interest		155	-
Total Equity		90,034	76,946
Total Liabilities and Equity		757,344	641,203

The notes on pages 10 to 75 are an integral part of these Consolidated Financial Statements.

Arion banki hf. Consolidated Financial Statements 2009 7 Amounts are in ISK millions

` çåëçäáÇ~íÉÇ=pí~íÉãÉåí=çÑ=`Ü~åÖÉë=áå=bèìáíó=
Ñçê=íÜÉ=óÉ~ê=OMMV

	Share capital and share premium	Other reserves	Retained earnings	**Total Share-holder's equity**	Non-controlling interest	**Total equity**
2009						
Equity 1 January 2009	72,000	129	4,817	76,946	-	76,946
Total comprehensive income for the year						
attributable to the shareholder of Arion banki hf.		(37)	12,970	12,933	-	12,933
Total other comprehensive income for the year						
attributable to the non-controlling interest				-	(99)	(99)
Transfer to statutory reserve		1,637	(1,637)	-	-	-
Non-controlling interests acquired during the year				-	254	254
Equity 31 December 2009	72,000	1,729	16,150	89,879	155	90,034
Changes in equity from 22 October to 31 December 2008:						
Total comprehensive income for the period						
attributable to the shareholder of Arion banki hf.		129	4,817	4,946	-	4,946
Issued share capital	72,000	-	-	72,000	-	72,000
Equity 31 December 2008	72,000	129	4,817	76,946	-	76,946

The notes on pages 10 to 75 are an integral part of these Consolidated Financial Statements.

Arion banki hf. Consolidated Financial Statements 2009 8 Amounts are in ISK millions

Consolidated Statement of Cash Flows

for the year 2009

	Notes	2009	2008 22.10.-31.12.
Cash flows (used in) from operating activities:			
Earnings before income tax		15,407	5,583
Adjustments to reconcile earnings before income tax cash flow (used in) from operating activities:			
Non-cash items included in net earnings before income tax and other adjustments	98	(15,879)	(5,708)
Changes in operating assets and liabilities	99	(35,362)	76,051
Income taxes paid		(585)	-
Net cash (used in) from operating activities		(36,419)	75,926
Cash flows (used in) from investing activities:			
Purchase of investment property		(2,865)	-
Investment in associated companies		(612)	-
Proceeds from sale of associated companies		193	-
Purchase of intangible assets		(152)	(3)
Purchase of property and equipment		(208)	(17)
Proceeds from sale of property and equipment		138	128
Net cash (used in) from investing activities		(3,506)	108
Cash flows from financing activities:			
Proceeds from shares issued		-	775
Net cash from financing activities		-	775
Net (decrease) increase in cash and cash equivalents		(39,925)	76,809
Cash and cash equivalents at beginning of the year		92,910	13,581
Cash and cash equivalents acquired through business combinations		804	-
Effect of exchange rate changes on cash and cash equivalents		2,305	2,520
Cash and cash equivalents at the end of the year	100	56,094	92,910

Non-cash investing and financing transactions:

The following non-cash investing and financing transactions that occurred during 2009 have been excluded from the Consolidated Statement of Cash Flows:

1. An equity contribution by the Icelandic state of amount ISK 71,225 million was settled through the receipt of Icelandic government bonds (refer note 89).
2. Deposits and overdrafts were transferred to the Bank from SPRON and Sparisjódabanki Íslands hf. in consideration for a bond claim on Drómi ehf. of amount ISK 91,489 million and Sparisjódabanki Íslands hf. of amount ISK 371 million respectively (refer note 34).
3. The net assets of Sparisjódur Mýrasýslu were acquired by way of the issuance of bonds to creditors of nominal amount ISK 9,714 million (refer note 35).
4. The net assets of subsidiaries acquired with a view to resale, with a fair value of ISK 11,255 million, and disposal groups held for sale, with a fair value of ISK 19,689 mln were acquired through the foreclosure on collateral held against loan balances to these entities (refer notes 36 and 79).

The notes on pages 10 to 75 are an integral part of these Consolidated Financial Statements.

Arion banki hf. Consolidated Financial Statements 2009 9 Amounts are in ISK millions

k çíÉë=íç=íÜÉ=` çåëçäáÇ~íÉÇ=cáå~åÅá~ä=pí~íÉãÉåíë
` çåíÉåíë

General information

1. Reporting entity

Arion banki hf., the Parent Company, was established 18 October 2008 and is incorporated and domiciled in Iceland. The Bank was initially named New Kaupthing banki hf. but on 21 November 2009 the name was changed to Arion banki hf. The address of Arion banki hf.'s registered office is Borgartún 19, Reykjavik. The Consolidated Financial Statements for the year ended 31 December 2009 comprise Arion banki hf. and its subsidiaries (together referred to as "the Bank"). The Bank offers integrated financial services to companies, institutional investors and individuals. These services include corporate banking, retail banking, capital markets services, corporate financing and recovery, asset management and comprehensive wealth management for private banking clients.

The Bank has acquired a number of subsidiaries exclusively with view to resale. The acquisitions were the result of foreclosures. As the operation of these subsidiaries is different to the Bank's core operations the effects only appear in limited number of line items in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position.

2. Basis of preparation

a) *Statement of compliance*
The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

The Consolidated Financial Statements were approved and authorised for issue by the Board of Directors of Arion banki hf. on 5 May 2010.

b) *Basis of measurement*
The Consolidated Financial Statements are prepared on the historical cost basis except for the following:

- Financial assets/liabilities held for trading are measured at fair value
- Financial assets/liabilities designated at fair value through profit and loss are measured at fair value
- Investment properties are measured at fair value

Non-current assets (or disposal groups) classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell. Immediately before the initial classification, or where the assets and liabilities are not within the scope of IFRS 5, the carrying amounts are measured in accordance with applicable IFRSs.

c) *Functional and presentation currency*
The Consolidated Financial Statements are presented in Icelandic króna (ISK), which is the Parent Company's functional currency.

d) *Use of estimates and judgements*
The preparation of the Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, contingent liabilities as well as income and expenses in the Consolidated Financial Statements presented. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the Consolidated Financial Statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment within the next financial year are discussed in notes 33, 34, 107, 111 and 112.

Significant accounting policies

The accounting policies set out below have been applied consistently in these Consolidated Financial Statements.

3. Going concern assumption

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue. The Consolidated Statement of Financial Position of the Bank presents significant uncertainty due to the asset-liability mismatches of significant risks as described in the Risk Management disclosures. A considerable portion of the transferred assets from Kaupthing banki hf. are denominated in low interest rate foreign currencies and are funded with on demand deposits denominated in Icelandic króna, a high interest rate currency. Liquidity risk, as well as risks related to imbalances in currency, duration and interest rate base are outlined in the Risk Management disclosures from page 52. Whilst the Bank's stress testing has resulted in the Bank management's assessing that it is sufficiently capitalised to deal with market shocks, significant market shocks during the realignment period of the Bank's risk profile, poses some uncertainty. Of critical importance is the Bank's access to funding to fulfil the maturity of existing short term liabilities and continue to finance the assets of the Bank. The Bank's management has considered the execution of the agreements outlined in note 120 as important to their future business.

The Bank is making progress in adapting to the new economic reality in Iceland with a focus on strengthening the infrastructure and internal control. The main focus has been on safeguarding the value of the Bank's assets through the recovery process and a team of specialists has been put together to work with defaulting customers. A favourable outcome from this process will strengthen the Bank's business. Further information on risk factors in the Bank's operation are provided in the Risk Management Disclosures in notes 101-115.

4. Principles underlying the consolidation

a) *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control usually exists when the Bank holds more than 50% of the voting power of the subsidiary. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of businesses and subsidiaries by the Bank. The cost of an acquisition is measured as the fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, contingent liabilities assumed and equity instruments issued, plus cost directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the net identifiable assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the business/subsidiary acquired, the difference is recognised directly in the Consolidated Statement of Comprehensive Income.

If an investment in subsidiary is classified as held for sale the investment is accounted for, as non-current asset held for sale from the date of classification.

b) *Non-controlling interest*

Non-controlling interests represent the portion of profit or loss and equity not owned, directly or indirectly, by the Bank; such interests are presented separately in the Consolidated Statement of Comprehensive Income and are included in equity in the Consolidated Statement of Financial Position, separately from equity attributable to owners of the Bank. Changes in the Bank's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Bank.

c) *Funds management*

The Bank manages and administers assets held in investment vehicles on behalf of investors. The Financial Statements of these entities are not included in these Consolidated Financial Statements except when the Bank controls the entity.

d) *Transactions eliminated on consolidation*

Intragroup balances, income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements.

5. Associates

Associates are those entities over which the Bank has significant influence, i.e. the power to participate in the financial and operating policy decisions of the associates but not control or joint control over those policies. Significant influence generally exists when the Bank holds between 20% and 50% of the voting power, including potential voting rights. Investments in associates are initially recognised at cost. The carrying amount of investments in associates includes intangible assets and accumulated impairment loss.

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

If an investment in an associate is classified as held for sale the equity method is no longer applied and the investment is accounted for, as a non-current asset held for sale.

6. Foreign currency

a) *Functional currencies*
Items included in the Financial Statements of each of the Bank's subsidiaries are measured using the functional currency of the respective entity.

b) *Foreign currency transactions*
Transactions in foreign currencies are translated to the respective functional currencies of Bank entities at exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies are reported at historic cost.

c) *Foreign operations*
The assets and liabilities of foreign operations are translated to Icelandic króna, at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Icelandic króna at average exchange rates approximating the exchange rates current at the dates of the transactions.

Foreign exchange differences arising on translation are recognised in Consolidated Statement of Comprehensive Income. When a foreign operation is disposed of, in part or in full, the cumulative amount of the exchange differences relating to that foreign operation which is recorded in comprehensive income and accumulated in the separate component of equity, is transferred to the Consolidated Statement of Comprehensive Income when the gain or loss on disposal is recognised.

7. Income and Expense

a) *Interest income and expense*
Interest income and expense are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense presented in the Consolidated Statement of Comprehensive Income include:
- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis,
- Interest on trading assets and liabilities on an accrual basis,
- Interest on financial assets and financial liabilities designated at fair value through profit or loss on an accrual basis,
- Interest on derivatives on an accrual basis.

Interest income on non-performing assets are recognised in the Consolidated Statement of Comprehensive Income using the effective interest method. The Bank recognises losses for impaired loans to offset the recognised interest income when appropriate.

7. cont.

b) *Fee and commission income and expense*

The Bank provides various services to its clients and earns income there from, such as income from Corporate banking, Retail banking, Treasury and Capital Markets, Corporate Finance and Asset Management and Private banking. Fees earned from services that are provided over a certain period of time are recognised as the services are provided. Fees earned from transaction type services are recognised when the service has been completed. Fees that are performance linked are recognised when the performance criteria are fulfilled. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

c) *Net financial income*

Net financial income comprises Dividend income, Net gain on financial assets and liabilities at fair value through profit or loss and Net gain on disposal of financial assets and liabilities not at fair value.

i) Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

ii) Net gain on financial assets and liabilities at fair value through profit or loss comprises: Net gain on trading portfolio, Net gain on assets and liabilities designated at fair value through profit or loss.

Net gain on trading portfolio

Net gains on financial instruments held for trading comprise gains and losses related to financial assets and financial liabilities held for trading, and includes all realised and unrealised fair value changes, except for interest (which is included in "Interest income" and "Interest expense") and foreign exchange gains and losses (which are included in "Net foreign exchange gains" as described below).

Net gain on assets and liabilities designated at fair value through profit or loss

Net gains on financial instruments designated at fair value through profit or loss comprise gains and losses related to financial assets and financial liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes, except for interest (which is included in "Interest income" and "Interest expense") and foreign exchange gains and losses (which are included in "Net foreign exchange gains" as described below).

iii) Net foreign exchange gains comprise all foreign exchange differences arising on the settlement of foreign currency monetary assets and liabilities and on translating foreign currency monetary assets and liabilities at rates different from those at which they were translated on initial recognition during the year or in previous financial statements.

Net foreign exchange gains also include foreign exchange differences arising on translating non-monetary assets and liabilities which are measured at fair value in foreign currencies and whose other gains and losses are also recognised in profit or loss.

iv) Net gain on financial assets and liabilities not at fair value through profit or loss relates to derecognition of certain financial assets and liabilities and comprises Net realised gain (loss) on financial liabilities measured at amortised cost and other net realised gain (loss). It does not include either unrealised foreign exchange gains (loss) or interest income and expense which are included in other line items.

d) *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date.

The deferred income tax asset / liability has been calculated and entered in the Consolidated Statement of Financial Position. The calculation is based on the difference between Consolidated Statement of Financial Position items as presented in the tax return on the one hand, and in the Consolidated Financial Statements on the other. This difference is due to the fact that tax assessments are based on premises that differ from those governing the Consolidated Financial Statements, mostly because revenues and settlement is not expected at the same time. A deferred tax asset is only offset against income tax liability if they are due to tax assessment from the same tax authorities.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

8. Impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

An impairment loss is recognised whenever the carrying amount of a financial asset exceeds its recoverable amount. Impairment losses are recognised as described below.

a) *Impairment on loans and receivables*

The Bank recognises losses for impaired loans when there is objective evidence that impairment of a loan or portfolio of loans has occurred. This is done on a consistent basis in accordance with the Bank's guidelines.

There are two basic methods of calculating impairment losses, those calculated on individual loans and those losses assessed on a collective basis. Losses expected as a result of future events, no matter how likely, are not recognised.

Objective evidence of impairment includes observable data about the following loss events:

i) Significant financial difficulty of the borrower;

ii) A breach of contract, such as a default on instalments or on interest or principal payments;

iii) The Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;

iv) It becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;

v) Deterioration in collateral to loan ratio; or

vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:

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

Individually assessed loans

Impairment losses on individually assessed accounts are determined by an evaluation of the exposures on a case-by-case basis. The Bank assesses at each reporting date whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant. In determining such impairment losses on individually assessed accounts, the following factors are considered:

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

Impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value and the amount of any loss is charged in the Consolidated Statement of Comprehensive Income. The carrying amount of impaired loans is reduced through the use of an allowance account. In the case of a loan at variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Collectively assessed loans

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

8. cont.

The collective impairment loss is determined after taking into account:

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

The estimated period between a loss occurring and its identification is determined for each identified portfolio.

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

Loan write-offs

Loans are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

Reversals of impairment

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised or acquired, the previously recognised or acquired impairment loss is reversed. The amount of any reversal is recognised in the Consolidated Statement of Comprehensive Income.

In some cases, financial assets are acquired at a deep discount that reflects incurred credit losses. The Bank includes such incurred credit losses in the estimated cash flows when computing the effective interest rate. If the Bank revises its estimate of payments or receipts, the Bank adjusts the carrying amount of the financial asset to reflect actual and revised estimated cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument´s original effective interest rate. The adjustment is recognised as interest income in profit or loss when recalculation results in an increase in carrying amount and impairment when decrease in carrying amount.

Assets acquired in exchange for loans

Assets acquired in exchange for loans are recorded as non-current assets held for sale in the Consolidated Statement of Financial Position if its sale is highly probable and management is committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan have been initiated. The non-current asset held for resale is recorded at the lower of its fair value less costs to sell, and the carrying amount of the loan, net of impairment allowance amounts, at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the Consolidated Statement of Comprehensive Income. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the Consolidated Statement of Comprehensive Income.

b) *Calculation of recoverable amount*

The recoverable amount of the Bank's investments in financial assets carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate, i.e. the effective interest rate computed at initial recognition of these financial assets.

c) *Impairment on investments in associates*

After applying the equity method to account for investments in associates, the Bank determines whether it is necessary to recognise any impairment loss with respect to its investments in associates. The Bank first determines whether there is any objective evidence that an investment in an associate is impaired. If such evidence exists, the Bank then tests the entire carrying amount of the investment for impairment, by comparing its recoverable amount, which is the higher of value in use and fair value less costs to sell, with its carrying amount. The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the Bank. The excess of the carrying amount over the recoverable amount is recognised in the Consolidated Statement of Comprehensive Income as an impairment loss. Impairment losses are subsequently reversed through the Consolidated Statement of Comprehensive Income if the reasons for the impairment loss no longer apply.

9. Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than non-current assets held for resale, investment property and deferred tax assets, are reviewed at each reporting date to determine, whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of intangible assets is assessed annually.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of other assets, where impairment losses have been recognised in prior periods, are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

10. Derivatives

A derivative is a financial instrument or other contract, the value of which changes in response to a change in an underlying variable, such as share, commodity or bond prices, an index value or an exchange or interest rate, which requires no initial net investment or initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and which is settled at a future date.

Derivatives are recognised at fair value. Fair value changes are recognised in the Consolidated Statement of Comprehensive Income. Changes in fair values of derivatives are split into interest income, foreign exchange differences and other gains and losses. Interest income is recognised on an accrual basis. Derivatives with positive fair values are recognised as Derivatives among Financial assets and derivatives with negative fair values are recognised as Financial liabilities at fair value.

The fair value of derivatives is determined in accordance with the accounting policy presented in note 13.

11. Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Cash Flows consist of cash, demand deposits with the Central Bank and demand deposits with other credit institutions. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

12. Loans and receivables

Loans and receivables are financial instruments with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans include loans provided by the Bank to credit institutions and to its customers, participation in loans from other lenders and purchased loans.

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

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Accrued interest is included in the carrying amount of the loans and receivables.

13. Financial assets measured at fair value through profit and loss.

a) *Trading assets*

Trading assets are financial instruments acquired principally for the purpose of generating profits from short term price fluctuations or from a dealer's margin, and derivative financial instruments.

Securities used for hedging are trading securities acquired exclusively in order to hedge against market risk of asset swap derivative contracts.

b) *Financial assets designated at fair value through profit or loss*

The Bank classifies certain financial assets upon their initial recognition as financial assets held at fair value with fair value changes recognised in the Consolidated Statement of Comprehensive Income as Net financial income if doing so results in more relevant information because:

i) the assets are managed, evaluated and reported internally on a fair value basis;
ii) the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
iii) the assets contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

The assets classified according to the above mentioned conditions consist of equity and debt instruments which are acquired by the Bank with a view to profiting from their total return and which are managed and evaluated on a fair value basis.

Interest and dividend income that arises from these assets are included in Interest income and Net financial income, respectively.

14. Determination of fair value

The determination of fair value of financial assets and financial liabilities that are quoted in an active market is based on quoted prices. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Bank uses widely recognised valuation models for determining the fair value of common and more simpler financial instruments like options and interest rate and currency swaps. For these financial instruments, inputs into models are market 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 on the Consolidated Statement of Financial Position.

15. Recognition and derecognition of financial assets and financial liabilities

Purchases and sales of financial assets are recognised using trade date accounting, i.e. they are recognised on the date on which the Bank commits to purchase or sell the asset, except for loans which are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

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

16. Offsetting financial assets and financial liabilities

Financial assets and liabilities are set off and the net amount reported in the Consolidated Statement of Financial Position when, and only when, the Bank has a legal right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

17. Amortised cost measurement of financial assets and financial liabilities

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

18. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the Consolidated Statement of Comprehensive Income in the period in which the expenditure is incurred.

The value of intangible assets with indefinite useful lives is not amortised, but the assets are tested for impairment at least once a year.

a) *Subsequent expenditure*
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

b) *Amortisation*
Amortisation is recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Software..	5 years

19. Investment property

An investment property is a property which is held either to earn rental income or for capital appreciation or for both. Investment property is stated at fair value.

When determining the fair value of the properties, net present value of future cash flow of 30 year is calculated. When determining the cash flow general accepted valuations techniques are applied, such as international valuation standards, IVS no. 1 Market Value Basis of Valuation. The valuation model is based on estimated free cash flow to the shareholders and assumptions applied that reflect the market conditions at accounting date. The cash flow of the properties is based on estimation of rental income less estimated expense.

Rental income are estimated based on valid lease agreements. In the valuation model estimated market lease at end of current lease agreement is taken into consideration. Fundamental assumptions on estimated utilisation of the properties in the future, estimated discounts and loan provisioning are applied when estimating future rental income.

All related expense, e.g. maintenance, real estate tax and other operating and financial expenses, is deducted from the estimated rental income. Real estate tax and insurances are based on historical data and expected future changes. Financial expense is estimated based upon market interest and expected interest yield (interest margin).

Net present value of free cash flow to shareholders, for each property, is found by calculating net present value of the cash flow with a factor representing current market uncertainty on amount and timing of the cash flow, including expected inflation. The CAPM model is used and the required rate of return is based on risk free real interest on accounting date, risk factor of the real estate market and specific risk factor of each lessee.

When estimating the fair value of the investment properties assets like fixtures, equipment and furniture are not accounted for separately as they are considered part of the fair value of the properties. The fair value of the properties does not reflect the possible future increase in the value due to further investments in the property.

The fair value of investment property in progress is mainly based on offers received for the properties.

20. Property and equipment

a) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

b) *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. All other costs are recognised in the Consolidated Statement of Comprehensive Income as an expense as incurred.

c) *Depreciation*

The depreciable amount of property and equipment is determined after deducting its residual value. Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

Real estate	33-50 years
Machinery and equipment	3-7 years

The depreciation methods, useful lives and residual values are reassessed annually.

21. Non-current assets and disposal groups held for sale

The Bank classifies a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and the sale must be highly probable.

Immediately before classification as held for sale, the measurement of the qualifying assets and all assets and liabilities in a disposal group is brought up-to-date in accordance with applicable IFRS. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the Consolidated Statement of Comprehensive Income, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

22. Deposits

Deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

23. Borrowings

Some of the borrowings of the Bank are classified as other financial liabilities and are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between cost and redemption amount being recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings on an effective interest basis. Accrued interest is included in the carrying amount of the borrowings.

24. Financial liabilities at fair value

Trading liabilities

Trading liabilities primarily consist of derivatives with negative fair values. Hedging derivatives such as those used for internal risk control but not qualifying for hedge accounting under IAS 39 are also disclosed under this item.

Trading liabilities are measured at fair value. Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of trading liabilities are reported as Net gain on financial assets and liabilities measured at fair value. Interest expenses on trading liabilities are included in Interest expenses.

25. Other assets and other liabilities

Other assets and other liabilities are stated at cost less impairment.

26. Equity

Dividends on shares
Dividends on shares are recognised in equity in the period in which they are approved by the Bank´s shareholders.

Statutory reserve
According to the Icelandic companies Act No. 2/1995 at least 10% of the profit of the Bank which is not devoted to meeting losses from previous years and is not contributed to other legal reserves must be contributed to the statutory reserve until it amounts to 10% of the share capital. When that limit has been reached the contribution must be at least 5% of the profit until the statutory reserve amounts to 25% of the share capital of the Bank.

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

27. Earnings per share

Earnings per share are calculated by dividing the net earnings attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

28. Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in the Consolidated Statement of Comprehensive Income, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is recorded in the Consolidated Statement of Comprehensive Income. The premium received is recognised in the Consolidated Statement of Comprehensive Income in *Net fees and commission income* on a straight line basis over the life of the guarantee.

29. Fiduciary activities

The Bank provides asset custody, asset management, investment management and advisory services to its clients. These services require the Bank to make decisions on the treatment, acquisition or disposal of financial instruments. Assets in the Bank's custody are not reported in its Consolidated Statement of Financial Position.

30. Employee benefits

All entities within the Bank have defined contribution plans. The entities pay fixed contribution to publicly or privately administered pension plans on a mandatory and contractual basis. The Bank has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense in the Consolidated Statement of Comprehensive income when they become due. The Bank has no defined benefit pension plan.

31. New standards and amendments to standards

a) New standards and amendments to standards effective in 2009

Amendments to IFRS 7 financial instruments: Disclosures - Improving disclosures about financial instruments.

The amendments to IFRS 7 were issued in March 2009. The amendments are intended to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy.

In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

The Bank has disclosed alternative information about financial instruments in the risk management notes which it considers to be more relevant to the users of the financial statements given the unusual risk profile and level of estimates and assumptions in the preparation of the financial statements.

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 “Improvements to IFRS” did not have any impact on the accounting policies, financial position or performance of the Bank.

b) New standards and amendments to standards not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these Consolidated Financial Statements. Relevant to the Bank's reporting are:

IFRS 3 *Business Combinations (revised in 2008)* and amended IAS 27 *Consolidated and Separate Financial Statements* introduce changes to the accounting for business combinations and for non-controlling (minority) interest. The most significant changes from IFRS 3 (2004) and IAS 27 (2003) are the following:

- IFRS 3 (2008) applies also to business combination involving only mutual entities and to business combinations achieved by contract alone;
- The definition of a business combination has been revised to focus on control;
- The definition of a business has been amended;
- Transaction costs incurred by the acquirer in connection with the business combination do not form part of the business combination transaction;
- Acquisitions of additional non-controlling equity interests after the business combination are accounted for as equity transactions;
- Disposals of equity interests while retaining control are accounted for as equity transactions;
- New disclosures are required.

IFRS 3 (revised in 2008) and amended IAS 27 will become mandatory for the Bank’s 2010 Financial Statements. The carrying amounts of any assets and liabilities that arose under business combinations prior to the application of IFRS 3 (revised in 2008) are not adjusted while most of the amendments to IAS 27 must be applied retrospectively. The revised standards will affect the accounting for future business combinations.

IFRS 9 *Financial Instruments*. In November 2009, the IASB issued IFRS 9 *Financial instruments*, which includes revised guidance on the classification and measurement of financial assets. The publication of IFRS 9 represents the completion of the first part of a multi-stage project to replace IAS 39 *Financial instruments: recognition and measurement*. Under the revised guidance, a financial asset is to be accounted for at amortized cost only if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Non-traded equity instruments may be accounted for at fair value, with unrealised and realised fair value gains recognised through other comprehensive income, but the subsequent release of amounts booked directly to other comprehensive income to profit or loss is no longer permitted. All other financial assets are measured at fair value through profit or loss. The Bank is currently assessing the impact of the new standard on its consolidated financial statements. If endorsed by the EU, the effective date for mandatory adoption is 1 January 2013.

IAS 24 *Related party disclosures (Revised)*. The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. If endorsed by the EU, the revised IAS 24 will be effective for annual periods beginning on or after 1 January 2011.

32. Segment reporting

The Bank's segmental reporting is based on the management and internal reporting structure. The Bank comprises the following main business segments: Corporate banking, Retail banking, Treasury and Capital Markets, Corporate Finance, Asset Management and Private banking, and other business segments.

33. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These disclosures supplement the risk management disclosures, provided elsewhere in these consolidated financial statements.

Key sources of estimation uncertainty

i) Impairment losses on loans and receivables
The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the Consolidated Statement of Comprehensive Income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

ii) Fair value of financial instruments
The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

iii) Assets classified as held for sale
The Bank classifies assets as held for sale if the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and the sale is considered highly probable. For the sale to be highly probable management must be committed to sell the assets and actively looking for a buyer, the assets must be actively marketed at a price that is reasonable in relation to their fair value and the sale is expected to completed within one year. An extension of the period required to complete a sale does not preclude an asset or disposal group from being classified as held for sale if the delay is caused by events or circumstances beyond the Banks control and there is sufficient evidence that the Bank remains committed to its plan to sell the assets or disposal groups.

When classifying assets as held for sale the Bank has determined that the requirements of IFRS 5 have been met.

As set out in note 79, disposal groups being legal entities acquired exclusively with a view to resale had carrying amounts at 31 December 2009 representing their fair values less costs to sell at the date of classification to the held for sale category. For the most part, fair values at the date of classification of these legal entities were calculated using valuation models based on discounted future cash flows that incorporated significant non-market observable inputs and assumptions. The use of reasonably possible alternative inputs and assumptions to these models, in particular changes to the discount rate employed (representing the required rate of return on equity), would have a significant impact on the fair value of these disposal groups.

iv) Fair value of Investment Property
In Iceland, there is no third party that provides information on the market value of investment properties located in Iceland. As the market is relatively inactive and assets are often quite dissimilar it is difficult to obtain comparison. The international financial crises and the collapse of the Icelandic banks in 2008 had significant influence on the real estate market in Iceland. The effects of that resulted in a relatively passive market and with disparate properties on the market it can be complicated to determine prices of recent market transactions of comparable properties. This being the case there is great uncertainty about the actual fair value of the properties.

v) Intangible assets
The value of intangible assets with indefinite useful lives is not amortised, but the assets are tested for impairment at least once a year.

Changes within the Bank

34. Acquisition of certain business activities of SPRON and Sparisjódabanki Íslands hf.

In accordance with a decision of the FME on 21 March 2009 (By the authority of Art. 100a of Act No. 161/2002 on Financial Undertakings, cf. Art. 5 of Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc.), Arion banki hf. took over SPRON and Sparisjódabanki Íslands hf. obligations due to deposits, overdrafts on current accounts (along with accompanying collateral rights), import and export guarantees and guarantees due to discharge of contract by companies and individuals linked to regular activities, but excluding:

i) Deposits due to savings banks.
ii) Deposit Obligations which were created in a manner whereby a creditor had, by bond and/or other equivalent promissory note, received payment for his claim before the date of maturity, but at the same time created a Deposit with SPRON or Sparisjódabanki Íslands hf.
iii) Money market deposits from financial undertakings which may own deposits at SPRON or Sparisjódabanki Íslands hf.
iv) Obligations due to: a) obligations of subsidiaries abroad, b) companies under moratorium, composition or in bankruptcy, c) obligations of those owning a qualifying holding in SPRON or Sparisjódabanki Íslands hf. and connected parties, d) obligations to Icelandic financial undertakings; e) other specifically identified liabilities.

As consideration, SPRON issued a bond claim on Drómi ehf. in the sum of ISK 96,676 million to Arion banki hf. but value of overdrafts are still to be agreed upon.

The financial impact of this acquisition at fair value is:	22.03.2009
Loans and receivables to customers	5,188
Bonds	91,489
Deposits from customers	(96,055)
Deposits from credit institutions	(621)
Total	-

As consideration, Sparisjódabanki Íslands hf. issued a bond claim on Sparisjódabanki Íslands hf. in the sum of ISK 371 million to Arion banki hf.

The financial impact of this acquisition at fair value is:	22.03.2009
Loans and receivables to customers	1,073
Bonds	371
Deposits from customers	(1,444)
Total	-

Arion banki hf. Consolidated Financial Statements 2009 24 Amounts are in ISK millions

35. Acquisition of Sparisjódur Mýrasýslu

Arion banki hf. bought all assets of Sparisjódur Mýrasýslu (SPM), in accordance with a purchase agreement dated 3 April 2009 including the branch in Borgarnes, Iceland, real estate, fixed assets, cash, loan portfolio, all security interests of Sparisjódur Mýrasýslu, including all pledges, guarantees and other similar rights linked to the claims, securities holdings, trademarks and other intangible asset and rights, listed as well as unlisted, holdings in associate companies and subsidiaries and all other claims, funds and other assets and rights as current at the end of the date of delivery. Arion banki hf. took over non-due obligations according to import and export guarantees, guarantees due to discharge of contract by companies and individuals connected to regular activities, but excluding:

i) Rights conferred by derivatives contracts.
ii) Money market deposits owned by financial undertakings deposits owned by financial undertakings in administration.
iii) Guarantees for
  a) the obligations of subsidiaries,
  b) companies in administration, subject to composition or undergoing bankruptcy proceedings,
  c) obligations to Icelandic financial undertakings,
  d) other specific guarantees as decided by the buyer.

The financial impact of the acquisition of SPM is shown in the table below at fair value:	03.04.2009
Cash and cash balances with Central Bank	805
Loans and receivables to credit institutions	(5,371)
Loans and receivables to customers	33,211
Bonds and debt instruments	595
Shares and equity instruments	289
Investment property	153
Investment in associates	436
Property and equipment	692
Other assets	1,624
Due to credit institutions and Central Bank	(2,844)
Deposits	(19,835)
Borrowings	(7,769)
Other liabilities	(1,945)
Minority interest	(40)
Total	-

Arion banki hf. Consolidated Financial Statements 2009 25 Amounts are in ISK millions

36. Acquisition of subsidiaries acquired exclusively with view to resale

In order to secure assets placed as collateral against loans to customers the Bank was compelled to foreclose on number of legal entities in 2009.

The Bank holds 100% shareholding in Hafrahlíd ehf., Penninn á Íslandi ehf., Penninn Holding 1 Oy, Icecorp Limited, Thyrping ehf. and Drög ehf., as well as 99,34% shareholding in 1998 ehf. These legal entities were acquired exclusively with view to resale. Due to the current market condition the timing of the ultimate disposal of these assets is uncertain and the requirements of IFRS 5 to classify the assets as held for sale can therefore not be met for all of them. These legal entities are classified as subsidiaries and are included in the Consolidated Financial Statements except for 1998 ehf. and Íslenskir adalverktakar ehf., a subsidiary of Drög ehf., which meet the requirements and are classified as non-current assets and disposal groups classified as held for sale.

i) Hafrahlíd ehf.

Hafrahlíd ehf. was acquired 9 February 2009. Hafrahlíd ehf. is the holding company of Hekla ehf. and Hekla fasteignir ehf. Hekla ehf. is a service company specializing in sales and servicing of automobiles and machinery. Hekla ehf. is the Icelandic dealership for brands like Volkswagen, Audi, Skoda, Mitsubishi, Scania and Caterpillar. Hekla fasteignir ehf. holds and operates investment properties.

The financial impact of this acquisition is shown in the table below at fair value:	09.02.2009
Loans and receivables to credit institutions and customers	(2,773)
Property and equipment	2,283
Other assets	4,529
Liabilities	(4,039)
Total	-

ii) Penninn á Íslandi ehf.

Penninn á Íslandi ehf. was acquired 2 April 2009. Penninn á Íslandi ehf. operates book stores and provides enterprises and individuals with office furnitures and supplies. Penninn á Íslandi ehf. operates the stores Eymundsson, Penninn, Griffill and Islandia, all located in Iceland.

The financial impact of this acquisition is shown in the table below at fair value:	02.04.2009
Loans and receivables to credit institutions and customers	(765)
Property and equipment	262
Intangible assets	269
Other assets	1,131
Liabilities	(897)
Total	-

iii) Penninn Holding 1 Oy

Penninn Holding 1 Oy was acquired 2 April 2009. Penninn Holding 1 Oy is the holding company of Officeday Finland Oy. Officeday Finland group is importer and wholesaler of IT and office supplies.

The financial impact of this acquisition is shown in the table below at fair value:	02.04.2009
Loans and receivables to credit institutions and customers	(1,093)
Intangible assets	301
Other assets	1,583
Liabilities	(791)
Total	-

Arion banki hf. Consolidated Financial Statements 2009 26 Amounts are in ISK millions

36. cont.

iv) Icecorp Limited

Icecorp Ltd. in Ireland was acquired 2 April 2009. The company acts as an investment holding company and holds 50.1% shareholding in Insomnia Ltd. Insomnia group consists of few companies incorporated in the Republic of Ireland with principal activity being retail chain and coffee outlets as well as investment holding.

The financial impact of this acquisition is shown in the table below at fair value:	02.04.2009
Loans and receivables to credit institutions and customers	(118)
Property and equipment	732
Intangible assets	480
Other assets	112
Liabilities	(1,206)
Total	-

v) Thyrping ehf.

On 17 August 2009 the Bank acquired Thyrping ehf. which is the holding company of 101 Skuggahverfi hf., AB 106 ehf., Sjónvarpshúsid Laugavegi ehf. and Akraland ehf. All the companies within Thyrping ehf. mainly hold investment properties in progress. Thyrping ehf. is a subsidiary of Landey ehf.

The financial impact of this acquisition is shown in the table below at fair value:	17.08.2009
Loans and receivables to credit institutions and customers	(1,137)
Investment properties	1,051
Property and equipment	5
Other assets	931
Liabilities	(850)
Total	-

vi) Drög ehf.

Drög ehf. was acquired 4 December 2009. Drög ehf. is the holding company of Íslenskir adalverktakar hf., Ármannsfell ehf., Álftárós ehf., as well as other smaller companies in the construction sector. Íslenskir adalverktakar hf. meets the criteria in IFRS 5 to be classified as non-current asset and disposal groups held for sale and is therefore excluded from the Consolidated Financial Statements of Drög ehf., see note 79. Employees of Íslenskir adalverktakar hf. are not included in the total number of employees of the Bank.

The financial impact of this acquisition is shown in the table below at fair value:	04.12.2009
Loans and receivables to credit institutions and customers	(5,369)
Investment properties	5,416
Other assets	55
Liabilities	(102)
Total	-

vii) 1998 ehf.

In October 2009 the Bank acquired majority of the share capital of 1998 ehf., the holding company of Hagar hf., resulting in a effective shareholding of 99,34% at year end. Hagar hf. is a commercial enterprise operating in Iceland. Under the auspices of Hagar hf. there are numerous stores and few purchasing companies.

1998 ehf. meets the criteria in IFRS 5 to be classified as non-current asset and disposal group held for sale and is reported for as such in these Consolidated Financial Statements, see note 79.

Employees of 1998 ehf. are not included in the total number of employees of the Bank.

Arion banki hf. Consolidated Financial Statements 2009 27 Amounts are in ISK millions

Operating Segment Reporting

37. Segment information is presented in respect of the Bank's operating segments based on the Bank´s management and internal reporting structure.

Inter segment pricing is determined on an arm's length basis. Business segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital and funding cost.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets.

Business segments

The Bank comprises the following main business segments:

Corporate Banking provides general banking services to large companies in Iceland.

Retail Banking provides general banking services to retail customers and medium sized companies.

Treasury and Capital Markets is divided into three parts: Treasury, Capital Markets and Proprietary Trading. Treasury is responsible for inter bank trading and the Bank's funding. Capital Markets handles securities, derivatives and foreign exchange trading and brokerage for the Bank's clients. Proprietary Trading handles transactions for the Bank's own account in all major markets, as well as undertaking the Bank's market making for stocks and bonds.

Corporate Finance is divided into two parts: Corporate Advisory and Recovery. Corporate Advisory which provides various services to corporate clients through its four main products areas: M&A advisory, Capital Markets Advisory, Acquisition and Leverage Finance and Principal Investment. Recovery which is responsible for the financial restructuring of the numerous Icelandic corporates which are unable to meet their payment obligations towards the bank following the recent crisis in the Icelandic economy.

Asset Management and Private Banking manage financial assets for institutional, corporate and private clients. Asset Management is organised into three units: Alternative and Mutual Fund Management, Asset Management for Institutional Investors and Services for Institutional Investors. Private Banking consists of two units: Customer Relations and Portfolio Management.

Other business segments are: Overhead, Back Office, Risk Management, Finance, Legal Department, Information Technology, and Human Resources and activities of entities acquired exclusively with view to resale.

38. Summary of the Bank's business segments:

2009	Corporate Banking	Retail Banking	Treasury and Capital Markets	Corporate Finance	Asset Managem. and Private Banking	Other Divisions and Elimination	Total
Net interest income, incl. increase in loan value ...	14.458	8.896	8.108	(84)	1.585	(618)	32.345
Impairment on loans and receivables	(10.201)	(1.801)	557	(2)	-	(27)	(11.474)
Changes in compensation instrument	-	-	(10.556)	-	-	-	(10.556)
Net fee and commission income	526	1.751	533	320	1.846	886	5.862
Net financial income	(47)	451	1.351	331	(265)	(183)	1.638
Net foreign exchange gain	1.550	335	8.303	(32)	150	(56)	10.250
Other income	8	1.416	6	49	177	19.914	21.570
Operating income	6.294	11.048	8.302	582	3.493	19.916	49.635
Operating expense	(33)	(5.848)	(417)	(255)	(1.017)	(26.658)	(34.228)
Earnings before cost allocation	6.261	5.200	7.885	327	2.476	(6.742)	15.407
Allocated cost	(345)	(511)	(372)	(69)	(110)	1.407	-
Earnings before income tax	5.916	4.689	7.513	258	2.366	(5.335)	15.407
Net segment revenue from external customers	28.441	(12.686)	17.212	757	(5.131)	21.042	49.635
Net segment revenue from other segments	(22.147)	23.734	(8.910)	(175)	8.624	(1.126)	-
Operating income	6.294	11.048	8.302	582	3.493	19.916	49.635
Depreciation and amortisation	1	278	1	1	-	880	1.161
Total assets	233.603	137.364	306.856	5.404	3.963	70.154	757.344
Allocated equity	29.682	14.671	45.788	(665)	2.995	(2.437)	90.034

The vast majority of the revenues from external customers was attributable to customers in Iceland.

Arion banki hf. Consolidated Financial Statements 2009 29 Amounts are in ISK millions

38. cont.

2008 22.10. - 31.12.	Corporate Banking	Retail Banking	Treasury and Capital Markets	Corporate Finance and recovery	Asset Managem. and Private Banking	Other Divisions and Elimination	Total
Net interest income	2.981	1.309	(319)	186	401	(360)	4.198
Impairment on loans and receivables	(15.116)	(3.357)	(896)	(10)	-	(344)	(19.723)
Net fee and commission income	75	340	109	121	505	137	1.287
Net financial income	-	33	(5.855)	(134)	(42)	(62)	(6.060)
Net foreign exchange gain	13.203	3.533	14.315	10	50	(7)	31.104
Other income	23	633	-	-	-	260	916
Operating income	1.166	2.491	7.354	173	914	(376)	11.722
Operating expense	(866)	(2.196)	(699)	(22)	(654)	(1.702)	(6.139)
Earnings before cost allocation	300	295	6.655	151	260	(2.078)	5.583
Allocated cost	(40)	(46)	(72)	(14)	(14)	186	-
Earnings before income tax	260	249	6.583	137	246	(1.892)	5.583
Net segment revenue from external customers	5.318	(2.875)	10.160	198	(1.294)	215	11.722
Net segment revenue from other segments	(4.152)	5.366	(2.806)	(25)	2.208	(591)	-
Operating income	1.166	2.491	7.354	173	914	(376)	11.722
Depreciation and amortisation	-	38	-	-	-	71	109
Total assets	265.434	82.437	272.672	1.407	7.197	12.056	641.203
Allocated equity	31.852	10.510	30.027	169	5.048	(660)	76.946

The vast majority of the revenues from external customers was attributable to customers in Iceland.

Arion banki hf. Consolidated Financial Statements 2009 30 Amounts are in ISK millions

Notes to the Consolidated Statement of Comprehensive Income

Net interest income

39. Interest income and expense is specified as follows:

2009	Interest income	Interest expense	Net interest income
Cash and balances with Central Bank	2.793	-	2.793
Loans, receivables and deposits	45.408	53.060	(7.652)
Borrowings	-	1.564	(1.564)
Securities	10.934	17	10.917
Compensation instrument	2.411	-	2.411
Other	5.359	118	5.241
Interest income and expense	66.905	54.759	12.146
Interest income and expense from assets and liabilities at fair value	10.934	17	10.917
Interest income and expense from assets and liabilities not at fair value through profit or loss	55.971	54.742	1.229
Interest income and expense	66.905	54.759	12.146

2008 22.10. - 31.12.	Interest income	Interest expense	Net interest income
Cash and balances with Central Bank	2.346	-	2.346
Loans, receivables and deposits	11.908	13.168	(1.260)
Securities	344	-	344
Compensation instrument	459	-	459
Other	2.310	1	2.309
Interest income and expense	17.367	13.169	4.198
Interest income and expense from assets and liabilities at fair value	344	-	344
Interest income and expense from assets and liabilities not at fair value through profit or loss	17.023	13.169	3.854
Interest income and expense	17.367	13.169	4.198

Increase in value of loans and receivables

40. The increase in value of loans and receivables is determined in accordance with accounting policy presented in note 8 a). Increase in book value of loans and receivables consists of adjustment to reflect actual and estimated cash flows.

Impairment on loans and receivables

41. Impairment on loans and receivables is specified as follows:

	2009	2008 22.10.-31.12.
Impairment on loans and receivables to credit institutions	682	44
Impairment for unrealisable FX gains from FX denominated loans to borrowers with ISK income	1.535	16.906
Impairment on loans and receivables to customers	8.317	1.999
Impairment on receivables and other assets	940	774
Impairment	11.474	19.723

Further information on the unrealisable FX gains from FX denominated loans to borrowers with ISK income are in note 112 a).

Arion banki hf. Consolidated Financial Statements 2009 31 Amounts are in ISK millions

Net fee and commission income

42. Fee and commission income and expense is specified as follows:

2009	At fair value through profit or loss	Not at fair value through profit or loss	Trust and other fiduciary activity	Total
Fee and commission income				
Securities trading	-	-	285	285
Derivatives	373	-	-	373
Lending and guarantees	-	622	-	622
Asset management fees	-	-	2.968	2.968
Other fee and commission income - banking activities	-	-	3.476	3.476
Other fee and commission income	-	-	567	567
Fee and commission income	373	622	7.296	8.291
Fee and commission expense				
Securities trading	-	-	170	170
Asset management fees	-	-	637	637
Other fee and commission income - banking activities	-	-	1.324	1.324
Other fee and commission expense	-	-	298	298
Fee and commission expense	-	-	2.429	2.429
Net fee and commission income	373	622	4.867	5.862

Asset management fees are earned by the Bank on trust and fiduciary activities where the Bank holds or invests assets on behalf of the customers.

2008 22.10. - 31.12.	At fair value through profit or loss	Not at fair value through profit or loss	Trust and other fiduciary activity	Total
Fee and commission income				
Securities trading	-	-	29	29
Derivatives	108	-	-	108
Lending and guarantees	-	86	-	86
Asset management fees	-	-	599	599
Other fee and commission income - banking activities	-	-	387	387
Other fee and commission income	-	-	449	449
Fee and commission income	108	86	1.464	1.658
Fee and commission expense				
Securities trading	-	-	37	37
Asset management fees	-	-	95	95
Other fee and commission income - banking activities	-	-	183	183
Other fee and commission expense	-	-	56	56
Fee and commission expense	-	-	371	371
Net fee and commission income	108	86	1.093	1.287

Arion banki hf. Consolidated Financial Statements 2009 32 Amounts are in ISK millions

Net financial income

43. Net financial income is specified as follows:

	2009	2008 22.10.-31.12.
Dividend income	29	3
Net gain (loss) on financial assets and liabilities classified as held for trading	1.240	(5.962)
Net gain (loss) on financial assets and liabilities designated at fair value through profit or loss	369	(101)
Net financial income	1.638	(6.060)

44. Dividend income is specified as follows:

	2009	2008
Dividend income on trading assets	20	3
Dividend income on assets designated at fair value through profit or loss	9	-
Dividend income	29	3

45. Net gain (loss) on trading portfolio are specified as follows:

	2009	2008
Net gain (loss) on equity instruments and related derivatives	279	(215)
Net gain (loss) on interest rate instruments and related derivatives	194	(5.773)
Net gain (loss) on other derivatives	767	26
Net gain (loss) on trading portfolio	1.240	(5.962)

46. Net gain (loss) on assets/liabilities designated at fair value through profit or loss are specified as follows:

	2009	2008
Net gain (loss) on interest rate instruments designated at fair value	230	(99)
Net gain (loss) on equity instruments designated at fair value	139	(2)
Net gain (loss) on assets/liabilities designated at fair value through profit and loss	369	(101)

47. Net gain (loss) on foreign exchange are specified as follows:

	2009	2008
FX gain on loans and receivables	15.059	11.351
FX gain on bank accounts	2.305	2.510
FX loss from deposits	(9.597)	(2.681)
FX gain on bonds and equity	445	877
FX gain on other assets and liabilities	503	2.141
Net gain (loss) on foreign exchange	8.715	14.198
FX gain on loans and receivables from ISK income customers	1.535	16.906
Total gain (loss) on foreign exchange	10.250	31.104

Other operating income

48. Other operating income is specified as follows:

	2009	2008
Rental income from investment properties	1.183	156
Fair value changes on investment property	170	-
Realised gain on investment property	70	-
Earned premiums, net of reinsurance	822	122
Net gain on disposals of assets other than held for sale	44	10
Other income from subsidiaries acquired exclusively with view to resale	17.838	-
Other income	1.074	130
Other operating income	21.201	418

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

Arion banki hf. Consolidated Financial Statements 2009 33 Amounts are in ISK millions

49. Earned premiums, net of reinsurance:

	2009	2008 22.10.-31.12.
Premium written	988	164
Outward reinsurance premiums	(96)	-
Change in the gross provision for unearned premiums	(70)	(42)
Earned premiums, net of reinsurance	822	122

Personnel

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

Average number of full time equivalent positions during the year	1.131	1.036
Full time equivalent positions at the end of the year	1.096	1.012

Included in the average number of full time equivalent are Kaupthing banki hf. employees, total of 33 in the year 2009. At the end of the year no Kaupthing banki hf. employee is included in the number of full time equivalent positions.

The number of employees of subsidiaries acquired exclusively with view to resale (excluded from numbers above) are as follows:

	2009	2008 22.10.-31.12.
Full time equivalent positions at the end of the year	584	-

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

51. Salaries and related expense are specified as follows:

Salaries	8.438	1.035
Defined contribution pension plans	1.123	139
Salary related expense	852	54
Salaries and related expense	10.413	1.228

Included in the total amount of salaries and related expenses are salaries of Kaupthing banki hf. employees amounting to ISK 309 million in the year 2009 compared to ISK 17 million in the year 2008.

Salaries and related expense of subsidiaries acquired exclusively with view to resale (excluded from amounts above) are specified as follows:

	2009	2008 22.10.-31.12.
Salaries	1.949	-
Salary related expense	391	-
Salaries and related expense	2.340	-

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

Arion banki hf. Consolidated Financial Statements 2009 34 Amounts are in ISK millions

52. Compensation to the key management personnel:

Salaries and related cost:

	Position	Period	2009
Finnur Sveinbjörnsson	CEO	01.01. - 31.12.2009	21,0
Audur Finnbogadóttir	Director	01.01. - 03.09.2009	1,1
Drífa Sigfúsdóttir	Director	01.01. - 31.12.2009	1,6
Erna Bjarnadóttir, Chairman	Director	01.01. - 31.12.2009	2,1
Helga Jónsdóttir	Director	01.01. - 31.12.2009	2,2
Hulda Dóra Styrmisdóttir, Chairman	Director	10.02. - 03.09.2009	1,7
Jónína A. Sanders	Director	03.09. - 31.12.2009	0,5
Magnús Gunnarsson, Chairman	Director	01.01. - 10.02.2009	0,4
Kaupthing banki hf.*	2 Directors	03.09. - 31.12.2009	1,2
Five managing directors of the Bank's divisions			80,1

The remuneration of the Chairman of the Board and the other directors of the Board was decided by a Shareholder´s meeting on 8 January 2010.

Remuneration to the Chairman of the Board, CEO and other key management personnel consist of salary and other benefits.

* Kaupthing banki hf. assigned two directors to the board of Arion banki hf., Theodór S. Sigurbergsson Vice Chairman and Jóhannes Rúnar Jóhannsson.

Auditor's fee

53. Auditor's fee is specified as follows:

2009	Ernst & Young	KPMG	Total
Audit of the Financial Statements and other related audit service	60	38	98
Other service	18	28	46
Auditor's fee	78	66	144

2008 22.10. - 31.12.	National Audit	Ernst & Young	KPMG	Total
Audit of the Financial Statements and other related audit service	15	104	8	127
Other service	-	-	2	2
Auditor's fee	15	104	10	129

Arion banki hf. Consolidated Financial Statements 2009 35 Amounts are in ISK millions

Other operating expense

54. Other operating expenses:

	2009	2008 22.10.-31.12.
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	263	11
Claims incurred, net of reinsurance	315	46
Other operating expenses from subsidiaries acquired exclusively with view to resale	15.686	-
Other operating expenses	15	-
Other operating expenses	16.279	57

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

55. Claims incurred, net of reinsurance:

	2009	2008
Claims paid	317	66
Change in the provision for claims	(59)	(27)
Claims paid, net of reinsurers share	97	(21)
Change in the provision for claims, reinsurers' share	(39)	29
Claims incurred, net of reinsurance	315	46

Net gain (loss) on non-current assets classified as held for sale

56. Net gain (loss) on non-current assets and disposal groups classified as held for sale are specified as follows:

	2009	2008
Net income (expenses) relating to non-current assets held for sale	375	384
Net gain (loss) on non-current and disposal groups assets classified as held for sale	375	384

Income tax expense

57. Income tax recognised in the Consolidated Statement of Comprehensive Income are specified as follows:

	2009	2008
Current tax expense		
Current year	1.044	516
Deferred tax expense		
Changes in temporary differences	1.492	250
Total income tax expense	2.536	766

Reconciliation of effective tax rate:	2009		2008 22.10.-31.12.	
Earnings before income tax		15.407		5.583
Income tax using the Icelandic corporation tax rate	15,0%	2.311	15,0%	837
Non-deductible expense	0,1%	9	0,2%	12
Tax exempt revenues	(0,8%)	(126)	(1,3%)	(75)
Effect of increase in the income tax rate from 15% to 18%	1,9%	297	0,0%	-
Other changes	0,0%	3	(0,1%)	(8)
Effective tax rate	16,2%	2.494	13,7%	766

Arion banki hf. Consolidated Financial Statements 2009 36 Amounts are in ISK millions

Earnings per share

58. Earnings per share are specified as follows:

	2009	2008 22.10.-31.12.
Net earnings attributable to the shareholders of Arion banki hf.	12.970	4.817
Weighted average share capital:		
Weighted average number of outstanding shares for the year, million	12.646	12.646
Basic earnings per share	1,02	0,38
Diluted earnings per share	1,02	0,38
Number of outstanding shares at the end of the year, million	12.646	12.646
Number of total shares at the end of the year, million, diluted	12.646	12.646

Notes to the Consolidated Statement of Financial Position

Cash and balances with Central Bank

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

	2009	2008
Cash on hand	3.536	2.102
Cash with Central Bank	28.521	77.985
Mandatory reserve deposits with Central Bank	9.849	7.468
Cash and balances with Central Bank	41.906	87.555

The mandatory reserve deposit with Central Bank is not available for the Bank to use in its daily operations.

Loans and receivables to credit institutions

60. Loans and receivables to credit institutions specified by types of loans:

Bank accounts	24.037	12.823
Money market loans	4.733	27.832
Overdrafts	4.074	1.942
Other loans	5.626	5.100
Loans and receivables to credit institutions	38.470	47.697

61. Changes in the provision for losses on loans and receivables to credit institutions are specified as follows:

Balance at the beginning of the year	44	-
Provision for losses during the year	683	44
Balance at the end of the year	727	44
Collective	-	-
Specific	727	44
	727	44

Arion banki hf. Consolidated Financial Statements 2009 37 Amounts are in ISK millions

Loans and receivables to customers

62. Loans and receivables to customers specified by types of loans:

	2009	2008
Overdrafts	31.673	17.687
Subordinated loans	17	8.055
Other loans and receivables	354.780	330.177
Provision on loans and receivables	(28.736)	(18.905)
Loans and receivables to customers	357.734	337.014

63. Loans and receivables to customers specified by sectors:

Individuals	15,5%	11,0%
Holding companies	13,9%	19,7%
Industry	33,2%	32,9%
Real estate	15,2%	13,6%
Service	17,9%	17,6%
Trade	4,0%	5,0%
Transportation	0,3%	0,3%
Loans and receivables to customers	100,0%	100,0%

64. Changes in the provision for losses on loans and receivables to customers are specified as follows:

Balance at the beginning of the year	18.905	-
Provision for losses during the year	8.317	2.002
Provision for unrealisable FX gains from FX denominated loans to borrowers with ISK income	1.535	16.906
Payment of loans previously written off	(21)	(3)
Balance at the end of the year	28.736	18.905
Specific	28.736	18.905
Collective	-	-
	28.736	18.905

Further information about the unrealisable FX gains from FX denominated loans to borrowers with ISK income are in note 112 a).

65. Impaired loans and receivables to customers by sector:

	2009		2008	
	Impaired amount	Impaired loans	Impaired amount	Impaired loans
Individuals	1.201	8.058	1.087	7.461
Holding companies	6.934	20.990	4.439	19.065
Industry	5.247	38.739	3.997	35.962
Real estate	6.303	47.333	3.981	43.549
Service	7.237	53.828	4.516	49.822
Trade	1.809	7.546	882	6.987
Transportation	5	25	3	23
Impairment on loans and receivables to customers	28.736	176.519	18.905	162.869

Arion banki hf. Consolidated Financial Statements 2009 38 Amounts are in ISK millions

66. Status of monitoring of loans and receivables to customers:

	2009	2008
Performing loans	38%	77%
Stressed loans	10%	9%
Non-performing loans	52%	14%
Total	100%	100%

For a discussion of these results and a detailed definition of the categories "performing loans", "stressed loans" and "non-performing loans" please refer to note 110 b).

Specific provisions of the fair value loan book are ISK 28,736 million (2008: ISK 18,905 million).

67. Loans and receivables to customers that are past due but not impaired

The majority of the loans have been acquired at discount and are in process of being restructured or in a recovery process. Information on past due but not impaired loans to customers are not considered to be informative under these circumstances.

There has been no material changes in the fair value of the loans and receivables to customers during the year.

Additional information on loans and receivables

68. Additional information on loans and receivables to credit institutions and to customers:

2009	Nominal value	Deep discount	Subsequent impairment	Book value
Loans and receivables to credit institutions	68.040	(28.843)	(727)	38.470
Loans and receivables to customers	1.136.370	(749.900)	(28.736)	357.734
Balance at the end of the year	1.204.409	(778.743)	(29.463)	396.204

2008				
Loans and receivables to credit institutions	77.995	(30.254)	(44)	47.697
Loans and receivables to customers	1.152.290	(796.371)	(18.905)	337.014
Balance at the end of the year	1.230.285	(826.625)	(18.949)	384.711

Majority of the loan book was acquired from Kaupthing banki hf. in October 2008. Book value represents the amortized cost of the loan portfolio at year end.

Renegotiated loans

69. During 2009 Arion banki hf. has engaged in financial restructuring of customers that are experiencing financial difficulties.

In December 2009, the Bank announced a comprehensive program of standard solutions to assist individuals who have run into financial difficulties. These programs augmented a program which had previously been mandated by the government but which many individuals had opted out of. By year end, numerous individuals had been processed through these programs. In general, the write-offs associated with these programs are not expected to exceed the discount which was granted when the loans were transferred from Kaupthing banki hf. in 2008.

The Bank has not announced a general program for companies in financial straits. Instead, these companies' finances are restructured on a case-by-case basis using a transparent set of standard procedures. An insignificant number of corporate restructurings had been finalized by year end 2009.

Arion banki hf. Consolidated Financial Statements 2009 39 Amounts are in ISK millions

Financial assets and liabilities

70. Financial assets and liabilities are specified as follows:

2009	Loans and receivables	Trading	Designated at fair value	Financial assets/ liabilities at amort. cost	Total
Loans and receivables					
Cash and balances with Central Bank	41.906	-	-	-	41.906
Loans to credit institutions	38.470	-	-	-	38.470
Loans to customers	357.734	-	-	-	357.734
Loans and receivables	438.110	-	-	-	438.110
Bonds and debt instruments					
Listed	-	4.221	4.614	-	8.835
Unlisted	-	-	164.647	-	164.647
Bonds and debt instruments	-	4.221	169.261	-	173.482
Shares and equity instruments with variable income					
Listed	-	709	429	-	1.138
Unlisted	-	1.464	3.380	-	4.844
Bond funds with variable income	-	320	776	-	1.096
Shares and equity instruments	-	2.493	4.585	-	7.078
Derivatives					
OTC derivatives	-	6	-	-	6
Derivatives	-	6	-	-	6
Securities used for hedging					
Bonds and debt instruments	-	2.236	-	-	2.236
Securities used for hedging	-	2.236	-	-	2.236
Compensation instrument	-	-	-	34.371	34.371
Other financial assets	-	-	-	9.230	9.230
Financial assets	438.110	8.956	173.846	43.601	664.513
Liabilities at amortised cost					
Due to credit institutions and Central Bank	-	-	-	113.647	113.647
Deposits	-	-	-	495.465	495.465
Borrowings	-	-	-	11.042	11.042
Liabilities at amortised cost	-	-	-	620.154	620.154
Financial liabilities at fair value					
Derivatives held for trading	-	88	-	-	88
Financial liabilities at fair value	-	88	-	-	88
Other financial liabilities	-	-	-	1.524	1.524
Financial liabilities	-	88	-	621.678	621.766

Amounts are in ISK millions

70. cont.

2008	Loans and receivables	Trading	Designated at fair value	Financial assets/ liabilities at amort. cost	Total
Loans and receivables					
Cash and balances with Central Bank	87.555	-	-	-	87.555
Loans to credit institutions	47.697	-	-	-	47.697
Loans to customers	337.014	-	-	-	337.014
Loans and receivables	472.266	-	-	-	472.266
Bonds and debt instruments					
Listed	-	8.627	470	-	9.097
Unlisted	-	1.510	154	-	1.664
Bonds and debt instruments	-	10.137	624	-	10.761
Shares and equity instruments with variable income					
Listed	-	808	328	-	1.136
Unlisted	-	2.333	508	-	2.841
Bond funds with variable income	-	783	1.849	-	2.632
Shares and equity instruments	-	3.924	2.685	-	6.609
Compensation instrument	-	-	-	41.156	41.156
Other financial assets	-	-	-	9.577	9.577
Financial assets	472.266	14.061	3.309	50.733	540.369
Liabilities at amortised cost					
Due to credit institutions and Central Bank	-	-	-	122.733	122.733
Deposits	-	-	-	421.341	421.341
Liabilities at amortised cost	-	-	-	544.074	544.074
Financial liabilities at fair value					
Derivatives held for trading	-	2	-	-	2
Financial liabilities at fair value	-	2	-	-	2
Other financial liabilities	-	-	-	698	698
Financial liabilities	-	2	-	544.772	544.774

71. Bonds and debt instruments designated at fair value specified by issuer:

	2009	2008
Financial institutions	1.760	10
Governments	73.042	440
Corporates	94.454	158
Other	5	16
Bonds and debt instruments designated at fair value	169.261	624

Arion banki hf. Consolidated Financial Statements 2009 41 Amounts are in ISK millions

72. Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

2009	Level 1	Level 2	Level 3	Total
Financial assets designated at FV through PL	2.215	168.953	2.678	173.846
Financial assets held for trading	4.930	1.790	-	6.720
	7.145	170.743	2.678	180.566
Financial liabilities held for trading	-	88	-	88

2008				
Financial assets designated at FV through PL	788	3.409	3.710	7.907
Financial assets held for trading	6.322	3.141	-	9.463
	7.110	6.550	3.710	17.370

The classification of assets between financial assets designated at fair value through profit or loss and financial assets held for trading in 2008 is in consistency with the classification used in 2009.

Compensation instrument

73. The compensation instrument is originated due to the difference in the fair value of the transferred assets, liabilities and contingent liabilities from Kaupthing banki hf. to Arion banki hf. in accordance with the FME decision in 2008. The compensation instrument amounted to ISK 38,300 million and was denominated 50% in ISK and 50% in EUR and is subject to floating rates of interest. The maturity of this instrument is 30 June 2012 and is a priority claim against Kaupthing banki hf.

Compensation instrument is specified as follows:	2009	2008
Balance at the beginning of the year	41.156	-
Issue of compensation instrument	-	38.300
Changes due to the Escrow and contingent value rights agreement	(10.556)	-
Accrued interest	2.398	2.384
Foreign exchange rate differences	1.373	472
Balance at the end of the year	34.371	41.156

Related to the compensation instrument is the Escrow and contingent value rights agreement where Kaupthing banki hf. receives 80% of the appreciation of defined Arion banki hf. loans (the "ring-fenced assets"). The increase in value of the defined loans will decrease the value of the compensation instrument. If the compensation instrument is finally settled due to an increase in the aggregate value of the ring-fenced assets (such increase being 125% of the compensation instrument) then 50% of the increase in value of ring-fenced assets above the amount needed for closing the compensation instrument will be passed onto Kaupthing banki hf. up to a cap of ISK 5 billion.

During 2009 changes in those defined loans amounted to ISK 11,818 million, 80% of this increased value belonging to Kaupthing banki hf., ISK 9,454 million as presented in the Consolidated Statement of Comprehensive Income, 20% belonging to Arion banki hf. as a part of the Consolidated Statement of Comprehensive Income. The total face value of the defined loans was approximately ISK 850,000 million and the book value was approximately ISK 210,000 million at year end.

Arion banki hf. Consolidated Financial Statements 2009 42 Amounts are in ISK millions

Investment property

74. Investment property are specified as follows:	Investment properties	Investment properties in progress	Subsidiaries acquired with view to resale: Investment properties	Subsidiaries acquired with view to resale: Investment properties in progress	Total 2009	2008
Balance at the beginning of the year	12.079	-	-	-	12.079	-
Acquisition through business combination	239	2.177	2.715	2.701	7.832	11.598
Additions during the year	3.289	-	-	-	3.289	-
Other disposals during the year	(423)	-	-	-	(423)	-
Transferred from property and equipment	-	-	-	-	-	481
Fair value adjustments	170	-	-	-	170	-
Investment property	15.354	2.177	2.715	2.701	22.947	12.079

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

Investments in associates

75. The Bank´s interest in its principal associates are as follows:

	Ownership at year end
Audkenni hf. Engjateigur 3, 105 Reykjavík, Iceland	25,0%
KB rádgjöf ehf. Hlídarsmári 17, 201 Kópavogur, Iceland	43,1%
Reiknistofa Bankanna Kalkofnsvegur 1, 150 Reykjavík, Iceland	18,0%
Valitor hf. Laugarvegur 77, 101 Reykjavík, Iceland	38,0%
Reitir fasteignafélag hf. Kringlan 4-12, 103 Reykjavík, Iceland	42,7%

Investment in associates are specified as follows:	2009	2008
Carrying amount at the beginning of the year	2.843	-
Acquisition through business combination	2	2.345
Additions during the year	2.941	-
Sold during the year	(153)	-
Transferred from financial assets at fair value due to step acquisition	(17)	-
Share of profit (loss)	369	498
Carrying amount at the end of the year	5.985	2.843

Summarised financial information in respect of the Bank´s associates is set out below:	2009	2008
Total assets	71.238	36.276
Total liabilities	(58.953)	(30.204)
Net assets	12.285	6.072

Share of profit and associates:	2009	2008 22.10.-31.12.
Total revenue	4.178	1.960
Total profit in associates at the end of the year	763	442
Bank's share of profit of associates	369	498

Arion banki hf. Consolidated Financial Statements 2009 43 Amounts are in ISK millions

Property and equipment

76. Property and equipment are specified as follows:

	Real estate	Machinery and equipm.	Subsidiaries acquired with view to resale: Real estate	Subsidiaries acquired with view to resale: Machinery and equipm.	Total 2009	Total 2008
Balance at the beginning of the year	5.640	2.112	-	-	7.752	-
Acquisitions through business combination	193	88	1.944	1.761	3.986	8.346
Additions during the year	14	194	-	-	208	16
Disposals during the year	(17)	(121)	-	-	(138)	(129)
Transfers to investment properties	-	-	-	-	-	(481)
Gross carrying amount at the end of the year	5.830	2.273	1.944	1.761	11.808	7.752
Previously depreciated	28	67	-	-	95	-
Depreciation during the year	152	466	-	401	1.019	97
Disposals during the year	-	(6)	-	-	(6)	(1)
Total depreciation at the end of the year	180	527	-	401	1.108	96
Property and equipment	5.650	1.746	1.944	1.360	10.700	7.656

The official real estate value amounts to ISK 8,687 million at year end. The insurance value of fixed assets amounts to ISK 12,215 million at year end. The official real estate value and the insurance value of the real estates in subsidiaries acquired with view to resale amounts to ISK 2,030 million and ISK 2,435 million at year end and is excluded from the values above.

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

77. Depreciation and amortisation in the Consolidated Statement of Comprehensive Income is specified as follows:

	2009	2008
Depreciation of property and equipment	1.019	97
Amortisation of intangible assets	142	12
Depreciation and amortisation	1.161	109

Arion banki hf. Consolidated Financial Statements 2009 44 Amounts are in ISK millions

Intangible assets

78. The intangible assets are related to different business segments in the Bank's operation. They comprise insurance contract agreements, Assets under Management and custody contracts.

Intangible assets are specified as follows:

2009	Indefinite life intangible assets	Software	Subsidiaries acquired with view to resale: Indefinite life intangible assets	Subsidiaries acquired with view to resale: Software	Total
Balance at the beginning of the year	2.075	357	-	-	2.432
Acquisition through business combination	-	-	282	813	1.095
Additions during the year	24	128	-	-	152
Impairment	-	-	(25)	-	(25)
Amortisation	-	(142)	-	-	(142)
Intangible assets	2.099	343	257	813	3.512

2008 22.10. - 31.12.					
Acquisition through business combination	2.075	366	-	-	2.441
Additions during the period	-	3	-	-	3
Amortisation	-	(12)	-	-	(12)
Intangible assets	2.075	357	-	-	2.432

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

Non-current assets and disposal groups held for sale

79. Non-current assets and disposal groups held for sale are specified as follows:

	2009	2008
Legal entities	38.922	3
Real estates	2.570	709
Other assets	35	260
Non-current assets and disposal groups held for sale	41.527	972

The legal entities were acquired exclusively with view to resale and are classified as disposal groups held for sale in accordance with IFRS 5, see note 36.

Real estates and other assets classified as non-current assets are generally the result of foreclosures on companies and individuals.

Liabilities associated with the legal entities held for sale are as follows:

	2009	2008
Legal entities	19.230	-
Liabilities associated with the legal entities held for sale	19.230	-

Arion banki hf. Consolidated Financial Statements 2009 45 Amounts are in ISK millions

k çíÉë=íç=íÜÉ=` çåëçäáÇ~íÉÇ=cáå~åÅá~ä=pí~íÉ ã Éåíë

Other assets

80. Other assets are specified as follows:

	2009	2008
Unsettled securities trading	1.583	117
Accounts receivables	7.647	9.460
Accrued income	376	2.787
Prepaid expense	341	289
Sundry assets	236	-
Other assets from subsidiaries acquired exclusively with view to resale	5.792	-
Other assets	15.975	12.653

Unsettled securities trading was settled in less than three days from the reporting date.

Information on the subsidiaries acquired exclusively with view to resale are in note 36.

81. Provision for other assets

During the year impairment on accounts receivables and accrued income was made, amounting to ISK 940 million compared to ISK 774 million in 2008.

Borrowings

82. Borrowings are specified as follows:

	2009	2008
Other loans	11.042	-
Borrowings	11.042	-

Tax assets and tax liabilities

83. Tax assets and liabilities are specified as follows:

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Current tax	-	1.051	-	585
Deferred tax	1.415	1.790	551	446
Tax assets and liabilities	1.415	2.841	551	1.031

84. Deferred tax assets and liabilities are specified as follows:

2009

	Assets	Liabilities	Net
Balance at the beginning of the year	551	(446)	105
Acquisition through business combination	1.005	-	1.005
Income tax recognised in profit or loss	39	(1.524)	(1.485)
Other changes	(180)	180	-
Net tax assets and (liabilities)	1.415	(1.790)	(375)

2008
22.10. - 31.12.

Acquisition through business combination	578	(227)	351
Income tax recognised in profit or loss	(42)	(208)	(250)
Other changes	15	(11)	4
Net tax assets and (liabilities)	551	(446)	105

Arion banki hf. Consolidated Financial Statements 2009 46 Amounts are in ISK millions