



GLITNIR BANKI HF.

(incorporated in Iceland as a public limited company)

US\$10,000,000,000

Medium-Term Note Program

Due Nine Months or more from Date of Issue

Under this US\$10,000,000,000 Medium-Term Note Program (the “Program”), from time to time we, Glitnir banki hf., may issue notes (the “notes”) denominated in any currency agreed between us and the relevant dealer (as defined below). The maximum aggregate principal amount of all notes from time to time outstanding under the Program will not exceed US\$10,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The notes may be issued on a continuing basis to one or more of the dealers specified under “Summary” and any additional dealer appointed under the Program from time to time by us (each a “dealer” and together the “dealers”), which appointment may be for a specific issue or on an ongoing basis. References in this offering circular to the “relevant dealer” will, in the case of an issue of notes being (or intended to be) subscribed by more than one dealer, be to all dealers agreeing to subscribe those notes.

An investment in notes issued under the Program involves certain risks. For a discussion of these risks see “Risk Factors” on page 17. The applicable pricing supplement and any supplement to this offering circular may describe additional risks you should consider.

Notice of the aggregate principal amount of notes, interest (if any) payable in respect of notes, the issue price of notes and any other terms and conditions not contained herein which are applicable to each offering of notes will be set out in a pricing supplement (the “pricing supplement”). Notes under the Program are admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Luxembourg Stock Exchange’s Euro MTF market. This offering circular constitutes a base prospectus for purposes of listing Notes on the Luxembourg Stock Exchange and trading on the Luxembourg Stock Exchange’s Euro MTF market. We also may issue unlisted notes and/or notes not admitted to trading on any market. This offering circular may only be used to offer notes for a period of one year from the date hereof. Unless otherwise provided in a pricing supplement, notes may be issued with the following terms:

- **Maturity Date:** The notes will mature in nine months or more from the date of issue.
- **Status:** Each tranche of notes may be issued as senior notes or subordinated notes.
- **Redemption or Repayment Option:** The notes may be subject to redemption or repayment at our option or at the option of the holders.
- **Interest Rate Basis:** The notes will bear interest at either a fixed or floating rate. The floating rate formula may be based on the CD Rate, CMT Rate, Commercial Paper Rate, Eleventh District Cost of Funds Rate, Federal Funds Rate, LIBOR, EURIBOR, Prime Rate, Treasury Rate, or such other basis as is described in the applicable pricing supplement.
- **Other Features:** The notes also may be issued as index linked notes, dual currency notes, physical delivery notes, zero coupon notes, variable coupon notes, discount notes, or amortizing notes.
- **Form:** The notes will be issued as global notes (“global notes”) in fully registered form without coupons or as fully registered certificated notes.
- **Denomination:** The notes generally will have minimum denominations of US\$100,000 and integral multiples of US\$1,000 in excess of such minimum denomination (or the equivalent of such amount in other currencies).
- **Interest Payment Dates:** We will pay interest on the notes on the dates specified in the applicable pricing supplement.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws, and are being offered only to qualified institutional buyers (within the meaning of Rule 144A under the Securities Act (“Rule 144A”)) or in other transactions exempt from registration in accordance with Regulation S under the Securities Act or, if the applicable pricing supplement so specifies, to institutional investors that qualify as accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) and, in each case, in compliance with applicable securities laws.

Each purchaser of a note will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgments, representations and agreements intended to restrict the resale or other transfer of such note, as described in this offering circular, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases. See “Plan of Distribution—Selling Restrictions”.

We may agree with any dealer that notes may be issued in a form not contemplated in “Description of the Notes”, in which event a supplement to the offering circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such notes.

JPMorgan

**Banc of America Securities LLC
Credit Suisse
Lehman Brothers
RBS Greenwich Capital**

**Barclays Capital
Deutsche Bank Securities
Merrill Lynch & Co.
UBS Investment Bank**

**Citi
HSBC
Morgan Stanley
Wachovia Securities**

The date of this offering circular is April 23, 2008

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We accept responsibility for the information contained in this offering circular. To the best of our knowledge (having taken all reasonable care to ensure that such is the case) the information contained in this offering circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information in the sections entitled “The Republic of Iceland”, “Financial Markets in Iceland” and “Regulation” has been extracted from publications by the National Economic Institute, the Ministry of Finance and the Central Bank of Iceland. We confirm that such information has been accurately reproduced and that, so far as we are aware, and are able to ascertain from information published by such sources, no facts have been omitted that would render the reproduced inaccurate or misleading.

This offering circular is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”). This offering circular comprises a “base prospectus” for the purposes of Article 5.4 of the Directive 2003/71/EC. For purposes of this offering circular, references to the “pricing supplement” are intended to refer to the “final terms” that describe the terms of any series of notes.

We have not authorized any person to give any information or to make any representation not contained in or not consistent with this offering circular or any other information supplied in connection with the Program or the notes and, if given or made, such information or representation must not be relied upon as having been authorized by us or any of the dealers.

Neither this offering circular nor any other information supplied in connection with the Program or the notes (1) is intended to provide the basis of any credit or other evaluation or (2) should be considered as a recommendation by us or the dealers that any recipient of this offering circular or any other information supplied in connection with the Program or any notes should purchase any notes. Each investor contemplating purchasing any notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of our creditworthiness. Neither this offering circular nor any other information supplied in connection with the Program or the issue of any notes constitutes an offer or invitation by or on our behalf or by or on behalf of the dealers to any person to subscribe for or to purchase any notes.

Neither the delivery of this offering circular nor the offering, sale or delivery of any notes shall in any circumstances imply that the information contained herein concerning us is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this offering circular when deciding whether or not to purchase any notes.

The notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the state securities laws of any state of the United States, and we have not registered under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”).

Application will be made for the global notes (insofar as it is necessary for the global notes to be settled through The Depository Trust Company (“DTC”)) to be accepted as eligible for trading on the Private Offerings, Resales and Trading through Automated Linkages System (“PORTAL”) of the Financial Industry Regulatory Authority.

Unless otherwise specified in any supplement to this offering circular, each series of notes is initially being privately placed exclusively to persons reasonably believed by the dealers to be qualified institutional buyers (“QIBs”) within the meaning of Rule 144A or in other transactions exempt from registration in accordance with Regulation S under the Securities Act or, if specified in the applicable pricing supplement, to institutional investors that qualify as accredited investors. After their initial private placement, interests in global notes may be resold to QIBs in a transaction

satisfying the requirements of Rule 144A or in other transactions exempt from registration in accordance with Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer of the global notes, see “Plan of Distribution”.

This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this offering circular and the offer or sale of notes may be restricted by law in certain jurisdictions. We and the dealers do not represent that this offering circular may be lawfully distributed, or that any notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by us or the managers which would permit a public offering of any notes outside the European Economic Area or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no notes may be offered or sold, directly or indirectly, and neither this offering circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. This offering circular may only be used for the purposes for which it has been published. Persons into whose possession this offering circular or the notes may come must inform themselves about, and observe, any such restrictions on the distribution of this offering circular and the offering and sale of notes. In particular, there are restrictions on the distribution of this offering circular and the offer or sale of notes in the United States, see “Plan of Distribution”.

Nothing herein should be considered to impose on the recipient of this offering circular any limitation on disclosure of the tax treatment or tax structure of the transaction or matters described herein.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of notes that are “restricted securities” within the meaning of the Securities Act, we have undertaken in the Amended and Restated Distribution Agreement dated as of April 23, 2008, by and among us and the dealers, as amended or restated (the “Distribution Agreement”), to furnish, upon the request of a holder of such notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, we are neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) and in compliance therewith, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder. We are required by the Icelandic Financial Supervisory Authority (the “Financial Supervisory Authority” or “FSA”) to produce and subsequently file with it annual and quarterly financial reports. These reports also are published on our website www.glitnir.is. The information on our website is not a part of this offering circular and is not incorporated by reference in this offering circular.

DOCUMENTS INCORPORATED BY REFERENCE

We may in the future, incorporate by reference in this offering circular or a supplement hereto documents which have been published and have been approved by the FSA or filed with it and these documents shall form part of, this offering circular save that any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this offering circular to the extent that a statement contained in either (1) any document of a later date which is also incorporated by reference herein or (2) this offering circular modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this offering circular.

Copies of documents incorporated by reference in any pricing supplement or offering circular supplement can be obtained from Glitnir banki hf. at Kirkjusandur 2, 155 Reykjavik, Iceland. Copies of any documents that in the future may be incorporated by reference in any pricing supplement or offering circular supplement can be obtained from our website at www.glitnir.is or from the Financial Supervisory Authority. Copies of these documents also will be available free of charge at the office of the Luxembourg Paying Agent at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.

FORWARD-LOOKING STATEMENTS

This offering circular and the documents incorporated by reference in this offering circular contain forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include:

- Financial projections and estimates and their underlying assumptions;
- Statements regarding plans, objectives and expectations relating to future operations and services;
- Statements regarding the impact of regulatory initiatives on our operations;
- Statements regarding our share of new and existing markets;
- Statements regarding general industry and macroeconomic growth rates and our performance relative to them; and
- Statements regarding future performance.

Forward-looking statements generally are identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions. Forward-looking statements are based on current plans, estimates and projections, and, therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events. Forward-looking statements involve inherent risks, and uncertainties, most of which are difficult to predict and generally are beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors:

- Local, regional and national business, political or economic conditions in Iceland, Norway and the other countries in which we operate may differ from those expected;
- Changes in interest rates and foreign exchange rates may adversely affect our business;
- Credit, market and liquidity risks may adversely affect our credit ratings and our cost of funds;
- The ability to increase market share and control expenses may be more difficult than anticipated;
- Competitive pressures among financial services companies may increase significantly;
- Systemic risk among financial institutions may adversely affect us;
- Increases in loan losses or allowances for loan losses may adversely affect us;
- Changes in laws and regulations may adversely affect our business and operations;
- Changes in accounting policies and practices, as may be adopted by regulatory agencies and the International Accounting Standards Board, may affect expected financial reporting;
- We may not manage the risks involved in the foregoing as well as anticipated; and

- Integration of acquired businesses or subsidiaries may be more difficult than anticipated.

If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual results may be materially different from those expressed or implied by such statements. We undertake no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

We present our financial statements in Icelandic krona and references in this offering circular to “ISK”, “Icelandic krona”, “krona” or “krónur” refer to the currency of Iceland. References to “U.S. dollars”, “U.S.\$”, “USD” and “\$” refer to the currency of the United States of America, references to “NOK” refer to the currency of Norway, references to “Sterling” and “£” refer to the currency of the United Kingdom, and references to “euro”, “EUR” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Certain numerical information and other amounts and percentages presented in this offering circular may not sum due to rounding. In addition, certain figures in this offering circular have been rounded to the nearest whole number.

We have included in this offering circular our audited consolidated financial statements as of and for the years ended December 31, 2005, 2006 and 2007, prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). For the convenience of the reader, we also have included in this offering circular certain summary consolidated financial information and certain selected consolidated financial information. See “Summary Consolidated Financial Information Data” and “Selected Consolidated Financial Data”. We do not currently prepare non-consolidated financial statements. This information is not complete and should be read together with the financial statements included elsewhere in this offering circular.

References in this offering circular to:

- The “European Union” or “EU” are to Austria, Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, The Netherlands and the United Kingdom.
- The “European Economic Area” or “EEA” are to the European Union, Iceland, Liechtenstein and Norway.
- The “Nordic countries” are to Denmark, the Faroe Islands, Finland, Iceland, Norway and Sweden.
- “Northern Europe” are to the Baltic states (Estonia, Latvia and Lithuania), the Benelux countries (Belgium, Luxembourg and The Netherlands), Germany, Ireland, the Nordic countries and the United Kingdom.
- “Scandinavia” are to Denmark, Finland, Norway and Sweden.

ENFORCEMENT OF CIVIL LIABILITIES

We are an Icelandic company, and a majority of our assets are located outside the United States. As a result, investors may not be able to serve process outside Iceland upon our directors and executive officers, or to enforce judgments obtained against us or these persons in foreign courts predicated solely upon the civil liability provisions of the securities laws of jurisdictions other than Iceland. We will, however, appoint CT Corporation System, a corporation domiciled in the United States, to serve as our agent for service of process in connection with all issuances of Notes under the Program.

The United States and Iceland do not currently have a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Therefore, a final judgment for the payment of a fixed debt or a sum of money rendered by any U.S. court based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not automatically be enforceable in Iceland. In addition, there is doubt that a lawsuit based upon U.S. federal or state securities laws could be brought in an original action in Iceland and that a foreign judgment based upon U.S. securities laws would be enforced in Iceland. There also is doubt as to the enforceability of judgments of this nature in several of the other jurisdictions in which we operate and where our assets are located.

SUMMARY

In this offering circular, the words “Glitnir”, “Glitnir banki”, the “Bank”, “we”, “our” and “us” refer to Glitnir banki hf. Unless the context requires otherwise, we refer to Glitnir banki hf. and its consolidated subsidiaries and affiliates taken together as the “Glitnir Group” or the “Group”. The term “Issuer” refers only to Glitnir banki hf. In this offering circular, when referring to Glitnir in certain historical contexts, we use the name Íslandsbanki hf.

The following summary contains basic information about this offering. It may not contain all the information that is important to you. You should read carefully the entire offering circular, and the documents incorporated by reference, for more information about this offering and Glitnir banki hf. The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere or incorporated by reference in this offering circular. Financial information in the following summary is presented for the year ended December 31, 2007 in accordance with IFRS. All financial information contained herein should be read together with Glitnir banki hf.’s audited consolidated financial statements and the notes thereto, which are included in this offering circular.

Glitnir Banki hf.

The Glitnir Group is a leading financial group in Iceland and, as of the date hereof, we were the second largest company listed on OMX Nordic Exchange Iceland hf. (“OMX Nordic Exchange Iceland”) by market capitalization. We provide universal banking services in our home markets of Iceland and Norway, offering a broad range of financial services to individuals, institutional investors and corporations. In addition, we provide specialized financial services outside of our home markets. On February 2, 2007, we implemented certain changes to our organizational structure. The intention of the organizational changes was to facilitate strong and profitable integration of all of our business units and to accommodate further growth. The resulting organizational structure was a combination of business, geographical and support units. The business units are Retail Banking, Markets, Investment Banking, Investment Management and Corporate Banking, the geographical units are Iceland, Nordic, Europe and International, and the support units are Finance & Risk Management, Shared Services and Corporate Development. On January 28, 2008, we announced additional changes to our organizational structure to reflect an increased regional focus on three geographical business regions: Iceland, Nordic and International. In Iceland, we intend to continue to provide full universal banking services with a focus on the following business lines: Retail Banking, Corporate Banking, Investment Banking, Investment Management and Markets. In the Nordic countries, we intend to focus on the activities of our Corporate Banking and Investment Banking business lines and continue to leverage our market share in equity brokerage services. We have retail banking licenses in Norway and Finland where we intend to continue to provide asset management services and savings products. Internationally, we intend to focus on our niche strategy in the renewable energy and seafood sectors through our Corporate Banking and Investment Banking business lines, as well as support our home market clients in their international expansion.

We operate 23 branches in Iceland, along with a branch in London, and representative offices in Canada and China. We currently have 21 wholly-owned subsidiaries, including Glitnir Bank (formerly Kredittbanken ASA) and Bolig- og Næringsbanken ASA (“BNbank”) in Norway, Glitnir Capital Corporation in New York and Glitnir Luxembourg SA. Other subsidiaries consist of brokerage companies in Norway and Sweden, holding companies for investments of Glitnir banki hf., a real estate management company, and projects sponsored by members of the Group. In addition, we have substantial shareholdings in other investment and financial services companies, including a 55.0% stake in Europay Iceland (or Borgun hf.), which is the Mastercard franchise in Iceland. As of December 31, 2007, our total assets were ISK 2,949 billion and our net profit was ISK 28 billion.

Strategy

Our objective is to maintain internal growth in our home markets through closer ties with existing customers and expanded lines of services and to continue controlled external growth which will serve to

strengthen our foundations through increased risk distribution, as well as the numerous opportunities that are foreseen for expanded business activities. The key elements of our strategy are to:

- *Provide an integrated service offering to our target customers.* We plan to continue to grow our corporate banking business through further product, sector and geographical diversification. We plan to do so by providing an integrated range of financial services and products to our Icelandic and Nordic clients and by following these clients outside the Nordic region in their international expansion. We will also focus on building strong relationships and offering tailored products to our key clients, including SMEs, high net worth individuals and institutional investors. We also seek to grow our investment banking and capital markets businesses, particularly in Norway, by leveraging our corporate banking platform in Iceland and Norway.
- *Capitalize on our Nordic platform for further growth.* Through our strategic acquisitions in the last four years, as well as continued organic development, we have created a business with significant market positions in several key segments of the Icelandic and Nordic financial services markets, including corporate banking, investment banking, capital markets and investment management. We plan to increase revenue and achieve operational efficiencies by further aligning each of our businesses and acquired entities to work together as a single team and provide an integrated full-service offering in the Nordic region in line with the services offered in Iceland. We seek to further grow our corporate banking business in Norway by increasing corporate lending and in the rest of the Nordic region by expanding our client base. We also plan to strengthen our investment banking business by leveraging our strength in corporate banking and equity placements in the Nordic region.
- *Continue to leverage our expertise in key industry segments with attractive macro-economic outlooks.* We seek to leverage our expertise in our three specialized industry sectors of seafood, sustainable energy and offshore service vessels to grow our business. We believe that these sectors will continue to provide us with opportunities for further growth. We intend to continue to build on our strong relationships with the leading global industry players in these sectors, clients from our home markets who expand internationally and local industry players worldwide. We also will seek to capitalize on our growing investment banking and capital markets businesses to establish our position as a full-service solution provider to these industries.
- *Continue to diversify our funding sources and our loan portfolio.* We seek to minimize our funding costs while retaining operational flexibility through diversifying and achieving balance among various funding sources. We plan to increase the share of our funding that we generate from deposit products by implementing new product initiatives and, in some cases, by moving into new markets. We also seek to minimize our exposure to any given market by diversifying our loan portfolio by both geography and sector. Our goal is to continue to diversify our loan portfolio through broadening our customer base in our home markets and through our international expansion.

Recent Developments

On September 5, 2007, we established a subsidiary corporation in New York. The main function of the corporation will be to support businesses in North America, particularly within the renewable energy and seafood sectors.

On December 21, 2007, we signed an agreement to sell 12% of Glitnir Property Holding (“GPH”), one of our subsidiaries, to Bjarni Ármannsson, our former chief executive officer, for ISK 970 million. The agreement is subject to the approval of the remaining shareholders of GPH and the board of directors of GPH. Our remaining share in GPH after completion of the transaction will be 48.8%. Glitnir’s gain from the sale upon completion of the transaction will be approximately ISK 300 million. In addition, previously

deferred capital gains of ISK 1.5 billion will be realized as GPH will no longer be included in our consolidated accounts.

Organization

Our shares are listed on OMX Nordic Exchange Iceland under the symbol “GLB”. The Bank is a public limited company incorporated in Iceland and operating under Icelandic law. The Bank was incorporated on May 15, 2000 for an unlimited duration. The Bank is registered with the Registrar of Companies in Iceland and its registration number is 550500-3530. Our registered offices are located at Kirkjusandur 2, 155 Reykjavik, Iceland and our telephone number there is +354-440-4500.

The Program

Issuer:	Glitnir banki hf.
Description:	Medium-Term Note Program
Arranger:	J.P. Morgan Securities Inc.
Dealers:	Banc of America Securities LLC, Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Greenwich Capital Markets, Inc., HSBC Securities (USA) Inc., Lehman Brothers Inc., J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, UBS Securities LLC, and Wachovia Capital Markets, LLC
Program Size:	Up to US\$10,000,000,000 aggregate principal amount at any one time outstanding of our notes, or its equivalent in other currencies.
Currencies:	Notes may be denominated in any currency or currencies agreed to by us and the relevant dealers, subject to compliance with all applicable legal and regulatory restrictions. Payments in respect of an issue of notes may, subject to applicable legal and regulatory compliance, be made in and linked to any currency or currencies.
Certain Restrictions:	Notes denominated in a currency to which particular laws, guidelines, regulations, restrictions or reporting requirements apply will be issued only in circumstances that comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time.
Fiscal and Paying Agent:	Deutsche Bank Trust Company Americas.
Calculation Agent:	Unless otherwise specified in the applicable supplement, the fiscal and paying agent.
Redenomination:	Notes denominated in a currency other than U.S. dollars or euro may be redenominated in euro as set forth in the applicable pricing supplement.
Maturities:	Any maturity from nine months to 30 years or more from the issue date, or in any case such other minimum maturity as may be required from time to time by the relevant monetary authority. No maximum maturity is contemplated, and notes may be issued with no specified maturity dates.
Issue Price:	Notes may be issued at par or at a discount from, or premium over, par and either on a fully paid or partly paid basis.
Form of Notes:	<p>Notes offered in the United States to QIBs in reliance on Rule 144A will be represented by one or more global notes (the “144A Global Notes”) and notes offered outside the United States in reliance on Regulation S will be represented by one or more global notes (the “Regulation S Global Notes”). If specified in the applicable Pricing Supplement, notes may be offered to certain institutional accredited investors and initially will be represented by definitive notes in certificated form (the “Certificated Notes”).</p> <p>The notes will be in fully registered form, unless otherwise specified in the applicable pricing supplement. You may hold a beneficial interest in a global note through DTC, Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), or Clearstream Banking <i>société anonyme</i> (“Clearstream, Luxembourg”), directly as a participant in one of those systems or indirectly through financial institutions that are participants in</p>

any of those systems.

Owners of beneficial interests in global notes generally will not be entitled to have their notes registered in their names, will not be entitled to receive certificates evidencing their notes in their names and will not be considered the holder of any notes under the Fiscal and Paying Agency Agreement (as defined herein) for the notes.

Notes will bear a legend setting forth transfer restrictions and may not be transferred except in compliance with such transfer restrictions. Transfers of interests from a 144A Global Note to a Regulation S Global Note, from a Regulation S Global Note to a 144A Note and transfers of Certificated Notes held by institutional accredited investors are subject to certification requirements.

Distribution:

We may sell notes (1) directly to investors, (2) to or through dealers, or (3) through a combination of these methods of sale. Each supplement will specify the way in which we intend to sell a specific issue of notes, including the name of any dealer, and the issue price, as well as any commission, concession or discount.

Fixed Rate Notes:

Fixed rate notes will bear interest at the rate set forth in the applicable pricing supplement. Fixed rate interest will be payable on the dates specified in the applicable pricing supplement and on redemption.

Interest on fixed rate notes will be payable semi-annually and, unless otherwise specified in the applicable pricing supplement, computed on the basis of a 360-day year of twelve 30-day months.

Floating Rate Notes:

Floating rate notes will bear interest at a rate calculated:

- (1) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement in the form of an agreement incorporating the “2000 ISDA Definitions”, as published by the International Swaps and Derivatives Association Inc. and as amended and updated as at the issue date of the first series of the relevant notes; or
- (2) on the basis of a reference rate appearing on an agreed screen page of a commercial quotation service; or
- (3) on any other basis agreed to in writing between us and the relevant dealers, and set forth in the applicable pricing supplement.

Floating rate notes also may have a maximum interest rate, a minimum interest rate or both.

The margin, if any, in respect of the floating interest rate will be agreed to among us and the relevant dealers.

Interest on floating rate notes will be payable and will be calculated as specified, prior to issue, in the applicable pricing supplement. Interest will be calculated on the basis of the day count fraction agreed to among us and the relevant dealers and set forth in the applicable pricing supplement.

Index Linked Notes:

Payments of principal or interest, at maturity or otherwise, on index linked notes will be calculated by reference to the index and/or formula agreed to among us and the relevant dealers and set forth in the applicable pricing

	supplement.
Other Provisions in Relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating rate notes and index linked interest notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on floating rate notes and index linked notes in respect of each interest period, as agreed prior to issue by us and the relevant dealer, will be payable on such interest payment dates, and will be calculated on the basis of such day count fraction, as may be agreed between us and the relevant dealer.</p>
Dual Currency Notes:	Payments of principal or interest, at maturity or otherwise, on dual currency notes will be made in such currencies and based upon such rates of exchange agreed to among us and the relevant dealers and set forth in the applicable pricing supplement.
Physical Delivery Notes:	<p>Payments of principal or interest, at maturity or otherwise, on physical delivery notes and any delivery of any underlying assets in respect of physical delivery notes will be made in accordance with the terms of the applicable pricing supplement.</p> <p>In the case of physical delivery notes and index linked notes, the applicable pricing supplement will, where applicable, contain provisions relating to adjustments with respect to underlying assets, any underlying index or indices, settlement disruption and market disruption, including, without limitation and where necessary, appropriate definitions of “potential adjustment events”, “settlement disruption event” and “market disruption event” and details of the consequences of these events.</p>
Zero Coupon Notes:	Zero coupon notes will not bear interest other than in relation to interest due after the maturity date.
Variable Coupon Amount Notes:	In the case of variable coupon amount notes, the applicable pricing supplement will specify the basis for calculating the amounts of interest payable, which may be by reference to a stock index or formula or as otherwise provided in the relevant supplement or supplements.
Discount Notes:	In the case of discount notes, the applicable pricing supplement will specify an issue price that is less than 100% of the principal amount by more than a percentage equal to the product of 0.25% and the number of full years to the stated maturity of such notes. Discount notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance.
Amortizing Notes:	Payments of principal and interest on amortizing notes will be made in installments over the term of such notes as may be specified in the applicable pricing supplement.
Other Notes:	Terms applicable to any other kinds of notes that we and the relevant dealers may agree from time to time to issue will be set forth in the applicable pricing supplement.
Redemption and Purchase:	The applicable pricing supplement will indicate either that the relevant notes cannot be redeemed prior to their stated maturity, other than in specified installments, if applicable, or for taxation reasons or following an event of default (as defined herein), or that such notes will be redeemable at our and/or the option of the holders of the notes upon giving notice to the holders of the notes or to us, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such

other terms, if any, agreed to between us and the relevant dealers and set forth in the applicable pricing supplement.

Other than for taxation reasons, as set forth herein or any applicable pricing supplement, or following an event of default, no part of any notes denominated in any other specified currency may be redeemed prior to such other minimum time as may be required by the relevant monetary authority.

Further Issues: We may from time to time without the consent of the noteholders issue further notes or “reopen” an existing series of our notes.

Denomination of Notes: Notes will be issued in denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof (or the equivalent of these amounts in other currencies) and in such other denominations as are specified in the applicable pricing supplement.

Taxation: All payments in respect of the notes will be made without deduction for or on account of withholding taxes imposed by Iceland or the United States, subject as provided in “Description of the Notes”. In the event that any such deduction is made, we will, save in certain limited circumstances provided in “Description of the Notes”, be required to pay additional amounts to cover the amounts so deducted.

Status of Senior Notes: The senior notes will constitute our direct, unconditional and unsecured obligations and will rank equally without any preference among themselves and at least equally with all our other present and future unsecured, unconditional and senior obligations other than statutorily preferred exceptions.

Status of Subordinated Notes: The subordinated notes will constitute our direct, unconditioned, unsecured and subordinated obligations without any preference among themselves. The rights of holders of subordinated notes will be subordinated in right of payment to the senior notes and our other senior indebtedness in the manner provided in the subordinated indenture and as described in “Description of the Notes”.

Ratings: The program, unless otherwise described in the applicable pricing supplement, has been issued the following indicative ratings:

Rating Agency	Senior Notes	Subordinated Notes
Moody’s Investors Service (“Moody’s”)	A2	A3
Fitch Ratings (“Fitch”)	A	A-
Standard & Poor’s Ratings Services (“S&P”)	BBB+	BBB+

Listing and Admission to Trading: Application has been made for notes under the Program to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Luxembourg Stock Exchange’s Euro MTF market.

We have appointed Deutsche Bank Luxembourg SA as the Luxembourg Listing Agent and the Luxembourg Paying Agent.

Notes may be listed or quoted on any stock exchange subject to the requirements of the relevant stock exchange or automated quotation system or other authority. Unlisted notes may also be issued. The supplement or supplements for each issuance of notes will state whether, and on what stock exchanges, if any, the relevant notes will be listed.

Governing Law: The notes will be governed by, and construed in accordance with, the laws of the State of New York, unless otherwise specified in the applicable

pricing supplement, except the provisions regarding subordination of the subordinated notes described in “Description of the Notes” which will be governed by Icelandic law.

Risk Factors:

There are certain factors that may affect our ability to fulfill our obligations under notes issued under the Program. These are set out under “Risk Factors” and include our exposure to general economic and other business conditions, changes in interest rates and foreign exchange rates, the risk of increased competition and regulatory changes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with notes issued under the Program, see “Risk Factors”.

Selling Restrictions:

We have not registered, and will not register, the notes under the Securities Act or any state securities laws. Accordingly, the notes may not be transferred, offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and any applicable state securities laws. See “Notice to Investors”. In addition, there are certain restrictions on the offer, sale and transfer of the Notes in the European Economic Area (including the United Kingdom, France and Iceland) and Japan and such other restrictions as may be required in connection with the offer and sale of a particular Series of Notes. See “Plan of Distribution”.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table presents summary consolidated financial data for Glitnir banki as of the dates or for the periods indicated and is qualified in its entirety by, and should be read in connection with, Glitnir banki's "Management's Discussion and Analysis of Results of Operations" and Glitnir banki's audited consolidated financial statements and related notes, which are included in this offering circular. The summary consolidated income statement data for the years ended December 31, 2005, 2006 and 2007 and the summary consolidated balance sheet data as of December 31, 2005, 2006 and 2007 have been derived from our audited consolidated financial statements prepared in accordance with IFRS. The financial information set forth below should be read together with our audited consolidated financial statements and related notes for those periods, which are included in this offering circular.

	Year ended December 31,		
	2005	2006	2007
	(In millions ISK)		
Income statement data			
Net interest income.....	22,351	37,084	39,082
Net insurance premium	229	—	—
Net fee and commission income.....	8,773	26,459	37,644
Realized gains on financial assets available-for-sale	181	—	—
Net gains on financial assets and financial liabilities held for trading	3,993	6,010	(879)
Net losses on financial assets designated at fair value through profit or loss	491	2,097	5,202
Fair value adjustments in hedge accounting ..	(59)	(185)	(448)
Net foreign exchange gains (losses)	(179)	581	280
Other net operating income	631	555	4,214
Net operating income	36,411	72,601	85,095
Administrative expenses:			
Salaries and salary-related expenses	(8,848)	(15,747)	(27,896)
Depreciation of fixed assets	(481)	(662)	(1,889)
Other operating expenses	(6,402)	(10,892)	(18,359)
Impairment losses.....	(2,205)	(4,759)	(5,516)
Share of profit of associates	1,262	1,470	(54)
Net gains on non-current assets classified as held for sale.....	3,323	4,244	2,523
Profit before income tax	23,060	46,255	33,904
Income tax	(4,174)	8,024	(6,253)
Net earnings	18,886	38,231	27,651

	At December 31,		
	2005	2006	2007
	(In millions ISK)		
Balance sheet data			
Cash and balances with central banks	20,861	20,417	55,500
Derivatives	18,852	72,603	118,706
Bonds and debt instruments	146,085	231,675	278,960
Shares and equity instruments	89,360	108,846	105,581
Loans to banks	75,488	177,010	278,469
Loans to customers	1,078,383	1,596,184	1,974,907
Investments in associates	8,081	4,379	2,820
Investment property	—	—	5,539
Property and equipment	1,987	3,296	4,202
Intangible assets	10,824	18,310	46,955
Deferred tax assets	268	264	1,269
Non-current assets held for sale	551	409	476
Other assets	21,204	12,947	75,526
Total assets	1,471,945	2,246,340	2,948,910
Short positions	—	4,877	15,023
Derivatives	36,025	60,721	77,497
Deposits from central banks	17,801	36,045	4,653
Deposits from banks	12,855	42,532	50,524
Deposits from customers	304,135	438,272	725,349
Debt issued and other borrowed funds	937,794	1,377,787	1,746,199
Subordinated loans	47,464	108,998	101,669
Post-employment obligations	418	529	425
Current tax liabilities	1,404	7,526	4,362
Deferred tax liabilities	3,682	3,121	5,641
Other liabilities	25,830	19,813	47,599
Total equity attributable to the equity holders of Glitnir banki hf.	84,537	144,578	169,201
Minority interest	—	1,541	768
Total liabilities and equity	1,471,945	2,246,340	2,948,910

Other Results

Off-balance sheet items:

Assets under management	344,975	490,321	936,010
Guarantees granted to customers	19,788	42,826	44,932
Derivatives against bond assets	57,681	77,373	97,196
Derivatives against equity assets	60,401	67,074	67,143

RISK FACTORS

We believe that the following factors may affect our ability to fulfill our obligations under notes issued under the Program. Most of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with notes issued under the Program also are described below.

We believe that the factors described below represent the principal risks inherent in investing in notes issued under the Program, but our inability to pay interest, principal or other amounts on or in connection with any notes may occur for other reasons and we do not represent that the statements below regarding the risks of holding any notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this offering circular and reach their own views prior to making any investment decision.

Risks that may affect our ability to fulfill our obligations under the notes issued under the Program

Set forth below are certain risks that could materially adversely affect our future business, operating results or financial condition, which will affect holders of the notes. Each potential investor in the notes should carefully consider these risk factors and the other information in this offering circular before making investment decisions involving the notes. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect any investment in the notes.

Our results may be adversely affected by general economic conditions and other business conditions

Our results are affected by general economic and other business conditions. These conditions include changing economic cycles that affect demand for investment and banking products. These cycles also are influenced by global political events, such as terrorist acts, war and other hostilities as well as by market specific events, such as shifts in consumer confidence and consumer spending, the rate of unemployment, industrial output, labor or social unrest and political uncertainty.

In particular, our business, financial condition and results of operations are affected directly by economic and political conditions in Iceland. Although the Icelandic economy has experienced high growth rates in recent years, there can be no assurance that these growth rates will continue or that there will not be a downturn in the Icelandic economy. Recently, interest rates and the rate of inflation in Iceland have been rising. The Central Bank of Iceland's policy interest rate has increased from 10.5% at December 31, 2005 to 13.3% at December 31, 2006 and 13.8% at December 31, 2007. Inflation has increased from 4.4% in 2005 to 6.8% in 2006 and 5.8% in 2007. In addition, Iceland's current account deficit at December 31, 2006 was approximately 26.7% of gross domestic product, or GDP, for 2006, adversely affecting the value of the Icelandic krona, which fell in value against the U.S. dollar during 2006. At December 31, 2006, the krona had declined 14.7% against the U.S. dollar to ISK 71.83 to \$1.00 from its high of ISK 60.56 to \$1.00 at January 12, 2006. However, in 2007, the krona rebounded to ISK 62.00 to \$1.00 as of December 31, as the current account deficit declined to approximately 15% of GDP at December 31. The exchange rate at April 15, 2008 was ISK 74.59 to \$1.00. These developments and others may have a material adverse effect on our business, financial condition and results of operations.

Our commercial and consumer banking business also will be affected during recessionary conditions as there may be less demand for loan products or certain customers may face financial problems. Interest rate increases also may impact the demand for mortgages and other loan products and credit quality.

Our investment banking, securities trading, asset management and private banking services, as well as our investments in, and sales of products linked to, financial assets, will be impacted by several factors such as the liquidity of the global financial markets, the level and volatility of equity prices and

interest rates, investor sentiment, inflation and the availability and cost of credit which are related to the economic cycle.

The impact of the economy and business climate on the credit quality of borrowers and counterparties can affect the recoverability of loans and amounts due from counterparties.

The availability of funding in global financial markets may materially impact our borrowing costs and affect our liquidity, and thus have a material adverse effect on our ability to engage in business transactions and retain customers.

For a discussion of how credit and market risk is managed see “Credit Approval Policy” and “Risk Management” under “The Bank”.

Changes in interest rates and foreign exchange rates may impact our results

The results of our banking operations are affected by our management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income and investment income. The composition of our assets and liabilities, and any gap position resulting from the composition, causes net interest income to vary with changes in interest rates. In addition, variations in interest rate sensitivity may exist within the re-pricing periods or between the different currencies in which the Bank holds interest rate positions. A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or result from operations of our business.

We publish our consolidated financial statements in ISK. Currency mismatch between assets and liabilities is negligible but net income may be subject to exchange rate risk. A large part of our loan portfolio is in foreign currency and income from this portfolio is, thus, subject to exchange rate risk. In addition, income from certain subsidiaries, including those operating in Norway, is in foreign currency.

Our management of interest rate risk and foreign exchange risk does not completely eliminate the effect of those factors on its performance. For a discussion of how interest rate risk and foreign exchange rate fluctuation risk is managed see “Risk Management” under “Selected Statistical Data”.

Our performance is subject to substantial competitive pressures that could adversely affect our results of operations

There is substantial competition for the types of banking and other products and services that we provide in the regions in which we conduct our business, including Iceland and Norway. Such competition is affected by consumer demand, technological changes, the impact of consolidation, regulatory actions and other factors. We expect competition to intensify as continued merger activity in the financial services industry produces larger, better-capitalized companies that are capable of offering a wider array of products and services, and at more competitive prices. If we are unable to provide attractive products and services that are profitable, we may lose market share or incur losses on some or all activities.

Regulatory changes or enforcement initiatives could adversely affect our business

We are subject to banking and financial services laws and government regulation in each of the jurisdictions in which we conduct business. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, record keeping, and marketing and selling practices. Banking and financial services laws, regulations and policies currently governing us and our subsidiaries may change at any time in ways which have an adverse effect on our business. Furthermore, we cannot predict the timing or form of any future regulatory initiatives. Changes in existing banking and financial services laws and regulations may materially affect the way in which we conduct business, the products or services we may offer and the value of our assets. If we fail to address, or appear

to fail to address, appropriately these changes or initiatives, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties. Regulatory agencies have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition.

There is operational risk associated with our industry which, when realized, may have an adverse impact on our results of operations and financial condition

The Bank, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Given our high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, our dependence on automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems, arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to suspension of services to customers and result in loss or liability. We are further exposed to the risk that external vendors may be unable to fulfill their contractual obligations to us (or will be subject to the same risk of fraud or operational errors by their respective employees as we are), and to the risk that its (or its vendors') business continuity and data security systems prove not to be sufficiently adequate. We also face the risk that the design of our controls and procedures prove inadequate, or are circumvented, thereby causing delays in detection of errors in information. Although we maintain a system of controls designed to keep operational risk at appropriate levels we have suffered losses from operational risk and there can be no assurance that we will not suffer losses from operational risks in the future that may be material in amount.

For a discussion of how operational risk is managed see "Risk Management" under "Selected Statistical Data".

We are subject to credit, market and liquidity risk which may have an adverse effect on our credit ratings and our cost of funds

To the extent that any of the instruments and strategies we use to hedge or otherwise manage our exposure to market or credit risk are not effective, we may not be able to mitigate effectively our risk exposures in particular market environments or against particular types of risk. Balance sheet growth will depend upon the economic conditions described above, as well as on our determination to sell, purchase or syndicate particular loans or loan portfolios. Our trading revenues and interest rate risk depend upon our ability to identify properly, and mark to market, changes in the value of our financial instruments caused by changes in market prices or rates. Our earnings also will depend upon how accurate our critical accounting estimates prove and upon how effectively we determine and assess the cost of credit and manage our risk concentrations. To the extent our assessments of migrations in credit quality and of risk concentrations, or our assumptions or estimates used in establishing our valuation models for the fair value of our assets and liabilities or for our loan loss reserves, prove inaccurate or not predictive of actual results, we could suffer higher-than-anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing our liquidity risk, as evaluation by rating agencies of the management of these risks affects their determinations as to our credit ratings. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies can also decide to withdraw their ratings altogether, which may have the same effect as a reduction in our ratings. Any reduction in our ratings may increase our borrowing costs, limit our access to capital markets and adversely affect the ability of our businesses to sell or market our products, engage in business transactions – particularly longer-term and derivatives transactions – and retain our current customers. This, in turn, could reduce our liquidity and have a negative impact on our operating results and financial condition.

Systemic risk could adversely affect our business

Concerns about, or a default by, one financial institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between institutions. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges with which we interact on a daily basis, and could adversely affect our business.

Increases in our loan losses or allowances for loan losses may have an adverse effect on our results

Our banking businesses establish provisions for loan losses, which are reflected in impairment losses in our IFRS income statement, in order to maintain our allowance for loan losses at a level which is deemed to be appropriate by management based upon an assessment of prior loss experience, the volume and type of lending being conducted by each bank, industry standards, past due loans, economic conditions and other factors related to the collectibility of each entity’s loan portfolio. For further information on our credit risk management, refer to “Risk Management” under “Selected Statistical Data”. Although management uses its best efforts to establish the provision for loan losses, that determination is subject to significant judgment, and our banking businesses may have to increase or decrease their provisions for loan losses in the future as a result of increases or decreases in non-performing assets or for other reasons. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have an adverse effect on our results of operations and financial condition.

We depend on the accuracy and completeness of information about customers and counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit, we may assume that a customer’s audited financial statements conform with generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on the audit report covering those financial statements. Our financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or that are materially misleading.

We are subject to legal risk which may have an adverse impact on our results of operations and financial condition

It is inherently difficult to predict the outcome of possible litigation, regulatory proceedings and other adversarial proceedings involving our businesses, particularly cases in which the matters may be brought on behalf of various classes of claimants, seeking damages of unspecified or indeterminate amounts or involving novel legal claims. In presenting our consolidated financial statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are deemed probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, possible defenses and previous experience in similar cases or proceedings. Changes in these estimates may have an adverse effect on our results of operations and financial condition.

We are subject to credit risk which may have an adverse effect on our credit ratings and our cost of funds

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of our businesses.

Adverse changes in the credit quality of our borrowers and counterparties or a general deterioration in the Icelandic economy or global economic conditions, or arising from systematic risks in the financial markets, could affect the recoverability and value of our assets and require an increase in our provision for bad and doubtful debts and other provisions. Counterparty risk covers situations where a counterparty is unable to make full payment of amounts when due. We make provisions to cover possible losses. We constantly monitor these risks and review them.

A decline in the value or illiquidity of the collateral securing our loans may adversely affect our loan portfolios

A substantial portion of our loans to corporate and individual borrowers are secured by collateral such as real estate, securities, ships, and in the case of fishing vessels, together with their non-transferable fishing quotas, receivables, raw materials and inventories. Downturns in the relevant markets or general deterioration of economic conditions in the industries in which these borrowers operate, or in Iceland, the United Kingdom or Norway generally, or other markets in which the collateral is located, may result in declines in the value of collateral securing loans to levels below the outstanding principal balance on those loans. A decline in the value of collateral securing these loans or the inability to obtain additional collateral may, in some cases, require us to reclassify the relevant loans, establish additional provisions for loan losses and increase reserve requirements. In addition, a failure to recover the expected value of collateral in the case of foreclosure may expose us to losses which could have a material adverse effect on our business, financial condition and results of operations.

Adverse price fluctuations of the securities in our proprietary trading portfolio could have a material adverse effect on our results of operations and financial condition

We have a substantial investment portfolio that includes equity and debt securities of the largest issuers of securities in Iceland and Northern Europe, arising from proprietary trading handled by Treasury, which is itself a part of the Finance Division. Interbank Markets, a department within Treasury, and Corporate Banking, handle our own investments in listed and unlisted, domestic and international equity and debt securities, as well as underwriting and market-making of equity and debt securities. As of December 31, 2007, our equity and debt investment portfolios totaled ISK 38.4 billion and ISK 182.0 billion, respectively, and accounted for 1.3% and 6.2%, respectively, of our total assets. A decline in the price of these assets could substantially reduce the value of our securities portfolio and the amount of our other operating income attributable to trading gains.

We are subject to indexation risk which may have an adverse effect on our results of operations

Our indexation risk derives from imbalances in our indexed assets and liabilities, including both on- and off-balance-sheet items. Indexation risk is calculated on the basis of the consumer price index (CPI) and is mainly used on long-term loans in domestic currency. Our indexed assets include assets and derivatives based on indexed trading securities, which are short-term investments. Excluding these, we aim to maintain a positive balance between indexed assets and liabilities. Our Risk Management unit is responsible for our indexation risk.

We have experienced rapid growth, and if we cannot adequately manage our growth, our results of operations and financial condition will suffer

Our business has grown very rapidly, primarily through acquisitions. Our total assets increased by 31% to ISK 2,949 billion between December 31, 2006 and December 31, 2007. The number of our

employees increased from 1,500 on December 31, 2006 to 2,248 on December 31, 2007. Failure to manage our future growth effectively could result in increased costs and harm our results of operations.

We have and may acquire complementary businesses. These acquisitions could divert our resources, cause dilution to our stockholders and adversely affect our results of operations

Since 2000, we have acquired several businesses. We are focusing more time and resources on the acquisition of additional complementary business. Negotiating potential acquisitions or integrating newly acquired businesses into our business could divert our management's attention from other business concerns and could be expensive and time consuming. We might not be successful in integrating any acquired businesses, and may not achieve anticipated benefits. Should any of the following problems, or others, occur as a result of our acquisition strategy, the impact could be material:

- difficulties integrating personnel and other corporate cultures into our business;
- difficulties integrating information systems;
- the potential loss of key employees;
- the assumption of liabilities and exposure to undisclosed liabilities of acquired companies; or
- the diversion of management attention from existing operations.

As a result of these problems and risks, businesses we acquire may not produce the revenues, earnings or business synergies that we anticipated, and acquired products, services or technologies might not perform as we expected. As a result, we may incur higher costs and realize lower revenues than we had anticipated. We may not be able to successfully address these problems.

We also cannot assure you that new acquisitions will be successfully identified and completed or that, if acquisitions are completed, the acquired businesses, products or services will generate sufficient revenue to offset the associated costs or other harmful effects on our business.

In addition, future acquisitions could result in issuances of equity securities that cause dilution to our existing stockholders or the issuance at cost of securities that will increase our leverage and our costs. Furthermore, we may incur contingent liability or possibly impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could harm our results of operations.

We are subject to the risk of failure of our IT systems and breaches of our security system

Various external events, beyond our control and the control of our management, could have a major impact on our operations, performance and share price. Examples of this are natural catastrophes, war, vandalism and terrorist attacks. We have a disaster plan, intended to ensure our capacity to maintain services with, and the confidence of, our clients, partners and other parties should a serious situation arise. However, we cannot assure you that our plan will be adequate and that such external events would not adversely affect our business, results of operations and financial condition.

We are subject to legal risk and regulatory changes which may have an adverse impact on our business, results of operations and financial condition

Like other financial institutions, we operate within a complex regulatory framework and a variety of specific regulations apply to our operations. We are regulated by the Icelandic Financial Supervisory Authority. According to our operating license as a commercial bank and Act No. 161/2002 on Financial Undertakings (the "Act on Financial Undertakings"), we are subject to compliance with laws and

regulations governing us and our operations, and any breach of those laws or regulations may result in severe fines, liability for damages and/or the revocation of our license.

Furthermore, we are subject to financial services laws, regulations, administrative actions and policies in each jurisdiction where we operate. Changes in supervision and regulation, particularly in Iceland, could materially affect our business, the products and services offered or the value of our assets. We cannot predict the timing or form of any future regulatory initiatives. If we fail to address, or appear to fail to address, appropriately these changes or initiatives, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties. Although we work closely with regulators and continually monitor the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond our control.

We rely on certain key members of management

We are highly dependent on our Chief Executive Officer and senior management. The loss of the services of key members of our senior management or staff may significantly delay our business objectives and could have a material adverse effect on our business, financial condition and results of operations. In addition, competition in Iceland to hire qualified personnel could have a material adverse effect on our ability to recruit new senior managers.

There are no limitations on our incurrence of additional debt in the future

We are not prohibited from issuing, providing guarantees or otherwise incurring further debt ranking *pari passu* with, or senior to, our existing obligations and any future obligations arising under this Program.

Market risks associated with notes issued under the Program

The notes may not be a suitable investment for all investors

Each potential investor in the notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (1) have sufficient knowledge and experience to make a meaningful evaluation of the notes, the merits and risks of investing in the notes and the information contained or incorporated by reference in this offering circular;
- (2) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the notes and the impact the notes will have on its overall investment portfolio;
- (3) have sufficient financial resources and liquidity to bear all of the risks of an investment in the notes, including where the currency for principal or interest payments is different from the potential Investor's Currency (as defined below);
- (4) understand thoroughly the terms of the notes and be familiar with the behavior of any relevant indices and financial markets; and
- (5) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial

instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of the notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of notes

A wide range of notes may be issued under the Program. A number of these notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to our optional redemption

An optional redemption feature of notes is likely to limit their market value. During any period when we may elect to redeem notes, the market value of those notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may be expected to redeem notes when our cost of borrowing is lower than the interest rate on the notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index linked notes and dual currency notes

We may issue notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, we may issue notes with principal or interest payable in one or more currencies which may be different from the currency in which the notes are denominated. Potential investors should be aware that:

- (1) the market price of such notes may be volatile;
- (2) they may receive no interest;
- (3) payment of principal or interest may occur at a different time or in a different currency than expected;
- (4) they may lose all or a substantial portion of their principal;
- (5) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (6) if a Relevant Factor is applied to notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified;
- (7) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield;
- (8) a direct investment in the shares, commodities or other assets underlying an index or in a fund that invests in those assets, or in the currencies comprised in a dual currency note,

might give rise to different, and potentially higher returns, than an investment in the index linked notes or dual currency notes; and

- (9) no statutory, judicial, or administrative authority directly addresses the characterization of index linked notes or securities similar to index linked notes for United States federal income tax purposes. As a result, significant United States federal income tax consequences of an investment in such notes are not certain. We have not requested a ruling from the United States Internal Revenue Service (“IRS”) for any such notes and gives no assurance that the IRS will agree with the statements made in this document or the applicable pricing supplement relating to those notes.

Partly paid notes

We may issue notes where the issue price is payable in more than one installment. Failure to pay any subsequent installment could result in an investor losing all of his investment.

Variable rate notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse floating rate notes

Inverse floating rate notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate, such as LIBOR. The market values of those notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate notes are more volatile because an increase in the reference rate not only decreases the interest rate of the notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these notes.

Fixed/floating rate notes

Fixed/floating rate notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where we have the right to effect such a conversion, this will affect the secondary market and the market value of the notes since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a floating rate in such circumstances, the spread on the fixed/floating rate notes may be less favorable than then prevailing spreads on comparable floating rate notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other notes. If we convert from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on our notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Our obligations under subordinated notes are subordinated

Our obligations under subordinated notes will be unsecured and subordinated and will rank junior in priority of payment to senior liabilities. “Senior liabilities” means any of our unconditional, unsubordinated and unsecured obligations. Although subordinated notes may pay a higher rate of interest

than comparable notes which are not subordinated, there is a real risk that an investor in subordinated notes will lose all or some of his investment should we become insolvent.

Remedies in case of a default on the subordinated notes are severely limited

In the event of a default under the subordinated notes, you may be able to accelerate payment of the notes and institute legal proceedings against us to enforce such payment, as well as any other obligations we may have under the terms of the notes. You may, however, claim payment for the full amount only if we become subject to a winding-up of our business, although at this time only the Financial Services Authority may institute a winding-up.

An investment in subordinated notes should only be undertaken by sophisticated investors

An investment in subordinated notes is suitable only for sophisticated investors who are capable of fully evaluating the risks involved in making such investment and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investment.

Risks related to notes generally

Set out below is a brief description of certain risks relating to the notes generally.

Modification and Waivers

The conditions of the notes contain provisions for calling meetings of noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all noteholders including noteholders who did not attend and vote at the relevant meeting and noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the “Directive”) on the taxation of savings income, Member States are required, from July 1, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of the Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither we nor any Paying Agent (as defined herein) nor any other person would be obliged to pay additional amounts with respect to any note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of the Directive, we will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the notes (other than the provisions regarding subordination, utilization, conversion, reinstatement after conversion and interest deferral, which are governed by Icelandic law) are based on New York law in effect as at the date of this offering circular. No assurance can be given as to

the impact of any possible judicial decision or change to Icelandic or New York law or administrative practice after the date of this offering circular.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk and interest rate risk.

The secondary market generally

The notes will have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The notes generally will have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severe adverse effect on the market value of notes.

Exchange rate risks and exchange controls

We will pay principal and interest on the notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (1) the Investor's Currency-equivalent yield on the notes, (2) the Investor's Currency-equivalent value of the principal payable on the notes and (3) the Investor's Currency-equivalent market value of the notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the notes during the time that the notes pay a fixed rate of interest.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Real or anticipated changes in our audit ratings generally will affect the market value of the notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors maybe subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (1) the notes are lawful investments for it, (2) the notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the notes under any applicable risk-based capital or similar rules.

USE OF PROCEEDS

The net proceeds from each issue of notes will be applied by us for our general corporate purposes (which include making a profit). If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable pricing supplement.

CAPITALIZATION

The following table sets forth, in accordance with IFRS, Glitnir banki's consolidated capitalization (including short-term debt) at December 31, 2007. To the best of Glitnir banki's knowledge, there has been no material change in the short-term debt and capitalization of Glitnir banki since December 31, 2007. This information should be read together with Glitnir banki's audited consolidated financial statements for the year ended December 31, 2007, which are included in this offering circular.

	At December 31, 2007 (ISK millions)
Issued Capital	
Share capital (Ordinary shares of ISK 1 each)	14,730
Share premium	58,329
Other reserves	9,456
Retained earnings	86,686
Minority interest	768
Total capital resources	169,969
Other Borrowings	
Deposits	780,526
Subordinated loans	101,669
Other liabilities	1,896,746
Total Indebtedness	2,778,941
Total Capitalization and Indebtedness	2,948,910

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratios of earnings to fixed charges calculated for the years ended December 31, 2005, 2006 and 2007 are as follows:

Year ended December 31,		
2005	2006	2007
43.2%	37.6%	56.6%

EXCHANGE RATES

The following table sets forth, for the periods indicated, certain information concerning the exchange rate for Icelandic krona based on the mid rate quoted by the Central Bank of Iceland expressed in Icelandic krona per \$1.00. No representation is made that amounts in Icelandic krona have been, could have been, or could be converted into U.S. dollars at the mid rate or at any other rate. At April 15, 2008, the mid rate was ISK 74.59 per \$1.00.

	High	Low	Average ⁽¹⁾	Period End
	(krona per dollar)			
Recent Monthly Exchange Rate Data				
April 2008 (through April 15, 2008).....	77.15	72.00	73.88	74.59
March 2008.....	77.84	66.16	71.60	76.67
February 2008.....	68.53	64.67	66.49	65.63
January 2008.....	67.11	61.49	64.30	65.04
Historical Annual Exchange Rate Data				
2007.....	72.38	58.50	63.22	62.00
2006.....	77.92	60.89	69.78	71.83
2005.....	66.77	58.45	62.86	63.13
2004.....	74.51	61.19	70.12	61.19
2003.....	82.78	71.16	76.76	71.16

(1) The average rate is the average of the mid rates on the last business day of each month for the year average and on each business day of the month (or portion thereof) for the monthly average.

Source: Central Bank of Iceland

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial data for Glitnir banki as of the dates or for the periods indicated and is qualified in its entirety by, and should be read in connection with, Glitnir banki's "Management's Discussion and Analysis of Results of Operations" and Glitnir banki's audited consolidated financial statements and related notes, which are included in this offering circular. The selected consolidated income statement data for the years ended December 31, 2005, 2006 and 2007 and the selected consolidated balance sheet data as of December 31, 2005, 2006 and 2007 have been derived from our audited consolidated financial statements prepared in accordance with IFRS. The financial information set forth below should be read together with our audited consolidated financial statements and related notes for those periods, which are included in this offering circular.

	Year ended December 31,		
	2005	2006	2007
	(In millions ISK)		
Income statement data			
Net interest income.....	22,351	37,084	39,082
Net insurance premium	229	—	—
Net fee and commission income.....	8,773	26,459	37,644
Realized gains on financial assets available-for-sale	181	—	—
Net gains on financial assets and financial liabilities held for trading	3,993	6,010	(879)
Net losses on financial assets designated at fair value through profit or loss	491	2,097	5,202
Fair value adjustments in hedge accounting ..	(59)	(185)	(448)
Net foreign exchange gains (losses)	(179)	581	280
Other net operating income	631	555	4,214
Net operating income	36,411	72,601	85,095
Administrative expenses:			
Salaries and salary-related expenses	(8,848)	(15,747)	(27,896)
Depreciation of fixed assets	(481)	(662)	(1,889)
Other operating expenses	(6,402)	(10,892)	(18,359)
Impairment losses.....	(2,205)	(4,759)	(5,516)
Share of profit of associates	1,262	1,470	(54)
Net gains on non-current assets classified as held for sale.....	3,323	4,244	2,523
Profit before income tax	23,060	46,255	33,904
Income tax	(4,174)	8,024	(6,253)
Net earnings	18,886	38,231	27,651

	At December 31,		
	2005	2006	2007
	(In millions ISK)		
Balance sheet data			
Cash and balances with central banks	20,861	20,417	55,500
Derivatives	18,852	72,603	118,706
Bonds and debt instruments	146,085	231,675	278,960
Shares and equity instruments	89,360	108,846	105,581
Loans to banks	75,488	177,010	278,469
Loans to customers	1,078,383	1,596,184	1,974,907
Investments in associates	8,081	4,379	2,820
Investment property	—	—	5,539
Property and equipment	1,987	3,296	4,202
Intangible assets	10,824	18,310	46,955
Deferred tax assets	269	264	1,269
Non-current assets held for sale	551	409	476
Other assets	21,204	12,947	75,526
Total assets	1,471,945	2,246,340	2,948,910
Short positions	—	4,877	15,023
Derivatives	36,025	60,721	77,497
Deposits from central banks	17,801	36,045	4,653
Deposits from banks	12,855	42,532	50,524
Deposits from customers	304,135	438,272	725,349
Debt issued and other borrowed funds	937,794	1,377,787	1,746,199
Subordinated loans	47,464	108,998	101,669
Post-employment obligations	418	529	425
Current tax liabilities	1,404	7,526	4,362
Deferred tax liabilities	3,682	3,121	5,641
Other liabilities	25,830	19,813	47,599
Total equity attributable to the equity holders of Glitnir banki hf.	84,537	144,578	169,201
Minority interest	—	1,541	768
Total liabilities and equity	1,471,945	2,246,340	2,948,910

Other Results

Off-balance sheet items:

Assets under management	344,975	490,321	936,010
Guarantees granted to customers	19,788	42,826	44,932
Derivatives against bond assets	57,681	77,373	97,196
Derivatives against equity assets	60,401	67,074	67,143

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the "Selected Consolidated Financial Data" contained herein and our consolidated financial statements and the notes thereto, which are included in this offering circular. This discussion contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of these risks and uncertainties, including those set forth under "Forward-Looking Statements" and "Risk Factors" included elsewhere in this offering circular.

Overview

The Glitnir Group comprises a leading financial group in Iceland and, as of the date of this offering circular, we are the second largest company listed on the Iceland Stock Exchange by market capitalization. We provide universal banking services in our home markets of Iceland and Norway, offering a broad range of financial services to individuals, institutional investors and corporations. In addition, we provide specialized financial services outside of our home markets. We operate through a combination of business, geographical and support units. The business units are Markets, Investment Banking, Investment Management, Corporate Banking and Retail Banking, the geographical units are Iceland, Nordic, Europe and International, and the support units are Strategic Growth & Business Development, Finance & Risk Management, Shared Services and Corporate Development.

We operate 23 branches in Iceland along with a branch in London. Currently, we have 21 wholly-owned subsidiaries, including Glitnir Bank (formerly KredittBanken ASA), Bolig- og Næringsbanken ASA ("BNbank"), Glitnir Capital Corporation in New York and Glitnir Luxembourg SA. Other subsidiaries consist of brokerage companies in Norway and Sweden, holding companies for investments of Glitnir banki, a real estate management company, and projects we sponsor. In addition, we also have substantial shareholdings in other investment and financial services companies, including a 55.0% stake in Europay Iceland (or Borgun hf.), which is the Mastercard franchise in Iceland.

The Bank can trace its history back to 1904 when the first privately owned bank in Iceland, Íslandsbanki, was established. Since then, the Bank has gone through a number of mergers and acquisitions of banks and investment credit funds. In May 2000, Íslandsbanki and FBA – The Icelandic Investment Bank merged to create a leading financial group in Iceland. Íslandsbanki entered the merger as the second largest commercial bank in Iceland and the only one in private ownership. It was formed in January 1990 as a result of the merger of four commercial banks. FBA entered the merger as the leading investment bank in Iceland, established in 1998 through a merger of four state-owned investment credit funds which were the main providers of long-term credit to Icelandic industries for most of the twentieth century.

Recent Growth

During the last three years, we have undergone steady and significant growth in part due to the continued growth of our retail banking operations in Iceland, and in part due to the introduction of new lines of business, international expansion and several acquisitions. In late 2004, we acquired KredittBanken ASA (now Glitnir Bank), a niche bank located in Norway with a focus on the seafood and shipping industry. We acquired BNbank, a commercial bank focused on mortgage loans, in the first quarter of 2005. In April 2005, we established ISB Luxembourg, our private bank in Luxembourg, which expanded the services offered by our existing Luxembourg branch. In 2005, BNbank contributed ISK 4,214 million of net operating income, or 11.6% of the Group's net operating income, and total assets of BNbank at December 31, 2005 were ISK 437 billion or 29.7% of the Group's total assets. In 2005, KredittBanken ASA contributed ISK 1,076 million of net operating income, or 3.0% of the Group's net operating income, and total assets of KredittBanken ASA at December 31, 2005 were ISK 43 billion, or 2.9% of the Group's total assets. In February 2006, we acquired a 100% interest in the Norwegian brokerage and investment advisory company, Norse Securities ASA (now Glitnir Securities ASA), for ISK 1,062 million. On July 4, 2006, we announced our acquisition of the securities brokerage firm, Fischer Partners Fondkommission AB (now Glitnir AB), in Sweden. Fischer Partners Fondkommission AB had 75

employees on December 31, 2005 and generated total revenue of SEK 220.8 million in 2005 (equivalent of ISK 2.1 billion calculated at the exchange rate at December 31, 2007). In October 2006, we initially acquired a 44.6% interest in Norsk Privatøkonomi ASA, an independent financial advisory firm, and we subsequently acquired an additional stake bringing our interest in the company to 80.0% for an aggregate purchase price of ISK 2,027 million.

In February 2007, we announced our intention to make a public tender offer for the shares in FIM Group Corporation ("FIM") in Finland. On March 16, 2007, we acquired 68.1% of the shares in FIM and on May 16, 2007, we closed our tender offer on all issued and outstanding shares and option rights in FIM Group and now hold all outstanding FIM shares. FIM is a leading asset management firm in Finland with a strategy to grow internationally in the fund management, brokerage and corporate advisory segments. FIM and the Bank will have a total of EUR 8.5 billion (equivalent of ISK 775.2 billion calculated at the exchange rate at December 31, 2007) in assets under management in 46 different mutual and investment funds internationally. We expect that combined, the Bank and FIM will be the third largest broker, as ranked by market share of total trading turnover, in the aggregate Nordic equity market. Together there will be 36 research analysts covering 216 companies. We have 40% of our employees outside of Iceland, after this transaction, counting FIM's 284 employees. Our financial results and results of operations may be difficult to compare from period to period given the extent of our growth and the effect of our acquisitions.

On April 17, 2007, we created the leading Nordic commercial real estate adviser, Glitnir Property Holding, through the combination of the Norwegian Glitnir Property Group (the parent company of Glitnir Næringsmegling AS, Glitnir Real Estate AS and UNION Eiendomskapital AS, formerly UNION GRUPPEN) based in Oslo and the Swedish real estate adviser Leimdörfer with offices in Stockholm and Helsinki, Finland. This is one important step in our strategy to become a leading commercial real estate advisor in the Nordic market. The new entity will be owned by the Bank (60.1%) and the former partners of UNION Gruppen, Union Eiendomskapital and Leimdörfer (39.9%). The combined pro forma value of the transactions by Glitnir Property Group and Leimdörfer in 2006 was approximately EUR 5.0 billion. On July 5, 2007, we announced that Glitnir Property Holding AS completed the acquisition of 91% of the shares in Leimdörfer Holding AB. Leimdörfer is a leading Swedish commercial real estate adviser operating mainly in the Swedish and Finnish property market. Peter Leimdörfer will be the Managing Director of the new company.

As of December 31, 2007, our total assets were ISK 2,949 billion, compared to ISK 2,246 billion as of December 31, 2006, an increase of 31%. The increase in our total assets is a result of organic growth both in Iceland and abroad, as well as through our acquisitions and exchange-rate movements. Our net profit was ISK 27,651 million for the year ended December 31, 2007, compared to ISK 38,231 million for the year ended December 31, 2006, a decrease of 28%. Net operating income was ISK 85,095 million for the year ended December 31, 2007, compared to ISK 72,601 million for the year ended December 31, 2006, an increase of 17%. For the year ended December 31, 2007, ISK 17,728 million, or 52% of total profit before tax of ISK 33,904 million, was generated outside Iceland, compared to ISK 14,492 million, or 31% of total profit before tax of ISK 46,255 million, for the year ended December 31, 2006.

The Icelandic economy is stabilizing after a period of rapid growth. GDP grew 4.2% in 2006 and approximately 2.7% in 2007. Investment has been one of the main drivers of growth in recent years. Aggregate investment grew by 19.8% in 2006, but contracted by approximately 14% in 2007, largely due to aluminum industry projects nearing completion. Private consumption grew by 4.4% in 2006 and by approximately 4% in 2007. The current account deficit fell to approximately 15% of GDP in 2007 after rising to 26% of GDP in 2006, with the contraction due to decreasing imports, increasing aluminum exports and an improvement in net factor income, which is the difference between inflows from abroad into the domestic economy and outflows to other countries from the domestic economy. The Icelandic krona appreciated by 4% in 2007, but it has remained very volatile and significantly correlated with other high-yielding currencies. The OMX Iceland 15 Index, a free-float adjusted market capitalization weighted index of the 15 largest and most traded Icelandic companies on OMX Nordic Exchange Iceland, also has fluctuated considerably, declining by 1.4% in 2007. Historically, the current account deficit has adjusted rapidly through the depreciation of the krona. The Central Bank of Iceland's policy rate, as of the date of

this offering circular, is 13.75%, after having been raised by 0.45% in November 2007 to curb persistent inflation and a deteriorating inflation outlook.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with IFRS.

During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to determination of the fair value of financial assets and financial liabilities, impairment losses on loans and receivables and judgments regarding securitizations and special purpose vehicles. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements. Our critical accounting policies have been discussed with our board of directors.

Determination of fair value

The Bank determines the fair value of financial assets and financial liabilities that are not quoted in active markets and the fair value of investment property by using valuation techniques. These valuation techniques are validated and periodically reviewed by qualified personnel. All 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.

Impairment losses on loans and receivables

The Bank recognizes losses for impaired loans and receivables. For this purpose the Bank's management reviews its loan portfolios to assess impairment on at least a semi-annually basis. In determining whether an impairment loss should be recognized in the income statement, the Bank's management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans and receivables. 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.

The Bank's management uses estimates based on historical loss experience for loans and receivables with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Securitizations and special purpose entities (SPE)

The Bank sponsors the formation of special purpose entities primarily for the purpose of allowing clients to hold investments and for asset securitization transactions. The Bank does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Bank does control an SPE, the Bank's management makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion.

During 2005, we sponsored the formation of the entity Lauganes ses. as a non-profit organization with business activities, in accordance with Icelandic law. Based on the criteria provided in the interpretation of the Standing Interpretations Committee, SIC 12 Consolidation - Special Purpose Entities, the Bank's management has concluded that the substance of the relationship between the Bank and Lauganes ses. indicates that the Bank does not control Lauganes ses. and therefore Lauganes ses. is not consolidated in our financial statements for the year 2005. The Bank's management will reassess the substance of the relationship with Lauganes ses. in the future when deemed necessary.

Financial Presentation

Income and Expenses

Interest Income and Expense. Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity, calculated according to the effective interest method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation generally includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized at the rate of interest used to discount the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on the net amount of the financial asset taking the write-down into consideration.

Insurance Premium and Claims. Insurance premiums recognized as income in the income statement are premiums derived during the year, including premiums transferred from the previous year less future periods' premiums that are recognized as premium liability, less reinsurers' share. Insurance claims expensed in the income statement are claims incurred during the year, plus the increase or decrease due to claims for previous years less reinsurers' share.

Fee and Commission Income. The Bank provides various services to its clients and earns income therefrom, such as income from investment banking, corporate banking, securities brokerage, asset management and retail banking. Fees earned from services that are provided over a certain period of time are recognized as the services are provided. Fees earned from transaction-type services are recognized when the service has been completed. Fees that are performance-linked are recognized when the performance criteria are fulfilled.

Dividend Income. Dividend income is recognized on the income statement on the date that the dividend is declared.

Net Gains on Financial Assets Held for Trading. Net gains on financial assets and financial liabilities held for trading include gains and losses arising from disposals, extinguishments and changes in the fair value of financial assets and financial liabilities held for trading.

Net Gains on Financial Assets Designated at Fair Value Through Profit or Loss. Net gain on assets at fair value through profit or loss consists of gains and losses arising from disposals of and changes

in the fair value of the financial assets designated as at fair value through profit or loss. Fair value changes of derivatives that are economically linked to financial assets which are designated at fair value through profit or loss in order to avoid an accounting measurement or recognition inconsistency, are also included in this line item in the income statement.

Administrative Expenses. Administrative expenses consist of salary and related expenses, depreciation of property and equipment, amortization of intangible assets and other administrative expenses, such as housing costs, advertising expenses and IT-related expenses.

Impairment

The carrying amount of the Bank's assets, other than tax assets and financial assets measured at fair value with changes recognized on the income statement is reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized on the income statement whenever the carrying amount of an asset or of a cash-generating unit exceeds its recoverable amount.

Impairment on Loans and Receivables. If there is objective evidence that an impairment loss has been incurred on loans and receivables, their carrying amount is reduced through the use of an allowance account to the present value of expected future cash flows, discounted at their original effective interest rate.

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 recognized, the previously recognized impairment loss is reversed to the extent it is now excessive by reducing the loan impairment allowance account. The amount of any reversal is recognized on the income statement.

The Bank's management first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. Loans and receivables that are not impaired individually become a part of a portfolio which is assessed for impairment. Collective assessment based on a portfolio assumes that loans and receivable share similar credit risk characteristics. Objective evidence of impairment of a group of loans and receivables exists if objective data indicates a decrease in expected future cash flows from a portfolio of loans and the decrease can be measured reliably but cannot be identified with the individual loans in the portfolio.

The recognition of interest income on impaired loans and receivables is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment losses.

Impairment on Goodwill. The Bank assesses whether there is any indication of impairment of goodwill on annual basis, with expert analysis being commissioned if necessary. Goodwill is written down for impairment. Gains or losses realized on the disposal of subsidiaries include any unamortized balance of goodwill relating to the subsidiary disposed of.

Impairment on Financial Assets Available-for-Sale. The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of deterioration in the financial strength of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The amount of impairment loss is recognized in the income statement. Impairment losses are subsequently reversed if the reasons for the impairment loss charged no longer apply.

Calculation of Recoverable Amount. The recoverable amount of the Bank's loans and receivables is calculated as the present value of estimated future cash flows. The discount rate used for fixed rate loans

and receivables is the effective interest rate computed at initial recognition while for variable rate loans and receivables it is the current effective interest rate.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of Impairment. An impairment loss in respect of financial assets carried at amortized costs is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of an investment in a debt instrument classified as available-for-sale is reversed through the income statement while an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. An impairment loss in respect of goodwill is not reversed. In respect of other assets, 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 amortization, if no impairment loss had been recognized.

Business Lines

On February 2, 2007, we implemented certain changes to our organizational structure which were intended to facilitate strong and profitable integration of all of our business units and to accommodate further growth. The resulting organizational structure was a combination of business, geographical and support units. The business units are Markets, Investment Banking, Investment Management, Corporate Banking and Retail Banking, the geographical units are Iceland, Nordic, Europe and International, and the support units are Strategic Growth & Business Development, Finance & Risk Management, Shared Services and Corporate Development. Prior to such time, we organized our operations in six lines of business: retail banking (Iceland and Norway); corporate banking; investment banking; investment management; markets; and treasury. On January 28, 2008, we announced additional changes to our organizational structure to reflect an increased regional focus on three geographical business regions: Iceland, Nordic and International. The tables below set forth certain income statement data with respect to these lines of business for the years ended December 31, 2006 and 2007. The category "other operations" incorporates the operations of Sjóvá, the gain on sale of the 66.6% share in Sjóvá in April 2005 and our remaining 33.4% stake in May 2006, and other operations of the Bank.

Year ended December 31, 2006 (in millions ISK)	Retail Banking	Corporate Banking	Investment Banking	Markets	Investment Management	Treasury & Other Eliminations	Total
Operations							
Net interest income	12,974	19,961	(370)	3,078	785	656	37,084
Net fee income	3,057	2,989	6,161	11,978	3,061	(787)	26,459
Net financial income	(136)	(18)	2,335	1,339	(27)	5,010	8,503
Other operating income	209	89	—	209	14	34	555
Administrative expenses	(9,334)	(6,705)	(1,764)	(6,228)	(2,191)	(1,079)	(27,301)
Impairment	(1,970)	(2,729)	(25)	(7)	5	(33)	(4,759)
Other income	97	18	—	1,295	—	4,304	5,714
Profit before tax	4,897	13,605	6,337	11,664	1,647	8,105	46,255

Year ended December 31, 2007 (in millions ISK)	Retail Banking	Corporate Banking	Investment Banking	Markets	Investment Management	Treasury & Other Eliminations	Total
Operations							
Net interest income	13,521	23,198	(562)	2,914	797	(786)	39,082
Net fee income	4,408	2,919	6,230	17,182	8,551	(1,646)	37,644
Net financial income	892	1,427	5,187	(140)	(65)	(3,146)	4,155
Other operating income	3	11	423	105	6	3,666	4,214
Administrative expenses	(12,831)	(10,812)	(3,230)	(12,890)	(7,641)	(740)	(48,144)
Impairment	(1,067)	(4,316)	(7)	5	(136)	5	(5,516)
Other income	35	307	56	—	—	2,071	2,469
Profit before tax	4,961	12,734	8,097	7,176	1,512	(576)	33,904

Results of Operations

Comparison of the Year Ended December 31, 2007 and 2006

Our pre-tax profit was ISK 33,904 million for the year ended December 31, 2007, compared to ISK 46,255 million for the year ended December 31, 2006, a decrease of 27%. Earnings after taxes were ISK 27,651 million for the year ended December 31, 2007, a decrease of 28% over the comparable full year period in 2006. Earnings per share were ISK 1.86 for the year ended December 31, 2007, compared to ISK 2.68 for the year ended December 31, 2006, a decrease of 31%.

Revenue

Net operating income was ISK 85,095 million for the year ended December 31, 2007, compared to ISK 72,601 million for the year ended December 31, 2006, an increase of 17%. Fair value adjustments in hedge accounting were negative ISK 448 million for the year ended December 31, 2007, compared to negative ISK 185 million for the year ended December 31, 2006. Other net operating income was ISK 4,214 million for the year ended December 31, 2007, compared to ISK 555 million for the year ended December 31, 2006. This increase is the result of gains from the sale of real estate and price increases in our investment property.

Interest income. Net interest income was ISK 39,082 million for the year ended December 31, 2007, compared to ISK 37,084 million for the year ended December 31, 2006, an increase of 5%. For the year ended December 31, 2007, 30% of our net interest income was generated by our retail banking operations in Iceland, and 5% was generated by our retail banking operations in Norway. Our net interest margin was 1.6% for the year ended December 31, 2007, compared to 2.0% for the year ended December 31, 2006. This decrease in net interest margin occurred despite lending growth and is due to lower average interest margin. The main reasons for the lower margins are lower inflation during 2007 than 2006, an increase in our liquidity portfolio, which is carried at a negative margin, and downward pressure on margins due to increased competition, particularly in Norway.

Fees and commissions. Net fee and commission income amounted to ISK 37,644 million for the year ended December 31, 2007, compared to ISK 26,459 million for the year ended December 31, 2006, an increase of 42%. The increase was driven principally by increases in securities brokerage and advisory fees, foreign commissions and brokerage commissions, following our acquisition of brokerage businesses in Norway and Sweden.

Trading. Trading gains on shares and related derivatives were ISK 74 million for the year ended December 31, 2007, and trading in bonds and related derivatives generated gains of ISK 160 million. Trading other derivatives generated a loss of ISK 1,113 million. Total trading losses were ISK 879 million for the year ended December 31, 2007, compared to a gain of ISK 6,010 million for the year ended December 31, 2006. This decrease can be explained primarily by the performance of our derivatives portfolio in 2006, which had a record year.

Fair value through profit and loss. Net gains on financial assets designated at fair value through profit and loss were ISK 5,202 million for the year ended December 31, 2007, compared to ISK 2,097 million for the year ended December 31, 2006, an increase of 148%. Net gains on shares were ISK 7,885 million for the year ended December 31, 2007, and losses on bonds and loans to customers were ISK 782 million for the same period, compared to ISK 2,707 million and ISK 610 million, respectively, for the year ended December 31, 2006. Net losses in mutual funds included in the Bank's liquidity portfolio amounted to ISK 1,901 million for the year ended December 31, 2007.

Exchange-rate differences. Exchange-rate gains on foreign denominated assets and liabilities amounted to ISK 280 million for the year ended December 31, 2007, compared to gains of ISK 581 million for the year ended December 31, 2006, which generally is in line with our aim to keep the imbalance between foreign assets and liabilities close to zero, excluding those assets on which currency exchange differences are recognized directly in equity. Our role as a market maker in foreign exchange leads to some trading positions which generate gains or losses. These positions are kept within tight limits and closely monitored by Risk Management.

Expenses

Salaries and salary related expenses. Salaries and salary-related expenses were ISK 27,896 million for the year ended December 31, 2007, compared to ISK 15,747 million for the year ended December 31, 2006, an increase of 77%. This increase is a result of the increase in the number of our employees, general wage increases and bonus payments made to employees. The average number of employees was 1,976 for the year ended December 31, 2007, compared to 1,500 for the year ended December 31, 2006. FIM Group in Finland is now included in our consolidated accounts, which added 14 employees to the total number of employees. New hirings accounted for an additional 416 employees in 2007.

Other administrative expenses. Other administrative expenses were ISK 18,359 million for the year ended December 31, 2007, compared to ISK 10,892 million for the year ended December 31, 2006, an increase of 69%. This increase is primarily attributable to expansion of our operations during this time.

Depreciation. Depreciation of fixed assets was ISK 1,889 million for the year ended December 31, 2007, compared to ISK 662 million for the year ended December 31, 2006 as a result of an increase in our depreciable assets.

Comparison of the Year Ended December 31, 2006 and 2005

Our pre-tax profit was ISK 46,255 million for the year ended December 31, 2006, an increase of 101% from ISK 23,060 million for the year ended December 31, 2005. Earnings after taxes were ISK 38,231 million, increasing 102% over the comparable full year period in 2005. Earnings per share were ISK 2.68 for the year ended December 31, 2006, an increase of 82% from the year ended December 31, 2005. The increased profit is primarily the result of growth in interest revenue resulting from expansion of the balance sheet and increase in fee and commission income.

Revenue

Net operating income was ISK 72,601 million for the year ended December 31, 2006, an increase of 99% from ISK 36,411 million for the year ended December 31, 2005. Fair value adjustments in hedge accounting were negative ISK 185 million for the year ended December 31, 2006, compared to negative ISK 59 million for the year ended December 31, 2005. Other net operating income was ISK 555 million for the year ended December 31, 2006, a decrease of 12% from ISK 631 million for the year ended December 31, 2005.

Interest income. Net interest income was ISK 37,084 million for the year ended December 31, 2006, an increase of 66% from ISK 22,351 million for the year ended December 31, 2005. The increase in

net interest income during the year ended December 31, 2006 reflects the increase in the size of our balance sheet, as well as higher interest rates. For the year ended December 31, 2006, 45% of our net interest income was generated by our retail banking operations in Iceland, and 19% was generated by our retail banking operations in Norway. The net interest margin in the year ended December 31, 2006 was 2%, unchanged from the year ended December 31, 2005. The net interest margin is primarily affected by the inflation rate in Iceland as our assets linked to the Consumer Price Index (CPI) exceed our CPI index-linked liabilities.

Insurance premiums, net of reinsurance. Accounted premium income in insurance business and premiums from reinsurance was zero for the year ended December 31, 2006, a decrease from ISK 229 million for the year ended December 31, 2005. This decrease is due to the sale of a majority stake in Sjóvá during 2005 and the remaining shares in Sjóvá in 2006, and the subsequent removal of Sjóvá from our consolidated accounts.

Fees and commissions. Net fees and commissions income increased by 202% between the year end periods, amounting to ISK 26,459 million for the year ended December 31, 2006, compared to ISK 8,773 million for the year ended December 31, 2005, driven principally by increases in securities brokerage and advisory fees, foreign commissions and brokerage commissions, following our acquisition of brokerage businesses in Norway and Sweden.

Dividends from shares and other holdings. Dividend income from assets available for sale was ISK 11 million for the year ended December 31, 2006. Dividends from equity trading and assets held at fair value are now part of net trading gains and net gains from other financial assets at fair value.

Trading. Trading gains on shares and related derivatives were ISK 2,334 million for the year ended December 31, 2006, while trading in bonds and related derivatives generated losses of ISK 1,023 million. Trading other derivatives generated profit of ISK 4,688 million. Total trading gains for the year ended December 31, 2006 were ISK 5,999 million, up from ISK 3,993 million for the year ended December 31, 2005, an increase of 50%. This increase reflects conditions in the securities markets generally.

Exchange-rate differences. Exchange-rate gains on foreign denominated assets and liabilities amounted to ISK 581 million for the year ended December 31, 2006, compared to negative ISK 179 million for the year ended December 31, 2005, which generally is in line with our aim to keep the imbalance between foreign assets and liabilities close to zero, excluding those assets on which currency exchange differences are recognized directly in equity. Our role as a market maker in foreign exchange leads to some trading positions which generate gains or losses. These positions are kept within tight limits and closely monitored by Risk Management.

Expenses

Salaries and related expenses. Salaries and salary-related expenses over the year ended December 31, 2006 were ISK 15,747 million, increasing 78% from ISK 8,848 million for the year ended December 31, 2005 as a result of the increase in the number of employees, general wage increases and bonus payments made to employees. The average number of employees was 1,500 for the year ended December 31, 2006, compared to 1,216 for the year ended December 31, 2005.

Other administrative expenses. Other administrative expenses were ISK 10,892 million for the year ended December 31, 2006, an increase of 70% from ISK 6,402 million for the year ended December 31, 2005. This increase is primarily attributable to expansion of our operations during this time. In addition, we carried out a costly marketing campaign during the first half of 2006 in connection with the introduction of our new name and brand.

Depreciation. Depreciation of fixed assets was ISK 662 million for the year ended December 31, 2006, compared to ISK 481 million for the year ended December 31, 2005.

Liquidity and Capital Resources

Historical cash flows

The table below summarizes our cash flows for the years ended December 31, 2005, 2006 and 2007.

	Year ended December 31,		
	2005	2006	2007
	(ISK millions)		
Consolidated statement of cash flows			
Net cash (used in) from operating activities...	(57)	147,870	162,515
Net cash (used in) from investing activities...	(13,585)	1,993	(28,210)
Net cash from (used in) financing activities...	38,800	59,114	(9,681)
Net increase in cash and cash equivalents.....	25,158	208,977	124,624
Translation difference on cash and cash equivalents.....	—	536	555
Cash and cash equivalents at the beginning of the period.....	26,551	95,135	304,648
Cash and cash equivalents at the end of the period.....	51,709	304,648	429,827

Net cash from operating activities

Our net cash from operating activities amounted to ISK 162,515 million for the year ended December 31, 2007, compared to net cash from operating activities of ISK 147,870 million for the year ended December 31, 2006. For the year ended December 31, 2005, our net cash used in operating activities amounted to ISK 57 million.

Net cash used in investing activities

Net cash used in investing activities relate primarily to changes to investments in associates and subsidiaries.

Our net cash used in investing activities amounted to ISK 28,210 million for the year ended December 31, 2007, compared to net cash from investing activities of ISK 1,993 million for the year ended December 31, 2006. For the year ended December 31, 2005, our net cash used in investing activities amounted to ISK 13,585 million.

Net cash from financing activities

Net cash provided by financing activities relate primarily to changes in subordinated loans and new shares issued.

Our net cash used in financing activities amounted to ISK 9,681 million for the year ended December 31, 2007, compared to net cash from financing activities of ISK 59,114 million for the year ended December 31, 2006. For the year ended December 31, 2005, our net cash from financing activities amounted to ISK 38,800 million.

Indebtedness

As of December 31, 2007, we had a total of ISK 1,847 billion in principal and accrued interest on our outstanding indebtedness, including ISK 102 billion of subordinated indebtedness. As of December 31, 2006, these figures were ISK 1,487 billion and ISK 109 billion, respectively, and for the year ended

December 31, 2005, these figures were ISK 985 billion and ISK 47 billion, respectively. The increased indebtedness is a result of and in line with our expansion.

Under our revolving credit facilities, we have the right to borrow up to a maximum of EUR 575 million (equivalent of ISK 52,440 million, calculated at the exchange rate on December 31, 2007). In addition, we have EUR 550 million (equivalent of ISK 50,160 million calculated at the exchange rate on December 31, 2007) in a collateralized line against our Covered Bond Programme. There were no outstanding borrowings under the revolving credit facilities as of December 31, 2007.

In March 2008, we issued a total of ISK 56 billion in inflation-linked covered bonds through a special purpose entity under our Covered Bond Programme. The assets underlying the covered bonds consist of certain of our mortgage loans in Iceland. The covered bonds have been rated “Aaa” by Moody’s.

Off-Balance Sheet Arrangements

At December 31, 2005, 2006 and 2007, we did not have any relationships with unconsolidated entities or financial partnerships which would have been established for the purposes of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Corporate Taxation and Accounting Law in Iceland

Corporate income tax in Iceland was lowered from 30% to 18% in January 2002. Corporations are allowed to keep their accounting records and prepare their financial statements in foreign currencies, provided they do so for a minimum period of five years. Inflation accounting was abolished in January 2002, but corporate issuers wishing to continue the practice were allowed to use it in 2002 and 2003. The Bank discontinued its use of inflation accounting with effect from January 1, 2002.

SELECTED STATISTICAL DATA

The following information is included for analytical purposes and should be read in connection with our consolidated financial statements contained elsewhere in the offering circular, as well as “Management’s Discussion and Analysis of Results of Operations”.

Average Balance Sheets and Interest Rate Data

The tables below set forth average quarter-end balances of interest bearing assets and liabilities of the Group for the years ended December 31, 2005, 2006 and 2007 under IFRS, together with the amount of interest earned or paid and the average rate of interest for such asset or liability. Average balances presented in these tables have been calculated on a quarterly basis because we do not record balance sheet items on a more frequent basis.

	For the year ended December 31, 2007		
	Average balance ⁽¹⁾	Interest	Interest rate (%)
	(ISK millions, except percentages)		
Assets			
Cash and cash balances with central banks	34,251	2,062	6.0
Loans to banks and customers	1,915,276	165,167	8.6
Bond and debt instruments	261,371	20,347	7.8
Total interest earning assets	2,210,898	187,576	8.5
Provisions for losses	(12,202)		
Total non-interest earning assets	311,718		
Total assets	2,510,414	187,576	7.5
Liabilities			
Deposits from credit institutions and central banks	57,503	3,456	6.0
Deposits from customers	555,804	35,075	6.3
Borrowings	1,490,944	102,996	6.9
Subordinated loans	101,231	6,885	6.8
Other liabilities	86,597	82	0.1
Total interest bearing liabilities	2,292,079	148,494	6.5
Total non-interest bearing liabilities	60,513		
Total liabilities	2,352,592	148,494	6.3
Total shareholders’ equity	156,107		
Minority interest	1,715		
Total liabilities and equity	2,510,414	148,494	5.9
Net interest spread ⁽²⁾			2.0
Net interest income and net interest margin ⁽³⁾		39,082	1.8

(1) Average of quarter-end balances.

(2) Average rate on total interest earning assets—average cost of total interest bearing liabilities.

(3) Net interest margin is net interest income divided by average total interest earning assets.

	For the year ended December 31, 2005			For the year ended December 31, 2006		
	Average balance ⁽¹⁾	Interest	Interest rate (%)	Average balance ⁽¹⁾	Interest	Interest rate (%)
(ISK millions, except percentages)						
Assets						
Cash and cash balances with central banks.....	16,018	592	3.7	13,887	888	6.4
Loans and advances.....	995,170	56,150	5.6	1,508,249	104,124	6.9
Financial assets measured at fair value....	181,850	5,430	3.0	104,784	4,465	4.3
Other assets	5,669	393	6.9	84,422	9,639	11.2
Total interest earning assets.....	1,198,707	62,565	5.2	1,711,342	119,116	7.0
Provisions for losses.....	(9,309)			(10,961)		
Total non-interest earning assets.....	33,829			206,229		
Total assets.....	1,223,227			1,906,610	119,116	6.2
Liabilities						
Deposits from credit institutions and central banks.....	31,708	2,241	7.1	50,533	3,105	6.1
Deposits from customers.....				369,560	18,489	5.0
Borrowings	735,159	32,597	3.2	1,191,214	55,531	4.7
Subordinated loans	42,222	1,661	3.9	82,898	4,543	5.5
Financial liabilities measured at fair value	32,167	2,676	8.3	—	—	—
Other liabilities.....	—	—	—	46,649	362	0.8
Total interest bearing liabilities.....	1,118,901	39,175	3.5	1,740,854	82,030	4.7
Total non-interest bearing liabilities	27,869			46,230		
Total liabilities	1,146,770			1,787,084	82,030	4.6
Total shareholders' equity.....	76,457			118,890		
Minority interest.....	—			637		
Total liabilities and equity.....	1,223,227			1,906,610	82,030	4.3
Net interest spread ⁽²⁾			1.7			2.3
Net interest income and net interest margin ⁽³⁾		23,390	1.95	1,711,342	37,084	2.2

(1) Average of quarter-end balances.

(2) Average rate on total interest earning assets—average cost of total interest bearing liabilities.

(3) Net interest margin is net interest income divided by average total interest earning assets.

Analysis of Changes in Net Interest Income and Interest Expense—Volume and Rate Analysis

The following tables analyze changes in the Group's net interest income attributable to changes in average volume of interest-earning assets and interest-bearing liabilities and changes in their respective interest rates for the periods presented. Changes to net interest income due to changes in volume have been calculated by multiplying the change in volume during the year times the average rate for the preceding year. Changes to net interest income due to changes in rates have been calculated by multiplying the change in the current year average rate times the volume of the current year. The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to average volume and the change due to average rate. The changes are calculated on the basis of the quarterly average balance sheets set forth in the preceding tables.

	2007 v 2006		
	Total interest change	Due to change in volume (ISK millions)	Due to change in interest rate
Interest income			
Cash and cash equivalents with central banks...	1,174	1,311	(137)
Loans and advances	61,043	28,483	32,560
Other assets	6,243	5,412	831
Total interest income	68,460	35,206	33,254
Interest expense			
Deposits from credit institutions and central banks.....	351	408	(58)
Borrowings	47,465	14,664	32,801
Subordinated loans.....	2,342	1,026	1,316
Other liabilities	16,306	9,811	6,496
Total interest expense	66,464	25,909	40,555
Net interest income	1,996	9,297	(7,301)

	2006 v 2005		
	Total interest change	Due to change in volume (ISK millions)	Due to change in interest rate
Interest income			
Cash and cash equivalents with central banks...	296	(79)	375
Loans and advances	47,974	28,366	19,607
Other assets	8,281	52	8,229
Total interest income	56,551	28,340	28,211
Interest expense			
Deposits from credit institutions and central banks.....	864	1,370	(505)
Borrowings	22,934	19,360	3,574
Subordinated loans.....	2,881	1,555	1,326
Other liabilities	16,175	32,242	(16,067)
Total interest expense	42,855	54,528	(11,673)
Net interest income	13,696	(26,188)	39,884

Investment Portfolio

The following tables set forth the financial assets measured at fair value for each type of the Group's investments in bonds and other fixed income securities and shares and other variable yield securities under IFRS at December 31, 2005, 2006 and 2007.

	At December 31,		
	2005	2006	2007
	(ISK millions)		
Financial assets held for trading			
Bonds	61,062	81,199	99,712
OTC derivatives	16,500	66,882	107,338
Shares	74,335	79,170	77,516
Total	151,897	227,251	284,566
Financial assets designated at fair value			
Cash equivalents	—	109,673	98,554
Bonds	31,757	41,069	63,153
Loans to customers	49,654	24,457	71,245
Shares	15,027	25,665	28,010
Total	96,438	200,864	260,953
Derivatives used for hedging			
Fair value hedge	2,352	5,721	11,368
Available for sale bonds	—	3,746	17,605
Financial assets measured at fair value	250,687	437,582	574,492

Loan Portfolio

The Group's principal lending activity consists of loans to corporate customers and private individuals. The Group has endeavored to diversify its loan portfolio to minimize the risk in lending and the Group generally requires its customers to provide collateral. The collateral taken by the Group will depend on the circumstances. The main types of collateral include pledged deposits and securities, real estate and fishing vessels (including the related fishing quota). Decisions regarding the adequacy of collateral are made as part of the process by which the relevant loan is authorized.

The following table provides a breakdown of the Group's loan portfolio by type of loan at December 31, 2006 and 2007.

	At December 31,	
	2006	2007
	(ISK millions)	
Loans to banks		
Money market loans	87,467	192,918
Bank accounts	33,590	63,360
Other loans	55,953	22,191
Total	177,010	278,469
Loans to customers		
Cash equivalents	24,458	71,245
Bonds	1,571,726	1,903,662
Total	1,596,184	1,974,907
Total loan portfolio	1,773,194	2,253,376

The following table lists the Group's lending (including leasing) by customer categories at amortized cost at December 31, 2006 and 2007.

	At December 31,					
	2006			2007		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
	(ISK millions)					
Loans to individuals:						
Overdrafts and credit cards	15,589	(276)	15,313	19,169	(565)	18,604
Term loans	49,715	(887)	48,828	70,036	(1,418)	68,618
Residential mortgages	295,373	(511)	294,862	295,182	(585)	294,597
Leasing	11,053	(129)	10,924	17,081	(176)	16,905
Loans to corporate entities:	32,642	(145)	32,497	33,835	(78)	33,757
Large corporate customers	515,553	(6,409)	509,144	778,388	(7,763)	770,625
SMEs	537,739	(2,911)	534,828	578,294	(2,870)	575,424
VSEs	64,457	(1,126)	63,331	76,330	(860)	75,470
Other	39,828	(68)	39,760	34,142	(56)	34,086
Central government and state-owned enterprises	18,651	—	18,651	12,740	—	12,740
Loans to municipalities	3,588	—	3,588	2,836	—	2,836
Total	1,584,188	(12,462)	1,571,726	1,918,033	(14,371)	1,903,662

For a breakdown of geographical sector risk concentrations within our customer loan portfolio, see note 74 to our audited consolidated financial statements for the year ended December 31, 2007.

Large Exposures

Clients are defined as large exposures if their total obligations exceed 10% of Glitnir's capital adequacy ("CAD") equity, in accordance with the Financial Supervisory Authority's Rule No. 531/2003 on large exposures incurred by financial undertakings. Our management pays special attention to large lending exposures and our board of directors is regularly informed of such positions. At December 31, 2007, the sum of our 20 largest exposures totaled ISK 405 billion, or 179.4% of our CAD equity, compared to total exposures of ISK 332 billion, or 141.1% of our CAD equity at December 31, 2006. According to Rule No. 531/2003, total large exposures of parties with obligations exceeding 10% of the Bank's equity may never exceed 800% of equity. There are no large exposures in arrears.

The maximum obligation of individual company groups authorized by the Rule No. 531/2003 is 25% of our equity. All of our large exposures were within these limits at December 31, 2006 and 2007.

Allowance for Losses on Loans and Receivables

In evaluating our non-performing loans, we, following directives from the FSA, have introduced the EU Directive regarding rules on the annual accounts of commercial banks. Iceland fully complies with the EU Directive.

The following table provides a breakdown of the Group's allowances for impairment at December 31, 2005, 2006 and 2007.

	2005	2006	2007
	(ISK millions)		
Specific allowances for impairment:			
Balance at January 1	5,146	3,520	5,205
Transferred into the Group	526	167	—
Transferred from the Group	(917)	(38)	—
Charge to income statement	951	3,162	4,757
Recoveries	97	109	94
Effect of foreign currency movements	(109)	296	(167)
Write-offs	(2,174)	(2,010)	(3,534)
Balance at December 31	3,520	5,206	6,355
Collective allowances for impairment:			
Balance at beginning of period	4,497	5,671	7,257
Transferred from the Group	—	(12)	—
Charge to income statement	1,174	1,597	759
Balance at December 31	5,671	7,256	8,016
Total allowances for impairment	9,191	12,462	14,371
Total impairment charge	2,125	4,759	5,516

The following tables show the Group's loans and other financial assets categorized by whether they are impaired, past due but not impaired or neither past due nor impaired at December 31, 2006 and 2007.

	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Less: allowance for impairment	Net carrying amount
	(ISK millions)					
At December 31, 2007:						
Loans to banks	274,025	4,444	—	278,469	—	278,469
Loans to individuals	405,070	27,595	2,638	435,303	(2,822)	432,481
Loans to corporate entities	1,365,751	93,661	7,742	1,467,154	(11,549)	1,455,605
Loans to central government and state-owned enterprises	12,278	462	—	12,740	—	12,740
Loans to municipalities	2,782	54	—	2,836	—	2,836
Loans at fair value through profit and loss	69,976	1,269	—	71,245	—	71,245
Other financial assets	24,145	—	—	24,145	—	24,145
Total	2,154,027	127,485	10,380	2,291,892	(14,371)	2,277,521

	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Less: allowance for impairment	Net carrying amount
	(ISK millions)					
At December 31, 2006:						
Loans to banks	173,838	3,172	—	177,010	—	177,010
Loans to individuals	383,171	19,961	1,240	404,372	(1,948)	402,424
Loans to corporate entities	1,050,334	99,914	7,329	1,157,577	(10,514)	1,147,063
Loans to central government and state-owned enterprises	18,622	29	—	18,651	—	18,651
Loans to municipalities	3,584	4	—	3,588	—	3,588
Loans at fair value through profit and loss	22,225	2,233	—	24,458	—	24,458
Other financial assets	13,960	—	—	13,960	—	13,960
Total	1,665,734	125,313	8,569	1,799,616	(12,462)	1,787,154

In calculating the necessary allowances to be made for non-performing loans the Group makes both specific allowances and a collective allowance to meet the general risk of lending operations. A specific allowance is made for credits that have been assessed at risk on the day of settlement. The collective allowance is intended to meet losses which are deemed likely in terms of circumstances for credits other than those at particular risk on the day of settlement.

Specific allowances are established on an individual facility basis to recognize the expected credit losses on all types of exposure. The branches prepare lists twice a year for suggested specific allowances, which the credit department then evaluates and reports to the Risk Committee. The Risk Committee makes suggestions to the board of directors, which makes the final decision after the certified accountant of the Bank has given an independent evaluation of the loan portfolio.

Collective allowances for impairment are established to absorb credit losses that are not met by specific allowances. Collective allowances are determined by an evaluation of the quality of the loan portfolio. At December 31, 2006, collective allowances for impairment amounted to 0.4% of loans and guarantees as at that date, and at December 31, 2007, collective allowances for impairment amounted to 0.4% of loans and guarantees as at that date.

Assets

The table below shows assets at December 31, 2007 classified by currencies.

	At December 31, 2007								
	ISK	NOK	SEK	EUR	USD	GBP	CHF	JPY	Other
	(ISK millions)								
Assets									
Cash and balances with banks	43,517	8,632	29	2,987	117	62	36	13	107
Derivatives	106,836	11,413	—	426	30	—	—	—	1
Bonds and debt instruments	125,043	33,268	1	93,438	21,342	5,696	—	—	172
Shares and equity instruments	45,331	14,441	8,056	11,303	9,689	5,211	—	—	11,550
Loans to banks	23,736	6,391	9,752	76,905	119,576	38,442	1,077	523	2,067
Loans to customers	459,238	642,948	43,651	329,068	129,232	98,900	117,549	79,652	74,669
Other assets	70,084	22,394	3,924	39,878	435	1	3	7	61
Total financial assets	873,785	739,487	65,413	554,005	280,421	148,312	118,665	80,195	88,627

Loans Past Due but Not Impaired

The following table sets forth the gross amount of loans by class to customers that were past due but not impaired at December 31, 2007.

	Past due up to 30 days	Past due 30 to 60 days	Past due 60 to 90 days	Past due over 90 days	Total	Fair value of collateral
	(ISK millions)					
At December 31, 2007:						
Individuals (retail customers)	12,651	9,655	2,429	2,860	27,595	77,198
Corporate entities:						
Large corporate entities	54,516	7,140	2,227	178	64,061	45,696
SMEs	7,742	3,132	5,439	2,142	18,455	51,194
VSEs	6,806	1,002	1,141	910	9,859	14,922
Other	—	1,286	—	—	1,286	—
Loans to central government and state-owned enterprises	462	—	—	—	462	296
Loans to municipalities	54	—	—	—	54	780
Loans at fair value through profit and loss	—	1,269	—	—	1,269	666
Total	82,231	23,484	11,236	6,090	123,041	190,752

Impaired Loans

The following table sets forth the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held as security, at December 31, 2006 and 2007.

	Corporate		
	Individuals	Entities	Total
	(ISK millions)		
At December 31, 2007:			
Individually impaired loans	2,638	7,742	10,380
Fair value of collateral	2,005	1,829	3,834
At December 31, 2006:			
Individually impaired loans	1,240	7,329	8,569
Fair value of collateral	880	5,634	6,514

Use of Funds

The major part of the Group's assets comprises loans. The table below sets out a breakdown of the Group's assets at December 31, 2005, 2006 and 2007.

	At December 31,		
	2005	2006	2007
	(ISK millions)		
Cash and cash balances with central banks	20,861	20,417	55,500
Derivatives	18,852	72,603	118,706
Bonds and debt instruments	146,085	231,675	278,960
Shares and equity instruments	89,360	108,846	105,581
Loans to banks	75,488	177,010	278,469
Loans to customers	1,078,383	1,596,184	1,974,907
Other assets	42,916	39,604	136,787
Total assets	1,471,945	2,246,339	2,948,910

Liabilities

Deposits

The Bank had approximately 420,000 customer deposit accounts (including current accounts, savings accounts and currency accounts) on December 31, 2006, and approximately 444,000 on December 31, 2007. On December 31, 2007, the Bank's total deposits amounted to approximately 22% of the total deposits in all of Iceland's commercial banks and savings banks.

Most of the Bank's deposits bear interest at floating rates.

The following table sets out a breakdown of the Group's deposits at December 31, 2005, 2006 and 2007.

	At December 31,		
	2005	2006 (ISK millions)	2007
Demand deposits.....	195,805	259,156	350,227
Time deposits.....	108,331	179,116	375,122
Total.....	304,136	438,272	725,349
Time deposits mature as follows:			
Up to 3 months	69,221	108,757	308,467
Over 3 months and up to 1 year	9,780	41,858	54,067
Over 1 year and up to 5 years	24,027	23,860	9,591
Over 5 years.....	5,303	4,641	2,997
Total.....	108,331	179,116	375,122

The following table shows details of the Group's deposits for its Icelandic and foreign operations and the interest expense thereon at December 31, 2005, 2006 and 2007 under IFRS.

	At December 31,		
	2005	2006 (ISK millions)	2007
Icelandic operations			
Deposits from credit institutions and central banks.....	30,633	78,438	52,250
Other deposits	153,764	167,122	267,926
Total Iceland deposits.....	184,397	245,560	320,176
Deposits in foreign banking offices			
Deposits from credit institutions and central banks.....	23	138	2,927
Other deposits	150,372	271,150	457,423
Total foreign deposits	150,395	271,288	460,350
Total deposits	334,792	516,848	780,526

The following tables show the maturity of the Group's deposits from credit institutions and central banks and other deposits at the dates indicated.

At December 31, 2007						
	Up to 1 month	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
	(ISK millions)					
Deposits from credit institutions and central banks....	47,954	6	1,117	5,730	370	55,177
Other deposits	592,825	65,869	54,067	9,591	2,997	725,349
Total deposits	640,779	65,875	55,184	15,321	3,367	780,526

At December 31, 2006						
	Up to 1 month	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
	(ISK millions)					
Deposits from credit institutions and central banks....	78,576	—	—	—	—	78,576
Other deposits	339,473	28,439	41,859	23,860	4,641	438,272
Total deposits	418,049	28,439	41,859	23,860	4,641	516,848

At December 31, 2005						
	Up to 1 month	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
	(ISK millions)					
Deposits from credit institutions and central banks...	30,656	—	—	—	—	30,656
Other deposits	118,159	146,867	9,780	24,027	5,303	304,136
Total deposits	148,815	146,867	9,780	24,027	5,303	334,792

Borrowings

The following table shows details of the types and maturities of the Group's borrowings at December 31, 2005, 2006 and 2007.

At December 31,						
	2005		2006		2007	
	(ISK millions)	(%)	(ISK millions)	(%)	(ISK millions)	(%)
Borrowings						
Bonds issued	858,504	91.6	1,250,004	90.7	1,357,666	77.7
Loans from banks	—	—	—	—	380,158	21.8
Other debt securities	79,290	8.4	127,783	9.3	8,375	0.5
Total borrowings	937,794	100.0	1,377,787	100.0	1,746,199	100.0
Borrowings mature						
On demand	69,983	7.5	116,722	8.5	219,705	12.6
Up to 3 months	24,589	2.6	50,261	3.6	196,015	11.2
Over 3 months and up to a year	149,892	16.0	242,322	17.6	89,595	5.1
Total short-term borrowings	244,464	26.1	409,305	29.7	505,315	28.9
Over 1 year and up to 5 years	627,057	66.9	869,332	63.1	1,177,409	67.5
Over 5 years	66,273	7.0	99,150	7.2	63,475	3.6
Total borrowings	937,794	100.0	1,377,787	100.0	1,746,199	100.0

Subordinated Loans

The Bank has borrowed funds by issuing subordinated bonds. The bonds share one characteristic with equity in that they are subordinated to other liabilities of the Bank. In the calculation of capital ratios, subordinated bonds are included with equity. Total subordinated loans amounted to ISK 47,464 million at December 31, 2005, ISK 108,998 million at December 31, 2006 and ISK 101,669 million at December 31, 2007. Subordinated loans with no maturity date, which the Bank may not repay until 2010, and which have received the approval of the FSA to qualify as Tier I capital in the calculation of the Bank's capital ratios, amounted to ISK 41,726 million at December 31, 2006 and ISK 39,416 million at December 31, 2007. Subordinated loans with varying maturity dates through 2021, and which qualify as Tier II capital in the calculation of the Bank's capital ratio amounted to ISK 67,272 million at December 31, 2006 and ISK 62,253 million at December 31, 2007.

Funding

The Bank's domestic funding consists of deposits from commercial customers, as well as the issuance of ISK denominated commercial paper and bonds. The Bank's international funding is a mixture of bilateral and syndicated loans, as well as the issuance of commercial paper and bonds under the Bank's ECP and GMTN Programs and this Program. In addition, the Bank has access to money market lines from relationship banks. The international bonds and loans generally have maturities up to seven years to match assets.

The following table sets out a breakdown of the Group's borrowings from bonds and notes issued, as well as borrowings from other credit institutions at December 31, 2005, 2006 and 2007.

	At December 31,		
	2005	2006	2007
		(ISK millions)	
Issued bonds and hedged borrowings	858,504	1,046,138	1,357,666
Loans from credit institutions	75,202	101,073	380,158
Other borrowings	4,088	230,576	8,375
Total.....	937,794	1,377,787	1,746,199

Capital Adequacy

The equity of the Group amounted to ISK 84,537 million as of December 31, 2005, ISK 146,119 as of December 31, 2006 and ISK 169,969 million as of December 31, 2007.

Under the Act on Financial Undertakings, No. 161/2002, as amended, the capital adequacy ratio may not be less than 8.0%. For the Group, this ratio was 12.6% at December 31, 2005, 15.0% at December 31, 2006 and 11.2% at December 31, 2007. The ratio was calculated as follows:

	December 31,					
	2005		2006		2007	
	Book Value	Weighted Value	Book Value	Weighted Value	Book Value	Weighted Value
			(ISK millions)			
Assets recorded on the balance sheet.....	1,471,945	918,270	2,246,339	1,519,288	2,948,910	1,929,818
With market risk in trading portfolio		28,158		45,012		87,652
Risk based, total		946,428		1,564,300		2,017,470
Tier I Capital		93,503		169,534		163,959
Tier II Capital		26,139		65,724		61,617
		119,642		235,258		225,576
Capital adequacy ratio.....		12.6%		15.0%		11.2%

Notwithstanding the above, the Financial Supervisory Authority may decide upon an own funds percentage higher than 8% for those financial undertakings regarded as having an unsatisfactory financial position with regard to risk level, if other supervisory actions are unlikely to compensate for the imbalance in own funds and risk level within a reasonable time limit. The Financial Supervisory Authority's evaluation of risk level and any decision on a higher capital adequacy ratio must be based on detailed rules established by it.

Financial Assets and Liabilities (book value)

The following table shows, by maturity, the Bank's financial assets and liabilities that are sensitive to changes in interest rates at December 31, 2006 and 2007.

	At December 31,	
	2006	2007
	(ISK millions)	
Assets		
Cash and balances with central banks	20,417	55,500
Bonds and debt instruments	231,675	278,960
Loans to banks	177,010	278,469
Loans to customers	1,596,184	1,974,907
Total	2,025,286	2,587,836
Liabilities		
Deposits from central banks	36,045	4,653
Deposits from banks	42,532	50,524
Deposits from customers	438,272	725,349
Debt issued and other borrowed funds	1,377,787	1,746,199
Subordinated loans	108,998	101,669
Total	2,003,634	2,628,394

The following table shows the Bank's interest repricing gaps in individual currencies at December 31, 2007.

	ISK	NOK	SEK	EUR	USD	GBP	CHF	JPY	Other	Total
	(ISK millions)									
At December 31, 2007:										
0 to 1 year	(201,024)	37,554	2,156	25,695	(6,303)	(6,402)	(1,580)	(259)	1,255	(148,906)
1 to 5 years	92,676	624	—	12,274	4,804	6,603	2,167	668	725	120,541
5 to 10 years	12,414	50	—	(752)	(1,861)	(200)	—	—	10	9,661
10 to 20 years	13,259	—	—	44	—	292	—	—	—	13,595
Over 20 years	5,038	—	—	—	—	(11)	—	82	—	5,109
Total	(77,637)	38,228	2,150	37,261	(3,360)	282	587	491	1,990	

Sources of Funds

The Bank's main funding sources are customer deposits, the domestic bond market and the international loan and bond markets.

In the domestic market, we have registered a number of issues of debt securities on the Iceland Stock Exchange, including issues of commercial paper, non-indexed notes and indexed bonds.

The table below sets out a breakdown of our sources of funds at December 31, 2005, 2006 and 2007.

	At December 31,					
	2005		2006		2007	
	(ISK millions)	(percent)	(ISK millions)	(percent)	(ISK millions)	(percent)
Equity	84,537	6.0	146,119	6.8	169,969	6.1
Subordinated loans	47,464	3.4	108,998	5.1	101,669	3.6
Deposits from customers	304,136	21.6	438,272	20.4	725,349	25.9
Core funding	436,137	31.0	693,389	32.3	996,987	35.6
Market issues and borrowings	937,794	66.8	1,377,786	64.1	1,746,199	62.4
Interbank short-term funding (credit institutions)	30,656	2.2	78,577	3.6	55,177	2.0
Finance in the market	968,450	69.0	1,456,363	67.7	1,801,376	64.4
Total funds	1,404,587	100.0	2,149,752	100.0	2,798,363	100.0

Risk Management

Risk assessment and prudent evaluation and pricing of risk are a key element in the Bank's operations. Efficient risk assessment procedures and processes are the foundations of the Bank's risk management. The board of directors determines the general risk management policy and defines the acceptable levels of risk in the Bank's daily operations, sets targets regarding risk management and monitoring of major risk factors, including credit risk, liquidity risk and market risk. The board of directors appoints the Risk Committee, which is responsible for supervising and monitoring all credit and market risk within the Bank.

Risk Management Procedures

The Bank operates centralized departments within the parent company for monitoring and reporting on different types of risks. Subsidiaries operate their own risk management functions and determine internal risk policies that reflect the nature of their operations. The individual risk management functions report to their respective board of directors, local regulators and to the parent company.

Decision making is based on a committee structure where the board of directors has granted authority to specially appointed committees that issue specific guidelines and targets regarding acceptable risk limits and decide on individual positions depending on size and risk level. Risk positions regarding credit risk, market risk and operational risk are reported to the Risk Committee. Risk positions regarding refinancing risk, liquidity, interest rate risk and capital management are reported to the Asset and Liability Committee ("ALCO").

Central risk management is responsible for consolidated reporting to management and regulators. The risk procedures and risk management for each subsidiary is subject to approval from the Risk Committee and ALCO. Risk procedures and risk management are monitored and supervised from the parent company. Central risk management reviews the risk management procedures of subsidiaries. Frequency and detail of reporting depends on risk profile in each case. The Credit Control and Risk Management departments are responsible for the daily monitoring and evaluation of the Bank's credit risk and financial risk.

Capital Allocation

Allocation of economic capital, down to business units and individual positions, is a key element in the Bank's operation, pricing and performance measurement. ALCO is responsible for capital allocation mechanisms and methodologies.

For credit exposures, capital is allocated to individual positions based on the Bank's risk classification system. Each credit decision is influenced by capital allocation, since the return on allocated capital is the main output from the Bank's pricing model. Capital is also allocated to market risk

exposures. Each business line, therefore, carries capital according to its exposure and risk profile, and its performance is measured against that capital usage.

The Bank's capital ratios are among the financial targets set by the Bank. This ensures that the risk profile is linked with other financial targets, such as the growth rate, profit and dividend policy. Return on economic capital is calculated for each business unit as a risk-adjusted performance measure. Financial targets, including capital ratios, are assessed by ALCO at least annually. Any changes in capital ratios affect the behavior of the business lines, since return on economic capital is a key performance measure for each investment. The Bank's financial targets stipulate a minimum CAD ratio of 11%.

Credit Risk

Credit risk is a dominant risk factor. Credit Control supervises and monitors credit and operational risk on a consolidated basis. The objective of Credit Control is to ensure sound asset quality and to consistently balance risk and return. Credit Control is responsible for enforcing the Bank's credit policy and credit procedures on a consolidated level, as well as monitoring and supervising credit process and credit risk evaluation.

It is the goal of Credit Control to efficiently evaluate and assess credit risk and to take adequate measures to mitigate such risk whenever possible. Credit risk evaluation is based on the financial strength of the customer and its ability to repay the commitment which can be influenced by operational sector, country and the nature of the transaction. Credit assessment models are implemented to evaluate credit risk and probability of default.

The Bank aims to ensure the quality of the credit portfolio by diversifying credit risk by counterparties, sectors and country, as well as sectors within each country. No single long-term exposure may exceed 20% of the Bank's equity. Aggregated consolidated large exposures, defined as exposures exceeding 10% of the Bank's equity measured on a risk-adjusted basis, may not exceed 400% of equity, which is within the regulatory limit of 800%. Aggregated consolidated large exposures at December 31, 2007 amounted to 69% of equity. Each subsidiary is subject to the same internal and regulatory limitations.

Credit Control monitors defaults and issues guidelines on default monitoring and provisioning. Provisioning guidelines are determined for each subsidiary and reflect their different risk profiles and historical losses. Credit control is responsible for handling problem loans and to take measure to minimize the Bank's losses whenever possible.

Credit control also is responsible for monitoring and reporting on operational risk. Operational risk monitoring consists of enforcing legal and regulatory compliance, as well as adherence to internal procedures, processes and guidelines. Discrepancies and incidents are to be reported to management. Credit risk and operational risk are reported to the Risk Committee.

The Bank has implemented new credit assessment models in line with preparations for the Basel II accord and has implemented processes that focus on predicting customers' probability of default. The risk assessment models are subject to further development to determine the likelihood of loss if an event of default has occurred. Different risk assessment models are used based on customer-specific qualities, such as different models for corporate customers, small or medium-sized businesses and retail customers, both individuals and smaller businesses. The probability of default also is affected by the customers' country risk, economic sector, financial strength and standing, as well as general economic conditions. The Bank's risk assessment models assign customers a risk class on the scale of 1 to 10, with "1" representing the least risk and "10" representing default risk class. The Bank also employs subsidiary and product-specific risk assessment models that take into account the different levels of risk inherent in specialized transactions and markets.

At December 31, 2007, approximately 46% of the Bank's customer loan portfolio was in Iceland and 37% in Norway, which are the Bank's two home markets. The single largest country exposure outside of the home markets was to the United Kingdom, corresponding to 4% of the portfolio. The single largest

economic sector exposure was to real estate, or 28% of the portfolio, which reflects the Bank's Icelandic mortgage portfolio and BNBANK's Norwegian mortgage portfolio. The second largest sector was individuals and households.

Default rates recently have been at a record low, which reflects the favorable market conditions in both home markets, as well as the strict collection procedures employed. Impaired loans amounted to 0.5% of total loans to customers at the end of 2007, and loans past due but not impaired amounted to 6.2% of total loans to customers at the end of 2007.

Operational Risk

With the Basel II accord, banks and financial institutions are required to assess the effect of operational risk on their operations. The main risk factors that affect operations are losses due to technical failures or inaccuracies, ineffective procedures or processes, human error and unforeseen external factors that are outside the institutions' scope of control.

Credit Control monitors general operational risk on a consolidated basis, but IT and technical risk are monitored by a specially appointed Security Committee, in compliance with international standards. An effort is being made to formally record operational risk events as well as near misses for the purpose of effective evaluation of such risk and for formal stress testing of the Bank's systems and procedures. Every effort is made to develop and implement clear and unambiguous operational policies and procedures to minimize operational risk. The Bank has sought to mitigate operational risk by means of insurance coverage.

Currency Risk

A large part of the Bank's assets and liabilities is denominated in foreign currency. The Bank keeps a very close balance between assets and liabilities in each currency and mismatch thereof is viewed as a trading position and managed within strict limits. The Bank views the equity of foreign subsidiaries as an asset in their local currency and makes a decision in each case as to how each exposure shall be hedged. Hedge accounting is applied where applicable to prevent fluctuations in profit and loss.

Due to the fact that the Bank's assets are largely denominated in foreign currency but equity is issued in ISK, the exchange rate of the Icelandic krona has an effect on the CAD ratio. The Bank uses various methods to reduce this effect, but it cannot be fully eliminated, which is taken into account in the Bank's capital strategy. Trading positions in currencies, above certain limits, are reported to the Risk Committee. CAD ratio sensitivity to exchange rates is reported to ALCO.

Equity Risk

The Bank has trading positions in equities and is therefore exposed to price fluctuations. Since all equity positions are marked to market, all price changes are immediately recognized in profit or loss. The Bank operates different trading portfolios with different trading strategies. Equity positions are reported to the Investment Council which also issues limits for each portfolio.

Interest Rate Risk

Interest rate risk in the Bank is twofold. On the one hand, the Bank generally has a trading portfolio of bonds, where market rates affect prices and any fluctuation is immediately recognized in profit and loss. On the other hand, assets and liabilities in the banking book with fixed interest terms can generate interest rate risk which is not necessarily recognized in profit and loss but nevertheless affect the Bank's economic value. Interest rate risk in the banking book is reported to ALCO.

It is the Bank's policy to hedge all interest rate risk in the banking book in foreign currency. This holds true for the Group as a whole. All assets or liabilities with fixed terms are hedged with interest rate

swaps or other derivatives, and hedge accounting is utilized where possible to reduce fluctuation in profit and loss. Those hedging derivatives are marked to market as are all other derivatives.

Exposures in ISK are not hedged to the same extent and the Bank has banking book exposure to interest rate movements. However, to maintain a balance between assets and liabilities, the Bank needs to hold more assets than liabilities in ISK, since the equity of the Bank is denominated in ISK. The Bank's mortgage lending in Iceland is partly used to generate such mismatch, and in order to limit the Bank's interest rate sensitivity the Bank's mortgage lending has an interest rate reset five years from issuance.

Exposure to Inflation

The Bank is exposed to Icelandic inflation, since Consumer Price Index (the "CPI") indexed-linked assets exceed CPI indexed-linked liabilities. All indexed assets and liabilities are valued according to the CPI at any given time, and changes in the CPI are therefore recognized in profit and loss. Those exposures are limited to the parent company. The inflation-related position of the Bank is reported to ALCO. The risk sits with the Interbank Markets unit, and profit and loss is reported there.

Liquidity Risk

Liquidity risk is monitored within Risk Management, one of two centralized risk management units. Liquidity risk management is an important element in the Bank's operation since the Bank is in large part wholesale funded. The Bank has strict limits on liquidity and has back-up funding and liquid assets in place to deal with unforeseen events. Liquidity risk is reported to ALCO.

The Bank aims for a balance in assets and liabilities, both with respect to maturity and currencies. Derivatives are partly used to maintain such balance. Liquidity is in that sense managed down to individual currencies. However, the Bank is particularly concerned with maintaining a prudent liquidity profile in foreign currency since domestic liquidity cannot necessarily be transferred into foreign currencies.

At year-end 2007, the Bank had ample liquidity according to both internal measures and by the regulatory measures stipulated by the Central Bank of Iceland. Back-up funding and liquid assets were in place to cover all long-term funding maturing over the next year. Back-up funding mainly consists of committed revolving credit facilities. Liquid assets mainly consist of repo-eligible assets.

Some of the subsidiaries have funding sources independent of the parent company, in the form of deposits, bond issuance in local markets or money market lines. All international funding is, however, coordinated by the parent company.

The following table shows the Bank's assets and liabilities at December 31, 2007, reflecting the relevant maturity groupings based on the remaining period to the contractual maturity date.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
	(ISK millions)					
Total assets	530,637	135,061	359,525	742,854	1,180,833	2,948,910
Liabilities						
Short position	15,023	—	—	—	—	15,023
Derivatives	77,497	—	—	—	—	77,497
Deposits from banks and central banks.....	47,954	6	1,117	5,730	370	55,177
Deposits from customers.....	592,825	65,869	54,067	9,591	2,997	725,349
Debt issued and other borrowed funds.....	219,705	196,015	272,497	994,507	63,475	1,746,199
Subordinated liabilities	46	161	5,182	53,125	43,155	101,669
Other liabilities	18,584	1,161	3,016	—	35,266	58,027
Equity	—	—	—	—	169,969	169,969
Total liabilities	971,634	263,212	335,879	1,062,953	109,997	2,948,910
Maturity gap	(440,997)	(128,151)	23,646	(320,099)	865,601	—

Basel II

The Basel II rules are a set of new, more risk-sensitive rules for capital requirement calculations that will come into effect as of January 1, 2007. The Basel II rules define the minimum capital that a financial institution must hold for unexpected events. These rules also provide minimum qualitative standards and risk management practices that a financial institution should have in place. The Basel II rules include capital requirements for operational risk in addition to credit risk and market risk, which are already covered in the current rules.

The Basel II rules were developed by the Basel Committee for Banking Supervision to replace the current rules, known as Basel I. The committee's first proposal for revising the capital adequacy framework was published in June 1999. Since then, the revised framework, the International Convergence of Capital Measurement and Capital Standards, was published in November 2005. Based on the recommendations of the revised framework, the Basel II rules were ratified by the European Union, which made necessary amendments to the CRD, the Recast Capital Requirement Directive 2000/12.

The Basel II rules are represented by three “pillars”. Pillar I addresses the calculation of minimum regulatory capital requirements for credit, market and operational risk. Pillar II addresses the supervisory review process, the financial institution's capital adequacy assessment including other risk not addressed under Pillar I and the strategy for maintaining capital levels. Pillar III addresses market discipline and requirements regarding market disclosure of risk-related information.

The Bank has been aiming for the most sophisticated implementation method, known as Internal Rating Based Advanced (“IRB Advanced”). On February 1, 2006, the Bank submitted an application document to the Financial Supervisory Authority, which will investigate the Bank's procedures and risk models and decide whether the Bank should be permitted to use its own internal models to calculate its regulatory capital requirement.

The Bank intends to implement the IRB methods at the Group level in stages. The parent company aims to apply the so-called IRB Foundation approach beginning in January 2007. This is an intermediate step until the regulations permit the use of IRB Advanced in 2008. BNbank aims to apply for permission to use IRB Advanced in 2008, which is necessary for the Bank to apply for IRB at the Group level. Subsidiaries of lesser weight in the Bank's balance sheet, including Glitnir Bank in Aalesund and ISB Luxembourg, are likely to be allowed to use less sophisticated methods.

The Bank's preparation for this new risk management framework has involved restructuring of many of the Bank's IT systems to be able to collect the appropriate data on customer standing and loss

history. This data is then used for risk modeling and/or model valuation. The approach to risk modeling differs depending on the nature of the risk, but involves both a statistical and judgmental approach. Close cooperation with the Financial Supervisory Authority has been of great importance for the project.

BUSINESS

Introduction

We are a Northern European bank, headquartered in Iceland, with operations in 11 countries. We consider Iceland and Norway as our home markets and we generated 47% and 21% of our profit before taxes in these markets, respectively, in 2007. Outside of our home markets, we have banking licenses in Finland and Luxembourg, and a pending application for a banking license in Sweden. In addition, we have branches in the United Kingdom and Canada (application for a branch license in Canada pending) and offices in Sweden, China and Russia.

We offer a broad range of financial services in our home markets, including corporate banking, investment banking, capital markets, investment management and retail banking, to a broad range of customers. In Iceland, we are one of the three leading banks with a market share of approximately one third in terms of loan volume as of December 31, 2007. In Norway, we are the eighth largest bank with a market share of approximately 2% in terms of loan volume. Outside of our home markets, our main activities are capital markets in the rest of the Nordic region, corporate banking and investment banking in the rest of the Nordic region, Europe and other international markets, and investment management services, which we offer in Finland, Sweden, Luxembourg and Russia. We derived 47%, 22%, 27% and 5% of our profit before taxes from Iceland, the Nordic region, Europe and our international operations, respectively, in 2007.

We have driven and continue to drive international expansion of our business based on three specialized industry sectors: seafood, sustainable energy and offshore service vessels. In these sectors, we have developed significant industry expertise, based on our heritage in Iceland and Norway.

Based on our market capitalization of ISK 323 billion as of December 31, 2007, we are the third largest bank in Iceland and the tenth largest bank in the Nordic region. In the Nordic region, we have mainly grown through strategic acquisitions, while internationally we have grown principally through organic development. In 2004 and 2005, we acquired Kredittbanken and BNbank in Norway and through these acquisitions significantly increased our loan portfolio and the proportion of our revenue we derive from interest income. In 2006, we acquired the Swedish brokerage firm, Fischer Partner Fondkommission AB (now Glitnir AB), which established us as one of the leading Nordic brokerage companies by transaction volume and, through the acquisition of FIM Group Corporation (now Glitnir Oyj) in Finland in 2007, we established the cornerstone of our international investment management business. We believe that our recent acquisitions have increased the breadth and depth of our product and service offerings and expanded our geographical coverage, allowing us to offer additional value to our expanding customer base.

Our shares are listed on OMX Nordic Exchange Iceland under the symbol “GLB”. We currently have senior long-term debt ratings of “A2” from Moody’s, “A” from Fitch and “BBB+” from S&P. Our registered offices are located at Kirkjusandur 2, 155 Reykjavik, Iceland and our telephone number there is +354-440-4500.

Competitive Strengths

We view the following aspects of our business as our principal competitive strengths.

Corporate banking platform in the Nordic region with strategic positions in investment banking and capital markets.

We have an established position as a leading bank in Iceland and have close relationships with important Icelandic corporate clients. Building upon this strength, we expanded into Norway, where we have been offering a wide range of corporate banking services since our acquisition of Kredittbanken in 2004 and BNbank in 2005. Using this platform, we have expanded our corporate banking offerings and established strategic positions in investment banking and capital markets in the Nordic region. In addition,

we have used our expertise in our specialized industry sectors of seafood and sustainable energy to expand our product and service offerings on an international scale. We also use our corporate banking customer base for cross-selling opportunities in investment banking and capital markets and vice versa, and we believe that this approach has allowed us to establish ourselves as an integrated corporate and investment banking and capital markets service provider in the Nordic region.

Strong record of profitable growth.

We have a strong record of profitable growth, built on a balanced contribution from acquisitions and organic growth as well as the continuing growth and diversification of our loan portfolio and our broadening range of products and services. Although our profit before taxes decreased to ISK 33,904 million in 2007 from ISK 46,255 million in 2006, it increased from ISK 14,093 million in 2004. We estimate that acquisitions have contributed approximately one third of our growth in profit before taxes during this period, with the rest of our growth attributable to our organic development. Our acquisitions in the Nordic region since 2004, have allowed us to achieve our strategic goal of business and geographical diversification. Our profitable growth in recent years has also been driven by stable revenue increases from a growing and diversified loan portfolio. Our loan portfolio increased from ISK 1,596,184 million as of December 31, 2006 to ISK 1,974,907 million as of December 31, 2007. As of December 31, 2007, loans originating from Iceland constituted 34% of our total loan portfolio. In addition, our growth has been driven by the increase in our fees and commission income. To diversify our revenue source and to achieve a high level of growth, we have sought to increase the proportion of fee and commission income by expanding our investment banking and capital markets businesses in terms of both geography and product range.

Recognized global expertise in selected key industry sectors.

We have successfully exploited our customer relationships in our home markets to build strong positions in the seafood, sustainable energy and offshore service vessel industries. Our expertise in the seafood and sustainable energy sectors has served as the foundation for the development of our international customer relationships and the international expansion of our corporate banking and investment banking businesses. We believe that our expertise in these sectors, coupled with our expertise in offshore service vessels, will serve as a solid foundation for our future international growth. Our focus on these industries has helped us develop close relationships with key industry participants and allowed us to follow our existing clients in their international expansion and also helped us establish new client relationships. Our understanding of the seafood and sustainable energy sectors has allowed us to expand globally with our clients in these industries and we believe our expertise in the offshore service vessel industry, in which we have a strong position in the leading Norwegian market, provides a similar opportunity for international expansion. We have established dedicated industry teams with significant industry experience and knowledge. These teams take charge of the relationship between us and key industry participants, publish industry research, participate in industry forums and networks and play an important role in our internal training programs. At December 31, 2007, approximately 13% of our total corporate loan portfolio was related to these specialized industry sectors.

Focus on risk management with strong liquidity and capital positions.

We strive to maintain good asset quality and risk management discipline. We have fostered a strong and unified risk management culture throughout our operations based on centralized risk management for all major risk categories, including asset and liability management, credit risk, market risk, operational risk and systems security risk. These efforts have allowed us to maintain the ratio of impairment losses to average total loans to customers at a sound level. Our ratio of impairment losses to average total loans to customers was 0.33% in 2007. Our leveraged finance portfolio, of which over 90% was senior secured debt, constituted less than 5% of our total loan portfolio as of December 31, 2007. In addition, our policy is to maintain a portfolio of highly liquid assets and immediately available funds, such as cash, money market funds and committed credit lines, to cover all of our financial liabilities maturing within six months, other than deposits. Furthermore, all of our financial liabilities maturing within six months, other than deposits, must be covered by our liquidity portfolio together with liquid assets. In each

case, we discount the relevant asset class by an estimate of potential losses that we believe is conservative. Our CAD and Tier 1 ratios were 11.2% and 8.1%, respectively, at December 31, 2007, and we have a minimum target for our CAD and Tier 1 ratios of 11% and 8%, respectively. According to our most recent biannual stress test conducted by the FME at December 31, 2007, even severe market and credit conditions would have limited impact on our capital adequacy. Our CAD ratio of 11.2% would have been reduced by 0.8% if the following were to occur simultaneously: a 25% depreciation of the krona against a basket of selected currencies, a 20% increase in non-performing/impaired loans, a 7% decrease in the value of our proprietary bond portfolio, a 25% drop in the value of foreign shares held by us and a 35% drop in the value of domestic shares held by us.

Experienced management team and entrepreneurial culture.

Our management team has substantial experience in the Nordic region and other key markets in which we operate. Our senior executive officers have over 20 years of relevant experience. Our senior management team is supported by a strong team of qualified professionals. Our organization is based on short and effective reporting and communication lines and we cultivate an entrepreneurial culture.

Strategy

Provide an integrated service offering to our target customers.

We plan to continue to grow our corporate banking business through further product, sector and geographical diversification. We plan to do so by providing an integrated range of financial services and products to our Icelandic and Nordic clients and by following these clients outside the Nordic region in their international expansion. We will also focus on building strong relationships and offering tailored products to our key clients, including SMEs, high net worth individuals and institutional investors. We also seek to grow our investment banking and capital markets businesses, particularly in Norway, by leveraging our corporate banking platform in Iceland and Norway. In investment banking, our goal is to continue to leverage our corporate banking client base to drive the international expansion of our business. In 2007, we obtained several of our key mergers and acquisitions and equity capital markets mandates through our corporate banking relationships, including the sale of Icicle Seafoods, Inc., one of the largest seafood companies in the United States, to Fox Paine Fund III, a private equity firm, and the initial public offering and a follow-on equity offering of Copeinca, a Peruvian fish meal producer. In our capital markets business, our goal is to broaden the high value-added service offering in the Nordic region with a focus on institutional clients and high net worth individuals in the Nordic region.

Capitalize on our Nordic platform for further growth.

Through our strategic acquisitions in the last four years, as well as continued organic development, we have created a business with significant market positions in several key segments of the Icelandic and Nordic financial services markets, including corporate banking, investment banking, capital markets and investment management. We plan to increase revenue and achieve operational efficiencies by further aligning each of our businesses and acquired entities to work together as a single team and provide an integrated full-service offering in the Nordic region in line with the services offered in Iceland. We seek to further grow our corporate banking business in Norway by increasing corporate lending and in the rest of the Nordic region by expanding our client base. We also plan to strengthen our investment banking business by leveraging our strength in corporate banking and equity placements in the Nordic region. We expect that this will enable us to generate further cross-selling opportunities between business lines, expanding both our product lines and customer base and increase our competitiveness on cross-border transactions. We launched the “One Glitnir” project in the first quarter of 2007, under which we are upgrading and integrating our operating and reporting systems at the Group level and enhancing our existing risk procedures for the Group. For example, we are now offering a wide range of Glitnir Oyj’s investment products through our retail banking operations in Iceland, and in turn, we are offering deposit products to Glitnir Oyj’s existing customers. In addition, the markets and investment banking units of Glitnir Oyj have been integrated into our respective business lines. Furthermore, we completed the merger of our two bank subsidiaries in Norway, BNbank and Glitnir Bank ASA, in March 2008, in order to expand

our corporate banking activities, capture cross-selling opportunities, improve our service quality and simplify our organizational structure in the Norwegian market.

Continue to leverage our expertise in key industry segments with attractive macro-economic outlooks.

We seek to leverage our expertise in our three specialized industry sectors of seafood, sustainable energy and offshore service vessels to grow our business. We believe that these sectors will continue to provide us with opportunities for further growth. In the seafood sector, the consolidation of the industry is likely to continue, generating increasing opportunities for our corporate banking, investment banking and capital markets businesses. In addition, we expect that the increasing world population and the growing demand for wholesome food will continue to support growth in the seafood industry. In the sustainable energy sector, we expect that the demand for alternative energy sources will continue to grow worldwide, primarily driven by higher oil and gas prices, government support and increasing consumer interest in green energy. This trend in the sustainable energy sector, coupled with Iceland's unique experience and expertise in geothermal energy technologies, will provide significant growth opportunities in the future. We expect that the high oil-price environment will also stimulate demand in the offshore services vessel industry, particularly for the most modern and sophisticated vessels designed for deep water operations. Our current business relating to the offshore services vessel industry is based in Norway, a leading market for the design, construction and operation of the most sophisticated vessels, and we believe that our strength in this market will allow us to expand this business internationally. We intend to continue to build on our strong relationships with the leading global industry players in these sectors, clients from our home markets who expand internationally and local industry players worldwide. We also will seek to capitalize on our growing investment banking and capital markets businesses to establish our position as a full-service solution provider to these industries.

Continue to diversify our funding sources and our loan portfolio.

We seek to minimize our funding costs while retaining operational flexibility through diversifying and achieving balance among various funding sources. As of December 31, 2007, we had a customer deposit to customer loan ratio of approximately 37%. We plan to increase the share of our funding that we generate from deposit products by implementing new product initiatives and, in some cases, by moving into new markets. For example, we are currently promoting new deposit products to our existing customers in Iceland and Norway and launched a deposit taking initiative in Finland in October 2007. We also have had a wholesale deposit taking operation in our London branch since late 2006 and we will seek to continue to increase our strength in that market. We also seek to minimize our exposure to any given market by diversifying our loan portfolio by both geography and sector. At December 31, 2007, Iceland and Norway each represented approximately 34% of our loan portfolio, with Europe and other international markets representing an additional 28% and 4%, respectively, compared with a loan portfolio that was highly concentrated in Iceland prior to 2005. At December 31, 2007, real estate companies, services and investment companies and individuals represented approximately 28%, 24% and 18% of our loan portfolio, respectively. Our goal is to continue to diversify our loan portfolio through broadening our customer base in our home markets and through our international expansion.

History

We can trace our history back to 1904 when the first privately owned bank in Iceland, Íslandsbanki hf., was established. Since then, we have undergone a number of mergers with banks and investment credit funds in Iceland, grown through strategic acquisitions in Norway, Sweden and Finland, and grown internationally through organic development. We have played a key role in Iceland's economic progress in the twentieth century. As of December 31, 2007, we had over 2,200 employees based in eleven countries.

In May 2000, Íslandsbanki and The Icelandic Investment Bank ("FBA") merged to create a leading financial services company in Iceland. Prior to the merger, Íslandsbanki was the second largest commercial bank in Iceland and the only privately owned bank in Iceland. FBA was at that time the

leading investment bank in Iceland, established in 1998 through a merger of four state-owned investment credit funds which were the main providers of long-term credit to Icelandic industries for most of the twentieth century.

Since the merger of Íslandsbanki and FBA in 2000, we have undergone steady and significant growth and expanded our operations considerably. In late 2004, we acquired KredittBanken ASA (now Glitnir Bank ASA), a niche bank located in Norway with a focus on the seafood and the offshore service vessel industries. In the first quarter of 2005, we acquired BNbank in Norway, a commercial bank focused on mortgage loans. These two acquisitions gave us a significant position in the Norwegian market. See “Recent Acquisitions” below for a more detailed description of these acquisitions.

Through our acquisitions and organic growth initiatives, we have expanded our international presence in the past few years. We now have offices in London (2001), Luxembourg (2003), Halifax (2006), Shanghai (2006), Stockholm (2006), Helsinki (2007), Moscow (2007) and St. Petersburg (2007). Our international expansion has been driven by our desire to serve our Nordic customers in their own global expansion, to reach potential customers in our specialized industry sectors located worldwide and to diversify and balance our growth.

Recent Acquisitions

In the last three years, we completed a number of acquisitions, as further described below.

BNbank. In April 2005, we acquired a 100% interest in BNbank, a commercial bank in Norway, for ISK 30,729 million. BNbank has offices in Trondheim and Oslo and is a leading lender in the Norwegian real estate market, serving both private and corporate customers and focusing primarily on commercial real estate. BNbank’s services include mortgage loans, construction loans, general clearing services and deposits.

Norse Securities ASA. In February 2006, we acquired a 100% interest in the Norwegian brokerage and investment advisory company, Norse Securities ASA (now Glitnir Securities ASA), for ISK 1,062 million. Glitnir Securities ASA (“Glitnir Securities”) focuses on equity brokerage activities for institutional and private investors and corporations, as well as investment banking services. Glitnir Securities also acts as an investment advisor, focusing on securities trading, fund placements, structured products, and equity-linked derivatives.

Fischer Partners Fondkommission AB. In July 2006, we acquired a 100% interest in the Swedish brokerage firm, Fischer Partners Fondkommission AB (now Glitnir AB), for ISK 4,492 million. The acquisition of Fischer Partners Fondkommission AB provided us with a solid platform in the Nordic securities brokerage market. In 2007, we also added a team of investment banking and investment management professionals to our Swedish operation and applied for a banking license which we plan to utilize primarily for deposit-taking initiatives.

Norsk Privatøkonomi ASA. In October 2006, we acquired a 44.6% interest in Norsk Privatøkonomi ASA. Norsk Privatøkonomi ASA is an independent financial advisory firm that at the date of the transaction had 12 branches and 90 employees in key locations in Norway. The acquisition strengthened our distribution capabilities in Norway. Subsequent to the initial acquisition of the minority stake, we acquired an additional stake in Norsk Privatøkonomi ASA, bringing our interest in the company to 80.0% for an aggregate purchase price of ISK 2,027 million.

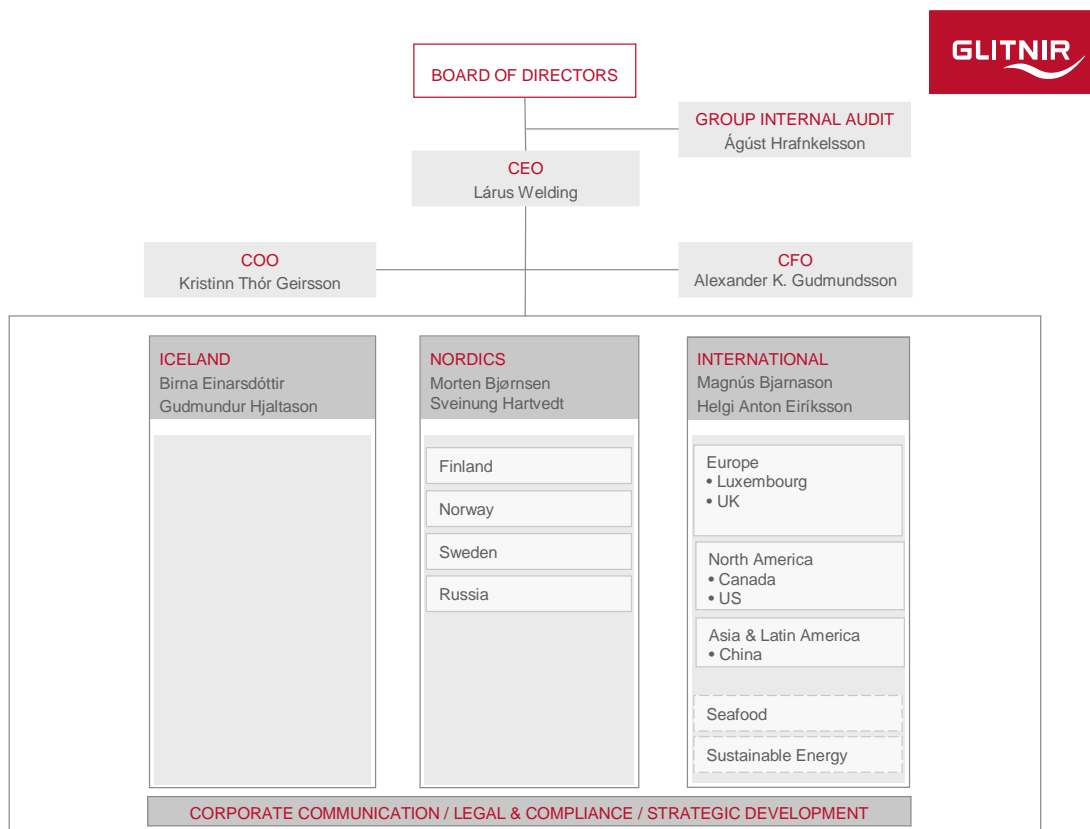
FIM Group Corporation. In March 2007, we acquired through a public tender offer a 100% interest in FIM Group Corporation (“FIM Group”) in Finland for ISK 31,043 million. FIM Group is an asset management, securities brokerage and investment banking company with offices in Finland, Stockholm and Moscow. The acquisition brought our combined assets under management to a total of EUR 8.5 billion in 46 different mutual and investment funds as of the time of the acquisition. We have further grown the assets under management to ISK 936 billion as of December 31, 2007.

Organizational Structure

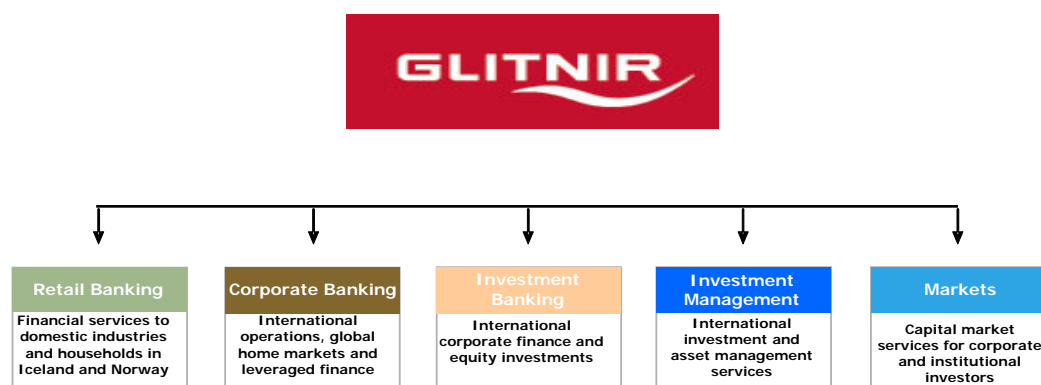
On February 2, 2007, we implemented certain changes to our organizational structure. The intention of the organizational changes was to facilitate strong and profitable integration of all of our business units and to accommodate further growth. The resulting organizational structure was a combination of business, geographical and support units. The business units are Retail Banking, Markets, Investment Banking, Investment Management and Corporate Banking, the geographical units are Iceland, Nordic, Europe and International, and the support units are Finance & Risk Management, Shared Services and Corporate Development.

On January 28, 2008, we announced additional changes to our organizational structure to reflect an increased regional focus on three geographical business regions: Iceland, Nordic and International. In Iceland, we intend to continue to provide full universal banking services with a focus on the following business lines: Retail Banking, Corporate Banking, Investment Banking, Investment Management and Markets. In the Nordic countries, we intend to focus on the activities of our Corporate Banking and Investment Banking business lines and continue to leverage our market share in equity brokerage services. We have retail banking licenses in Norway and Finland where we intend to continue to provide asset management services and savings products. Internationally, we intend to focus on our niche strategy in the renewable energy and seafood sectors through our Corporate Banking and Investment Banking business lines, as well as support our home market clients in their international expansion.

The following chart illustrates our new organizational structure by geographic business region, as well within the context of our current executive management board.



The following chart illustrates our various business lines as of December 31, 2007. We discuss each of our business lines, as well as our subsidiaries, below.



Retail Banking

Retail Banking consists of our retail banking operations in our two home markets, Iceland and Norway. Our retail banking operations in Iceland cover a broad range of activities and ancillary functions, such as sales and marketing and information technology.

We operate through 23 branches in Iceland. Our retail banking clients are typically individuals and small to medium sized businesses. We offer a traditional range of retail bank products, including checking and savings accounts, mortgages, personal loans and credit cards. We also offer internet and telephone banking services to our retail customers, which allow them to check their balances, monitor their investment portfolios and pay bills.

Our asset-based financing activities are aimed at assisting our corporate and individual clients in leasing and acquiring vehicles, equipment and commercial property.

The core focus of BNbank, one of our Norwegian subsidiary banks which we acquired in the first quarter of 2005, is on commercial and personal banking and its lending activities focus on mortgage loans. BNbank maintains a firm focus on core activities and specific markets and we believe it is well positioned to claim a larger share of the Norwegian market, pursuing a low-risk strategy with a history of high stability in earnings.

We plan to combine our business and operations in Norway to form one company. The planned merger of our Norwegian subsidiary banks BNbank and Glitnir Bank ASA is progressing on schedule and we expect the completion of the merger by the end of the first quarter of 2008. The merger has been approved by the Norwegian financial regulatory authorities. In September 2007, we increased through BNbank our stake in Norsk Privatøkonomi, a private financial advisory company with offices throughout Norway, which will provide us with an additional distribution channel for savings, investment and equity products.

Retail Banking generated 22.1% of revenues and 14.6% of pre-tax profit of the Group for the year ended December 31, 2007 and had 751 employees at December 31, 2007.

Corporate Banking

Corporate Banking ("CB") is responsible for corporate credit and business origination, fostering two of the Bank's three global niche markets, seafood and renewable energy, and running the third global

niche market, offshore supply vessels, out of Norway. CB's four main business units are Asia & Americas Region, North Europe Region, UK & South Europe Region and Leveraged Products. CB concentrates on competing in areas where we are in a position to create value through our expert knowledge and extensive contact networks, where we can differentiate ourselves and where we rank as the outstanding player in our chosen fields. CB acts as a focused player in niche segments, providing specialized and tailored products, and leads our international expansion with the London branch and the bank in Luxembourg as a part of its operations.

In Norway, we operate a regional bank, Glitnir Bank, which focuses on small and medium-sized corporate clients, particularly in the fishing, offshore supply vessel and shipyard industries. In the Group, Glitnir Bank has the special responsibility for developing the market for the financing of shipbuilding in Norway and the construction of offshore supply vessels on a world-wide basis. We expect to combine Glitnir Bank with our other operations in Norway to form one bank in the spring of 2008 as mentioned above.

Asia & Americas Region, in addition to conducting the Bank's global development strategy in Asia and the Americas and supporting some Icelandic clients in their international efforts, oversees the development of two of the global niche markets, seafood and renewable energy. For the seafood market, we facilitate expansions into new markets through our specialized knowledge and extensive contact network in the seafood industry, and for the renewable energy market, we draw on our own knowledge and the extensive Icelandic experience and know-how in the fields of geothermal energy and small hydropower plants. In these two markets, the Bank's extensive knowledge and core competence is employed to engage as an active partner in transformational activities, working with key players in each market.

North Europe Region specializes in providing property financing solutions throughout the region, primarily within the residential and commercial property sectors, including international private banking and wealth management products and services for Nordic high net worth individuals and companies. UK & South Europe Region is primarily responsible for developing business in the UK and South Europe, although it executes transactions in other geographic regions, and its primary activities are business management, funding, loan syndication and debt finance. In addition to these services, Leveraged Finance offers integrated finance solutions to UK and Nordic management teams engaged in management buy-outs, as well as being an active participant in the European leveraged finance debt market.

We opened a representative office in Halifax, Canada in April 2006 and a representative office in Shanghai, China in December 2006. These new offices are intended to enhance our existing business relationships in the respective countries and to support clients looking to enter or expand their operations in these markets, with a particular focus on the seafood, renewable energy and offshore supply vessels markets.

CB generated 32.4% of revenues and 37.6% of pre-tax profit of the Group for the year ended December 31, 2007 and had 316 employees at December 31, 2007.

Investment Banking

Investment Banking operates the Corporate Finance units, located in Reykjavík, Oslo, Stockholm and London, as well as the Equity Investments unit in Reykjavík. The Equity Investments unit offers customized high yield solutions for key customers of the Bank, as well as customers within the Bank's defined niche markets. The prime objective of the Corporate Finance units is to assist or advise their respective clients with the acquisition, disposition or merger of assets, and to assist and advise on fund raising efforts whether by debt, equity or a mix thereof.

Investment Banking generated 13.3% of revenues and 23.9% of pre-tax profit of the Group for the year ended December 31, 2007 and had 66 employees at December 31, 2007.

Investment Management

We intend to substantially widen our range of investment and asset management services internationally in the years ahead. The acquisition of FIM and its asset management expertise in May 2007 laid the foundation for building up Investment Management, which consists of three business units: Asset Management, which is divided into fund management and discretionary asset management, Structured Products and Private Banking. Investment Management also manages the sales and distribution of its products via internal and external channels. Currently, Investment Management has operations mainly in the Nordic countries and Luxembourg and also has recently established operations in Russia.

The Bank's assets under management at December 31, 2007 were ISK 936 billion, as compared to ISK 490 billion at December 31, 2006, an increase of 90%. The main contributing factor to this substantial increase has been the inclusion of FIM's assets under management in the Bank's consolidated accounts since April 1, 2007. Assets in custody amounted to ISK 1,318 billion at December 31, 2007, an increase of 89% since the beginning of 2007.

Investment Management generated 10.9% of revenues and 4.5% of pre-tax profit of the Group for the year ended December 31, 2007 and had 326 employees at December 31, 2007.

Markets

Markets offers full service brokerage in bonds, equities, foreign exchange and derivatives, as well as providing money market loans and financing of securities. The principal customers of Markets, which are both Icelandic and international, are institutional investors, larger corporates and banks.

The Bank handled 6.56% of the turnover on OMX Nordic Exchange Iceland in September 2007, giving the Bank the top position in terms of total market share for the first time. Based on year-to-date turnover, the Bank is the second largest broker on OMX Nordic Exchange Iceland with a market share of 6.20%.

Markets generated 23.6% of revenues and 21.2% of pre-tax profit of the Group for the year ended December 31, 2007 and had 312 employees at December 31, 2007.

Finance

Our Finance Division includes the Treasury and Risk Management groups. Treasury is responsible for the Bank's funding and interest rate management, as well as proprietary trading in currencies and securities. As of January 2006, Treasury was split into two departments, International Funding and Interbank Markets. International Funding is responsible for long-term funding in foreign currencies, the Bank's funding and liquidity policy, liquidity bond portfolio and correspondent banking. Interbank Markets is responsible for interest rate management, short term funding, ISK funding and proprietary trading in currencies and bonds. Proprietary trading in equities was assigned to CIB as of January 2006.

Treasury is responsible for the Bank's market making activities in the Icelandic financial markets. This includes market making in foreign exchange, money market bonds and other interest rate products. Treasury also is responsible for managing the foreign exchange risk and interest rate risk of the parent company based on limits set out by Risk Management.

Treasury absorbed 2.2% of revenues and 1.7% of pre-tax profit for the Group for the year ended December 31, 2007 and had 483 employees at December 31, 2007.

Lending

We have endeavored to diversify our loan portfolio to minimize the risk in lending and we generally require our customers to provide collateral and financial covenants, given the nature of the financing and the inherent risk involved. The collateral taken depends on the financial standing of the borrower, the nature of the financing, loan maturity and other circumstances regarding the lending decision. The main types of collateral consist of pledged assets, such as real estate, both commercial and private, fishing vessels, deposits and securities. Decisions regarding collateral are a part of the lending authorization and approval process.

Total lending by the Glitnir Group, including loans at fair value, amounted to ISK 2,253 billion as of December 31, 2007, increasing by 27% from ISK 1,773 billion as of December 31, 2006. Loans and leasing contracts to customers amounted to ISK 1,975 billion or 88% of total lending as of December 31, 2007. Real growth in loans and leasing contracts to customers for the year ended December 31, 2007 was approximately 24%. Corporate lending accounted for ISK 1,456 billion as of December 31, 2007, or 74% of loans and leasing contracts to customers, while household lending accounted for ISK 432 billion, or 22%.

The increase in lending in 2007 was primarily in corporate lending to major clients through the Corporate & Investment Banking division, which operates internationally, and the Bank's Icelandic Corporate division. By far the largest individual sector is services, which at December 31, 2007 accounted for over ISK 1,324 billion, or approximately 59% of the Bank's total loan portfolio. The services sector is fairly diversified and in addition to traditional service companies includes holding companies with a diverse range of investments. The other niche that the Bank focuses on is well diversified and at December 31, 2007 accounted for approximately 25% of the Bank's total loan portfolio.

Loans to foreign parties and lending by subsidiaries abroad amounted to ISK 1,245 billion at December 31, 2007, or 55% of total lending to customers.

At December 31, 2005, approximately 70% by principal amount of loans made by the Bank were denominated in foreign currency, compared to approximately 75% at December 31, 2006 and 79% at December 31, 2007. See "Selected Statistical Data".

Shareholders

At February 4, 2008, we had approximately 11,800 shareholders. The largest shareholder was FL Group Holding Netherlands B.V., holding 17.7% of the outstanding share capital. The next 20 largest shareholders are principally institutional investors and pension funds holding 61.6% of the outstanding share capital.

The table below shows our ten largest shareholders as of February 4, 2008.

	Percentage Ownership
FL Group Holding Netherlands B.V.	17.7
FL GLB Holding B.V.	13.1
Thattur International ehf.	7.0
Glitnir banki hf.	5.4
Saxbygg Invest ehf. (investment company)	5.0
Jötunn Holding ehf. (investment company)	4.8
LÍ-Hedge (an entity owned by Landsbanki Íslands hf.)	4.6
Stím ehf.	4.3
GLB Hedge	2.8
Salt Investments ehf. (investment company).....	2.3
Total	67.0

Competition

We operate in a financial market that has been changing rapidly in recent years, with increased competition and competitors that are increasing in strength. We compete with other banks and financial services firms in providing banking, capital markets and advisory services. Internationally, we compete with banks and financial services firms of varying sizes and geographic scope. In Iceland, our principal competitors are Kaupthing Bank hf., Landsbanki Íslands hf. and the Icelandic savings banks. In Norway, our principal competitor is DnBNor. Other competitors in Norway include Fokus Bank, Nordea, the Sparebank 1 Group and a number of local Sparebanks, as well as Svenska Handelsbanke SEB and Skandiabanken, a bank focused on internet banking.

The Bank monitors market developments closely and continues to take advantage of any potential opportunities as and when they arise. Both domestic and foreign competitors provide financial services that have affected the Bank's net interest margin and require the Bank to be internationally competitive. Other domestic competitors include Straumur-Burðarás and the Housing Financing Fund. Competition in Iceland from foreign banks remains limited. There is always a risk of new entrants to the market, or that smaller competitors may merger and increase in strength. Competition may intensify in selected sectors, or in the market as a whole.

Credit Ratings

Our credit ratings are important to our business. Our credit ratings directly affect our access to the capital markets and our cost of funding. We are rated by the international rating companies Fitch, Moody's, and S&P.

In March 2006, we obtained a long-term debt rating from S&P of "A-" and a short-term debt rating of "A-2" with a stable outlook. S&P has affirmed the ratings several times since then but in April 2008 downgraded our long-term debt rating to "BBB+" with a negative outlook.

In February 2001, we obtained a long-term debt rating from Fitch of "A" and a short-term debt rating of "F1" with a stable outlook. Fitch has affirmed the ratings several times since then but in April 2008 placed us on Rating Watch Negative.

Moody's has been rating our debt since 1999, when we obtained a long-term debt rating of "A3" and a short-term debt rating of "P-2". We were upgraded to "A2/P-1" with a stable outlook in June 2000 and again in May 2002 to "A1/P-1" with a stable outlook. Due to changes in rating methodology at Moody's we were upgraded to "Aaa/P-1" with a stable outlook in February 2007 but downgraded shortly thereafter to "Aa3/P-1" with a stable outlook once the methodology was revised again. Moody's affirmed

our ratings in May 2007 following changes in our senior management. We were downgraded to “A2/P-1” with a stable outlook in February 2008 mainly due to Moody’s concern over our asset quality, in particular our high single-name exposures and related party lending in a weakened Icelandic credit environment.

Each of these ratings is current as of the date of this offering circular.

Name Change

On March 11, 2006, the Bank announced a change in its brand name from Íslandsbanki to Glitnir, at the same time adopting a new logo. The Bank’s subsidiaries and offices in five countries also operate under the Glitnir brand. The legal name was changed to Glitnir banki hf. by a shareholder’s meeting on March 28, 2006.

Legal Status and Legislative Background

The Bank is a public limited company incorporated in Iceland and operating under Icelandic law. The Bank was incorporated on May 15, 2000 for an unlimited duration. The Bank is registered with the Registrar of Companies in Iceland and its registration number is 550500-3530.

The operations of the Bank are subject to the provisions of Act no. 2/1995 on Public Limited Companies and Act on Financial Undertakings No. 161/2002. The Bank is authorized to provide all financial services stipulated in the latter Act as further specified in the Articles of Association of the Bank, which means that it is subject to all EU directives on commercial banks and savings banks and its activities are under the supervision of the Icelandic Financial Supervisory Authority.

Litigation

Although companies within the group are involved in a number of claims and disputes in the ordinary course of business, we are not involved in any claims or disputed which we believe could have a material adverse effect on our business, financial condition or results of operations taken as a whole.

Property, Plant and Equipment

We own the majority of our facilities.

Employees

We believe that one of our principal competitive strengths is the quality and dedication of our employees. In 2007, we had an average number of employees of 1,977. At December 31, 2007 we had 2,248 employees, of which 1,293 were in Iceland and 955 were abroad.

MANAGEMENT

Board of Directors

The Annual Shareholders' Meeting elects the board of directors which consists of seven members and seven deputies. The board of directors appoints our chief executive officer ("CEO") and internal auditor. The CEO appoints the managing directors.

The members of the board of directors are as follows:

Name	Title
Þorsteinn M. Baldvinsson	Chairman
Jón Sigurðsson	Vice-Chairman
Hans Kristian Hustad	Member of the Board
Sigurður G. Guðjónsson	Member of the Board
Kristín Edwald	Member of the Board
Haukur Guðjónsson	Member of the Board
Björn Ingi Sveinsson	Member of the Board

Þorsteinn M. Baldvinsson (Chairman). Mr. Baldvinsson was born on October 10, 1952. He is one of the founders of Samherji Ltd., a leading seafood company in Iceland, for which he has served as Chief Executive Officer since 1983. He currently serves as Chairman of Sildarvinnslan Ltd. (SVN) and is a member of the board of directors of Tryggingamiðstöðin Ltd. (TM), as well as a number of other companies and organizations. Mr. Baldvinsson acquired a master's certificate from the College of Navigation of Reykjavik in 1975 and graduated as a Civil Engineer from The Norwegian University of Science and Technology in 1980. He was first elected to the board of directors of Glitnir at the annual meeting in February 2008 and appointed Chairman by the board of directors.

Jón Sigurðsson (Vice Chairman). Mr. Sigurðsson was born on March 18, 1978. He joined FL Group hf. as managing director in September 2005 and as Deputy Chief Executive Officer in December 2006. On December 4, 2007, Mr. Sigurðsson was appointed Chief Executive Officer of FL Group hf. Prior to joining FL Group hf., he worked at Landsbanki Íslands hf. and Bunadarkbanki Íslands hf. (now Kaupthing Bank hf.). Mr. Sigurðsson received his B.Sc. in Business Administration from Reykjavík University in 2001. He is a member of the board of directors of Icelandair Group, Tryggingamiðstöðin Ltd. (TM) and Hitaveita Suðurnesja hf. Mr. Sigurðsson was first elected to the board of directors of Glitnir at the annual meeting in February 2006.

Hans Kristian Hustad (Member of the Board). Mr. Hustad was born on May 30, 1954. He serves as Chairman of Booker Ltd. and is a member of the board of directors of Baugur Group, Hamleys Ltd. and Wyevald Ltd. Mr. Hustad studied finance and logistics at universities in Norway and Sweden and has held leading positions in Nora Industrier AS, Orkla ASA and Reitan Narvesen ASA. He was first elected to the board of directors of Glitnir at the annual meeting in February 2008.

Sigurður G. Guðjónsson (Member of the Board). Mr. Guðjónsson was born on November 8, 1951. He serves as Chairman of Farice hf., Farice ehf. and Sökkull ehf. Mr. Guðjónsson also maintains his own law practice which he has run since 1985 in Reykjavík, Iceland. He holds a Cand. Juris degree from the University of Iceland and is admitted to practice before the District Courts of Iceland and the Supreme Court of Iceland. Mr. Guðjónsson was first elected to the board of directors of Glitnir at the annual meeting in February 2008.

Kristín Edwald (Member of the Board). Ms. Edwald was born on April 15, 1971. She serves as a member of the board of directors of Lex ehf. and Ríkisútvarp ohf. Ms. Edwald also is a senior partner

at Lex Law Offices in Iceland, where she began working in August 2002 and became partner in January 2004. Prior to joining Lex Law Officers, she worked at Logos Legal Services from 1997 to 2000 and at the Prosecution of Economic Crime Division of the National Commissioner of Police of Iceland from 2000 to 2002. Ms. Eswald was admitted to practice before the District Courts of Iceland in January 1998 and was admitted to practice before the Supreme Court of Iceland in May 2005. She graduated from the Faculty of Law at the University of Iceland in 1997. Ms. Eswald was first elected to the board of directors of Glitnir at the annual meeting in February 2008.

Haukur Guðjónsson (Member of the Board). Mr. Guðjónsson was born on October 20, 1966. He is a licensed real estate and ship broker, as well as a licensed securities broker. In 2004, he joined Ingvar Helgason ehf., an Icelandic car distributor, as Chief Financial Officer, and since late 2006 has served as its Chief Executive Officer. Prior to joining Ingvar Helgason ehf., Mr. Guðjónsson worked as an independent real estate and ship broker. He currently is an alternate member of the board of directors of the Icelandic Federation for Motor Trades and Repairs. Mr. Guðjónsson was first elected to the board of directors of Glitnir at the extraordinary shareholders meeting in April 2007 and was then elected as a reserve member at the annual meeting in February 2007. He rejoined the board of directors in April 2008.

Björn Ingi Sveinsson (Member of the Board). Mr. Sveinsson was born on November 26, 1951. He holds a Civil Engineering degree from the University of Iceland and a Master of Engineering degree from the University of California at Berkeley. In 2005, Mr. Sveinsson was appointed Chief Executive Officer of Saxbygg Investments ehf. Prior to joining Saxbygg Investments ehf., he was Chief Executive Officer of SPH Savings Bank, Chief City Engineer for the City of Reykjavík, Chief Executive Officer of Hönnun Consulting Engineers and Chief Executive Officer of Silvertown ASA/Silfurtún hf. Mr. Sveinsson also has worked as a consultant in structural and seismic engineering in Iceland and California. He currently serves as Chairman and/or Board Member of the following companies: Austurbraut ehf., Ferðaskrifstofa Íslands/Exit ehf. (Iceland Travel), Glitnir Real Estate Fund hf., Steni AS (Norway), Hadley Homes Holdings Ltd., Ice-Invest Berlin GmbH, London Property Holdings plc, Saxbygg Holding BV, Saxbygg Invest BV and the Technical College of Hafnarfjörður. Mr. Sveinsson has previously served as Chairman and/or Board Member of a number of companies, including the Association of Icelandic Savings Banks, Icebank, the Icelandic Association of Consulting Engineers, the Iceland – China Trade Council, JiFu Pulp Moulding Company Ltd. (Jilin, China), Loftmyndir ehf. (Aerial Photography) and VBS Investment Bank. He was first elected to the board of directors of Glitnir at the extraordinary shareholders' meeting in April 2007.

The reserve members of the board of directors are as follows:

Name	Title
Kristinn S. Bjarnason	Reserve Member of the Board
Jón Björnsson	Reserve Member of the Board
Árni Harðarson	Reserve Member of the Board
Steingrímur H. Pétursson	Reserve Member of the Board
Bernhard Nils Bogason	Reserve Member of the Board
Gunnar Jónsson	Reserve Member of the Board

Kristinn Bjarnason (Reserve Member of the Board). Mr. Bjarnason was born in March 1964. He earned a Cand. Juris degree from the University of Iceland in 1989. Mr. Bjarnason worked as an advocate for Almenna lögfræðistofan from 1989 to 1995. He started his own law firm named KB lögmánnastofa in 1996 and has served as Advocate of the Supreme Court of Iceland since 1998. Mr. Bjarnason is a member of the board of directors of Athús ehf., LHF ehf., Atland fjárfesting ehf., Lagastoð lögfræðipjónusta ehf. and KB lögmánnastofa ehf. He was first elected as a reserve member of the board of directors of Glitnir at the extraordinary shareholders' meeting in April 2007.

Jón Björnsson (Reserve Member of the Board). Mr. Björnsson was born on January 16, 1966. He earned a Cand. Oecon degree from the University of Iceland in 1991. Mr. Björnsson worked as Marketing Manager for Icelandair from 1991 to 1994 and as a consultant for Hagvangur hf. from 1994 to 1996. He began working in the financial sector, first with the Savings Bank of Hafnarfjörður in 1996, and then with the Savings Bank of Akureyri as General Manager (Bank Manager) from 1997 to 2006. From 1997 to 2006, Mr. Björnsson served as a board member for several companies in the financial sector on behalf of the Savings Bank of Akureyri. He is now General Manager for Lífsval ehf., an Icelandic real estate company. Mr. Björnsson was first elected as a reserve member of the board of directors of Glitnir at the annual meeting in February 2007.

Árni Harðarson (Reserve Member of the Board). Mr. Harðarson was born on August 5, 1966. He earned a degree in law from the University of Iceland in 1993 and has been a member of the Icelandic Bar Association since 1998. Mr. Harðarson serves as a member of the board of directors of Reykjavík University and various subsidiaries of Salt Investments, for which he also serves as Chief Executive Officer. Prior to that he served as Vice President of Tax and Structure for Actavis Group hf. and as Head of Tax and Legal for Deloitte hf. Mr. Harðarson was first elected as a reserve member of the board of directors of Glitnir at the annual meeting in February 2008.

Bernhard Nils Bogason (Reserve Member of the Board). Mr. Bogason was born on July 6, 1963. He earned a Cand. Jur. degree from the University of Iceland in 1993. Mr. Bogason became Managing Director of Legal and Tax of FL Group hf. in 2006. Prior to joining FL Group hf., he was a partner and the head of the tax department of KPMG hf. Mr. Bogason served as a Deputy Judge in the District Courts of Iceland from 1993 to 1995, and operated his own law office from 1996 to 1999. He was first elected as a reserve member of the board of directors of Glitnir at the annual meeting in February 2008.

Gunnar Jónsson (Reserve Member of the Board). Mr. Jónsson was born on December 7, 1960. He earned a Cand. Juris degree from the University of Iceland in 1985 and a LL.M degree from the Cleveland Marshall College of Law in 1992. Mr. Jónsson also is admitted to practice before the District Courts of Iceland and the Supreme Court of Iceland. He serves as member of the board of director of a number of companies, including Icelandic subsidiaries of several multi-national corporations. Mr. Jónsson also is a partner of Jonsson & Hall (legal services) which he co-founded in 1993. Prior to that he was an associate with Lögmenn, the predecessor of Jonsson & Hall. Mr. Jónsson also has advised the Icelandic government in the drafting of several bills of legislation and has served as Chairman of the Licensing Committee for International Trading Companies. He was first elected as a reserve member of the board of directors of Glitnir at the annual meeting in February 2008.

Steingrímur Halldór Pétursson (Reserve Member of the Board). Mr. Pétursson was born on August 16, 1972. He graduated with a business degree from the University of Iceland in 2001. Mr. Pétursson has served as Chief Executive Officer of Sjöfn Investment Company hf. since 2006. He also has served as Chief Financial Officer of Eimskipafélag Íslands hf. from 2005 to 2006, Sjöfn Investment Company from 2001 to 2005 and KPMG hf. from 1994 to 1999. He was first elected to the board of directors of Glitnir at the extraordinary shareholders meeting in April 2007 and then as a reserve member at the annual meeting in February 2008.

The business address of these directors is Glitnir banki hf., Kirkjusandur 2, 155 Reykjavík, Iceland.

No director has any actual or potential conflict of interest between his or her duties to the Bank and his or her private interests or other duties.

Audit and Compensation Committees

Our board of directors has formed an audit committee and a compensation committee. Each committee consists of three board members elected by the board of directors at its first meeting after the general meeting. The majority of the members of each committee consist of board members that are

independent based on corporate governance guidelines issued collectively by the Icelandic Chamber of Commerce, SA-Confederation of Icelandic Employers and the OMX Iceland. The board of directors elects the chairman of each committee separately. In addition, the rules regarding qualification for committee membership are the same as those regarding board membership.

The responsibilities of the audit committee include the following:

- Supervising the financial position of the Bank;
- Evaluating the internal surveillance and risk management systems of the Bank;
- Evaluating managers' reports regarding the Bank's financial situation and prospects;
- Supervising compliance with relevant laws and regulations;
- Preparing for the election of the Bank's auditors;
- Providing access to the Bank's auditors;
- Evaluating audit reports; and
- Evaluating the performance of the Bank's auditors.

The responsibilities of the compensation committee include the following:

- Negotiating the remuneration of the CEO;
- Establishing the Bank's compensation policy; and
- Formulating the incentive-based compensation policy for the Bank's managers and employees.

Each of the committees proposes its own separate rules of practice, subject to confirmation by the board of directors.

Senior Management

The Executive Board consists of the following eleven members:

Lárus Welding – Chief Executive Officer. Mr. Welding was appointed Chief Executive Officer of the Bank in May 2007. He first joined the Bank (then the Icelandic Investment Bank FBA hf.) in 1999. In 2003, Mr. Welding joined Landsbanki Íslands hf. as General Manager for the London Branch with operations primarily in Corporate and Investment Banking. He previously worked for the accounting firm, JHR ehf., and the Central Bank of Iceland. Mr. Welding holds a degree in business administration from the University of Iceland, is a licensed securities broker and is a graduate in corporate finance from the UK Securities Institute.

Alexander K. Guðmundsson – Chief Financial Officer and Executive Vice President, Finance Division and Risk Management. Mr. Guðmundsson was appointed to the Executive Board in May 2007. He joined the Bank (then the Icelandic Investment Bank FBA hf.) in 1998 as Relationship Manager in Corporate Banking. Mr. Guðmundsson took on the role of Deputy Country Manager for the Bank in Norway in 2005 and played a key role in the successful expansion of the Bank in Norway. During his ten years with the Bank, he has specialized in credit control and risk management related to large project finance assignments. Prior to joining the Bank, he worked with the global Swedish industrial

conglomerate, AGA, both in Iceland and Sweden. Mr. Guðmundsson holds a Cand. Econ degree from the University of Iceland.

Kristinn Þór Geirsson – Chief Operating Officer and Executive Vice President. Mr. Geirsson was appointed to the Executive Board in April 2008 after having been elected to the board of directors of Glitnir at the annual meeting in February 2008. He previously served as Active Chairman of Ingvar Helgason ehf. and Bifreiðar og landbúnaðarvétel hf., Managing Director of Sund ehf., Chief Executive Officer of Ingvar Helgason ehf. and Chief Executive Officer of Íslenska Sjóvarpsfélagið hf. Mr. Geirsson received a Cand. Econ degree from the University of Iceland and a MBA degree from the Wharton School of the University of Pennsylvania.

Magnús Bjarnason – Executive Vice President, International Banking. Mr. Bjarnason was appointed to the Executive Board in February 2007. He joined the Bank in 2005 as Managing Director of the Asia and America Region in Corporate Banking. Prior to joining the Bank, Mr. Bjarnason served as minister counselor and deputy chief of mission at the Icelandic Embassy in China, as acting consul general in New York and as trade commissioner for Iceland in the United States and Canada. He also has worked previously in the banking and airline industries. Mr. Bjarnason holds an MBA degree from Thunderbird, the Garvin School of International Management.

Morten Bjørnsen – Executive Vice President, Nordic Banking Operations. Mr. Bjørnsen was appointed to the Executive Board in August 2007. Prior to joining the Bank, he was a member of the senior management of Fokus Bank ASA from 1999 to 2007, heading operations in Western Norway and later activities in Oslo and Eastern Norway. For several years he served as Executive Vice President and Head of Corporate and Institutional Banking, with nationwide responsibility for SME's, large corporates, shipping/offshore industry, structured finance and financial institutions. From 1986 to 1999, Mr. Bjørnsen held various positions with DnB NOR ASA focusing on the energy and large corporate segments in Norway and the United States. He holds an MBA degree from the Norwegian School of Management.

Birna Einarsdóttir – Executive Vice President, Iceland Commercial Banking. Ms. Einarsdóttir was appointed to the Executive Board in February 2007. She first joined the Bank (then Iðnaðarbankinn) in 1987 and served as a director of marketing and sales. After working for the Royal Bank of Scotland for six years, Ms. Einarsdóttir rejoined the Bank in 2004. She has headed the Bank's marketing and sales teams and corporate development unit, directed the Bank's successful re-branding in 2006 and became the head of the commercial bank in June 2007. She holds a B.Sc. degree in business administration from the University of Iceland and an MBA degree from Edinburgh University.

Helgi Anton Eiríksson – Executive Vice President, Europe. Mr. Eiríksson was appointed to the Executive Board in February 2007. He joined the Bank in 2004 as Global Seafood Director with responsibility for overall management of the Bank's international seafood activities. In January 2007, he became Executive Vice President for Investment Banking. Prior to joining Glitnir, Mr. Eiríksson worked with Coldwater Seafood (UK) Ltd. as a director within the executive management team from 1995 to 2004. He holds a Cand. Econ degree in business administration from the University of Iceland.

Sveinung Hartvedt – Executive Vice President Capital Markets and Corporate Finance in Norway and Sweden. Mr. Hartvedt was appointed to the Executive Board in May 2007. Prior to joining the Bank, Mr. Hartvedt was Head of Equities for DnB NOR ASA for ten years. Previously he worked as Head of Sales and Deputy Chief Executive Officer for FIBA Nordic Securities AS. From 1989 to 1994, Mr. Hartvedt was a broker and served as Head of Research at Carnegie ASA. He began his professional career as a journalist for the leading Norwegian business magazine, Kapital. Mr. Hartvedt holds a Bachelor of Commerce degree (Siviløkonom) from the Norwegian School of Economics and Business Administration in Bergen, Norway.

Gísli Heimisson – Executive Vice President, Shared Services and IT. Mr. Heimisson was appointed to the Executive Board in May 2007. He joined the Bank in 2005 as Executive Director for the IT department and that same year he became Managing Director for the IT department. Mr. Heimisson was appointed Chief Information Officer for the Group in March 2007. Prior to joining the Bank, he was Chief

Executive Officer of Mentis hf., a software company which he co-founded in 1999. He was Executive Director in Landsbanki Íslands' IT department and Head of IT in Landsbréf hf., an Icelandic trading and asset management company. Mr. Heimisson holds a master's degree in civil engineering from Denmark's Tekniske Universitet.

Guðmundur Hjaltason – Executive Vice President Iceland-Corporate Banking. Mr. Hjaltason was appointed to the Executive Board in October 2006. Prior to joining the Bank, he served as the Chief Executive Officer of Ker hf., an Icelandic investment company, from 2003 to 2007. He was the Chief Financial Officer of Samskip hf., an Icelandic shipping and logistics company, from 1999 to 2003. Mr. Hjaltason also was a partner in an international accounting firm in Iceland from 1987 to 1999. He holds a degree in business administration from the University of Iceland and is a chartered accountant.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

Outstanding loans to our associated companies amounted to ISK 12,555 million at December 31, 2005, ISK 13,325 million at December 31, 2006 and ISK 16,890 million at December 31, 2007. In addition, we have granted loans to our directors and senior management and their immediate family members amounting to ISK 3,239 million at December 31, 2005, ISK 5,726 million at December 31, 2006 and ISK 1,832 million at December 31, 2007. All loans granted to our directors and senior management and their immediate family members were granted in the ordinary course of business. Loans granted to our directors and senior management and their immediate family members were granted on terms and conditions similar to those loans granted to our other customers.

DESCRIPTION OF THE NOTES

This section describes the general terms and conditions of the notes. We will describe the particular terms of the notes we sell in a pricing supplement. The terms and conditions stated in this section will apply to each note unless the note, the applicable pricing supplement, or an amendment or supplement to this offering circular indicates otherwise.

As used herein, “series” means each original issue of notes together with any further issues that are denominated in the same currency and that have the same maturity date or redemption month, as the case may be, interest basis and interest payment dates, if any, and the terms of which, except for the issue date or interest commencement date and the issue price, are otherwise identical, including whether the notes are listed. The expressions “notes of the relevant series” and “holders of notes of the relevant series” and related expressions shall be construed accordingly.

To the extent the supplement or supplements for a particular series of notes specifies other terms and conditions that are in addition to, or inconsistent with, these terms and conditions, the new terms and conditions shall apply to the series of notes.

Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Amended and Restated Fiscal and Paying Agency Agreement dated as of April 23, 2008, between us and the Fiscal and Paying Agent, as amended and restated (the “Fiscal and Paying Agency Agreement”), and the applicable pricing supplement, which are binding on them. The statements in this description are summaries of, and are subject to, the detailed provisions of the Fiscal and Paying Agency Agreement. Copies of the Fiscal and Paying Agency Agreement, and the supplement or supplements for the notes of any series, are available at the principal office of the fiscal and paying agent.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system, approved by us and the fiscal and paying agent.

Types of Notes

We may issue:

- “fixed rate notes” - notes that bear interest at a fixed rate;
- “floating rate notes” - notes that bear interest determined by reference to one or more interest rate bases, or by reference to one or more interest rate formulas;
- “zero coupon notes” - notes that bear no interest;
- “index linked notes” - notes that provide that the rate of return, including the principal, premium (if any), interest, or other amounts payable (if any), is determined by reference, either directly or indirectly, to the price or performance of one or more securities, debt obligations or a basket of debt obligations, currencies or composite currencies, commodities, interest rates, stock indices, or other indices or formulae, in each case as specified in the applicable pricing supplement;
- “dual currency notes” - notes on which we will have the option of making each scheduled payment of principal and interest due on such notes in either the currency in which the face amount thereof is specified in the applicable pricing supplement or another currency specified therein;

- “physical delivery notes” - notes on which either an amount of principal and/or interest is payable by reference to an underlying equity, bond, security or other asset as may be specified in the applicable pricing supplement, the “underlying assets”;
- “variable coupon amount notes” - notes that bear interest at a variable rate;
- “discount notes” - notes that have an issue price that is less than 100% of the principal amount by more than a percentage equal to the product of 0.25% and the number of full years to the stated maturity of such notes, and which may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance;
- “amortizing notes” - notes that provide for payments of principal and interest to be made in installments over the term of such notes; and
- any combination of the foregoing or, subject to all applicable laws and regulations, any other kind of note specified in the applicable pricing supplement.

Whenever dual currency notes or index linked notes bear interest on a fixed or floating rate basis, or on a non-interest-bearing basis, the provisions relating to fixed rate notes, floating rate notes and zero coupon notes, respectively, shall apply to such dual currency notes or index linked notes, where the context so admits.

The pricing supplement for each offering of notes will contain the terms of the offering and a specific description of the notes, including:

- the specific designation of the notes;
- the issue price;
- the principal amount;
- the issue date;
- the denominations or minimum denominations;
- whether the note is a fixed rate note, floating rate note, index linked note, dual currency note, physical delivery note, variable coupon amount note, discount note, or amortizing note;
- the method of determining and paying interest, including any applicable interest rate basis or bases, any initial interest rate, any interest reset dates, any payment dates, any index maturity (as defined below), and any maximum or minimum rates of interest;
- the method for the calculation and payment of principal, premium (if any), interest and other amounts payable (if any);
- the maturity date;
- if applicable, the circumstances under which the note may be redeemed at our option or repaid at your option prior to the maturity date set forth on the face of the note; and
- any other terms of the note which are different from those described in this offering circular.

Status of Senior Notes

The senior notes will constitute our direct, unconditional and (subject to the provisions set forth under “Negative Pledge” below) unsecured obligations and will rank equally, without any preference among themselves and at least equally with all our other present and future unsecured, unconditional and senior indebtedness, other than statutorily preferred exceptions.

Status of Subordinated Notes

The subordinated notes will constitute our direct, unconditional, unsecured and subordinated obligations without any preference among themselves. The rights of holders of subordinated notes will be subordinated in accordance with and for purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act on Financial Undertakings No. 161/2002 (the “Act on Financial Undertakings”) of the Icelandic Parliament and accordingly, on our insolvency or voluntary or involuntary liquidation, the subordinated notes rank in right of payment:

- (1) after payment of all our obligations which are not expressed to be subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act on Financial Undertakings (or any provision in any other Act of the Icelandic Parliament which modifies or replaces those provisions);
- (2) at least *pari passu* with all our other obligations (as defined below) which are expressed to be subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act on Financial Undertakings (or any provision in any other act of the Icelandic Parliament which modifies or replaces those provisions); and
- (3) before the refund of any of our share capital (*hlutafe*) and/or comparable capital and reserves (*sambaerilegt eigid fe*).

So long as any of the subordinated notes remain outstanding, we will not create any subordinated obligation other than in accordance with and the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act on Financial Undertakings or any provision in any other act of the Icelandic Parliament which modifies or replaces those provisions. The provisions of this subsection will be governed by, and construed in accordance with, Icelandic law.

Certain Definitions

“Business day” means a day which is both:

- (1) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York, New York, London, England and Reykjavik, Iceland and any additional principal financial center (as defined below) specified in the applicable pricing supplement; and
- (2) either (a) in relation to any sum payable in a specified currency (as defined below) other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial center of the country of the relevant specified currency (if other than London and any additional principal financial center and which if the specified currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (b) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System, or the “TARGET System”, is open, or a “TARGET Settlement Date”.

“Principal financial center” means, unless otherwise defined in any note, (1) the capital city of the country issuing the specified currency or (2) the capital city of the country to which the designated LIBOR currency relates, as applicable, except, that with respect to U.S. dollars, Australian dollars, pounds sterling, Canadian dollars, South African rand and Swiss francs, the principal financial center shall be New York City, Sydney and (solely in the case of the specified currency) Melbourne, London (solely in the case of the designated LIBOR currency), Toronto, Johannesburg and Zurich, respectively.

As used herein, “specified currency” means a currency issued and actively maintained as a country’s or countries’ recognized unit of domestic exchange by the government of any country and such term shall also include the euro, and “designated LIBOR currency” means the currency specified in the applicable pricing supplement as to which LIBOR shall be calculated or, if no such currency is specified in the applicable pricing supplement, U.S. dollars.

Interest

Interest on Fixed Rate Notes

Each fixed rate note bears interest on its outstanding amount from the interest commencement date at the rate per annum equal to the fixed rate of interest. Interest is payable semi-annually in arrears on the fixed interest payment dates in each year and on the maturity date. The first interest payment will be made on the fixed interest payment date next following the interest commencement date and, if the first anniversary of the interest commencement date is not a fixed interest payment date, will amount to the initial broken amount specified in the applicable pricing supplement. If the maturity date is not a fixed interest payment date, interest from and including the preceding fixed interest payment date, or the interest commencement date, to the maturity date will amount to the final broken amount. Except as provided in the applicable pricing supplement, the amount of interest payable on each fixed interest payment date in respect of the fixed interest period (as defined below) ending on such date will amount to the fixed coupon amount.

If interest is required to be calculated for a period ending other than on a fixed interest payment date, such interest shall be calculated by applying the fixed rate of interest to each specified denomination, multiplying such sum by the applicable day count fraction (as defined below), and rounding the resulting figure to the nearest sub-unit (as defined below) of the relevant specified currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention as determined by us in our sole discretion.

Unless otherwise specified in the applicable pricing supplement, interest on fixed rate notes will be computed on the basis of a 360-day year of twelve 30-day months.

“Fixed interest period” means the period from, and including, a fixed interest payment date, or the interest commencement date, to, but excluding, the next, or first, fixed interest payment date.

“Sub-unit” means, with respect to any currency other than the U.S. dollar, the lowest amount of that currency available as legal tender in the country of that currency and, with respect to the U.S. dollar, means one cent.

Interest on Floating Rate Notes

Interest Payment Dates

The supplement or supplements shall set forth which of the following business day conventions shall be applicable.

If the “FRN convention” is specified in the applicable pricing supplement, interest shall be payable in arrears on each date, each an “interest payment date”, that numerically corresponds to their issue

date or such other date as may be set forth in the applicable pricing supplement or, as the case may be, the preceding interest payment date, in the calendar month that is the number of months specified in the applicable pricing supplement after the month in which such issue date or such other date as aforesaid or, as the case may be, the preceding interest payment date occurred; provided that:

- (1) if there is no such numerically corresponding day in the calendar month on which an interest payment date should occur, then the relevant interest payment date will be the last day that is a business day in that month;
- (2) if an interest payment date would otherwise fall on a day that is not a business day, then the relevant interest payment date will be the first following day that is a business day unless that day falls in the next calendar month, in which case it will be the first preceding day that is a business day; and
- (3) if such issue date or such other date as aforesaid or, as the case may be, the preceding interest payment date occurred on the last day in a calendar month which was a business day, then all subsequent interest payment dates will be the last day that is a business day in the month that is the specified number of months after the month in which such issue date or such other date as aforesaid or, as the case may be, the preceding interest payment date occurred.

If the “modified following business day convention” is specified in the applicable pricing supplement, interest shall be payable in arrears on such dates, each an “interest payment date”, set forth in the applicable pricing supplement; provided that, if any interest payment date would otherwise fall on a date that is not a business day, the relevant interest payment date will be the first following day that is a business day unless that day falls in the next calendar month, in which case the relevant interest payment date will be the first preceding day that is a business day.

Each period beginning on, and including, such issue date or such other date as aforesaid and ending on, but excluding, the first interest payment date and each period beginning on, and including, an interest payment date and ending on, but excluding, the next succeeding interest payment date is herein called an “interest period”.

Rate of Interest

Interest on floating rate notes will be determined by reference to the applicable interest rate basis or bases, which may, as described below, include:

- the CD Rate;
- the CMT Rate;
- the Commercial Paper Rate;
- the Eleventh District Cost of Funds Rate;
- EURIBOR;
- the Federal Funds Rate;
- LIBOR;
- the Prime Rate;
- the Treasury Rate; or

such other interest rate basis or bases or interest rate formula as may be specified in the applicable pricing supplement.

Each floating rate note will have an interest rate basis or formula, which may be ISDA Determination or Screen Rate Determination, as described below. The interest rate payable from time to time on floating rate notes will be determined in the manner specified in the applicable pricing supplement.

ISDA Determination. If ISDA Determination is specified in the applicable pricing supplement as the manner in which the interest rate is to be determined, the interest rate for each interest period will be the relevant ISDA rate plus or minus the margin, if any, as indicated in the applicable pricing supplement.

“ISDA rate” for an interest period means a rate equal to the floating rate that would be determined by the calculation agent under an interest rate swap transaction if the calculation agent were acting as calculation agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as of the issue date of the first series of the relevant notes (the “ISDA Definitions”) and under which:

- the floating rate option is as specified in the applicable pricing supplement;
- the designated maturity is a period specified in the applicable pricing supplement; and
- the relevant reset date is the first day of that interest period if the applicable floating rate option is based on the London inter-bank offered rate (“LIBOR”) or on the Euro zone inter-bank offered rate (“EURIBOR”) for a currency;

unless otherwise specified in the applicable pricing supplement.

For purposes of this paragraph, “floating rate”, “calculation agent”, “floating rate option”, “designated maturity”, “margin” and “reset date” have the meanings given to those terms in the ISDA Definitions.

Screen Rate Determination. If “Screen Rate Determination” is specified in the applicable pricing supplement as the manner in which the rate of interest is to be determined, the rate of interest for each interest period will be either:

- the offered quotation; or
- the arithmetic mean, rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards, of the offered quotations;

(expressed as a percentage rate per annum) for the reference rate or rates that appears or appear, as the case may be, on the relevant screen page of a commercial quotation service as at 11:00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the interest determination date in question plus or minus, as indicated in the applicable pricing supplement, the margin, if any, all as determined by the calculation agent. If five or more of such offered quotations are available on the relevant screen page, the highest, or, if there is more than one such highest quotation, one only of such quotations, and the lowest, or, if there is more than one such lowest quotation, one only of such quotations, shall be disregarded by the calculation agent for the purpose of determining the arithmetic mean, rounded as provided above, of such offered quotations.

The Fiscal and Paying Agency Agreement contains provisions for determining the interest rate if the relevant screen page is not available or if no such offered quotation appears or fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph. The applicable pricing supplement may, if agreed by the relevant dealers, set out such provisions in full.

Other. If the reference rate from time to time in respect of floating rate notes is specified in the applicable pricing supplement as being other than LIBOR or EURIBOR, the rate of interest in respect of such notes will be determined as provided in the applicable pricing supplement.

Determination of Rate of Interest and Calculation of Interest Amount

The calculation agent will, on or as soon as practicable after each date on which the rate of interest is to be determined, determine the rate of interest, subject to any minimum or maximum rate of interest specified in the applicable pricing supplement, and calculate the amount of interest payable on the floating rate notes in respect of each specified denomination for the relevant interest period. Each interest amount will be calculated by applying the rate of interest to the specified denomination, or if there is more than one, the lowest specified denomination, multiplying such sum by the “day count fraction” specified in the applicable pricing supplement and rounding the resulting figure to the nearest sub-unit of the relevant specified currency, one half of such a sub-unit being rounded upwards or otherwise in accordance with applicable market convention as determined by us in our sole discretion.

“Day count fraction” means, in respect of the calculation of an amount of interest for any interest period for a floating rate note:

- if “Actual/365” or “Actual/Actual ISDA” is specified in the applicable pricing supplement, the actual number of days in the interest period divided by 365, or, if any portion of that interest period falls in a leap year, the sum of (1) the actual number of days in that portion of the interest period falling in a leap year divided by 366; and (2) the actual number of days in that portion of the interest period falling in a non-leap year divided by 365;
- if “Actual/365 (Fixed)” is specified in the applicable pricing supplement, the actual number of days in the interest period divided by 365;
- if “Actual/365 (sterling)” is specified in the applicable pricing supplement, the actual number of days in the interest period divided by 365 or, in the case of an interest payment date falling in a leap year, 366;
- if “Actual/360” is specified in the applicable pricing supplement, the actual number of days in the interest period divided by 360;
- if “30/360”, “360/360” or “Bond Basis” is specified in the applicable pricing supplement, the number of days in the interest period divided by 360, the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months, unless (1) the last day of the interest period is the 31st day of a month but the first day of the interest period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (2) the last day of the interest period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month; and
- if “30E/360” or “Eurobond Basis” is specified in the applicable pricing supplement, the number of days in the interest period divided by 360, the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months, without regard to the date of the first day or last day of the interest period unless, in the case of an interest period ending on the maturity date, the maturity date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month.

Minimum and/or Maximum Interest Rate

If the applicable pricing supplement specifies a minimum interest rate for any interest period, then, if the rate of interest in respect of such interest period determined in accordance with the provisions

described above, as appropriate, is less than such minimum interest rate, the rate of interest for such interest period shall be such minimum interest rate.

If the applicable pricing supplement specifies a maximum interest rate for any interest period, then, if the rate of interest in respect of such interest period determined in accordance with the provisions described above, as appropriate, is greater than such maximum interest rate, the rate of interest for such interest period shall be such maximum interest rate.

Notification of Rate of Interest and Interest Amount

We will cause the rate of interest and each interest amount for each interest period and the relevant interest payment date to be notified to any stock exchange or relevant authority on which the relevant floating rate notes are for the time being listed or by which they have been admitted to listing and the notice to be published in accordance with “Notices” below as soon as possible after determination of the rate of interest and each interest amount, but in no event later than the fourth business day thereafter. Each interest amount and interest payment date so notified may subsequently be amended, or appropriate alternative arrangements made by way of adjustment, without prior notice in the event of an extension or shortening of the interest period. Any such amendment will be notified promptly to each stock exchange or other relevant authority on which the relevant floating rate notes are for the time being listed and to the noteholders in accordance with “Notices” below. For the purposes of this paragraph, “business day” means a day, other than a Saturday or a Sunday, on which commercial banks are open for business in New York, London and Iceland. The provisions discussed in this paragraph also will apply to index linked notes.

Certificates to be Final

All certificates, communications, determinations, calculations and decisions made by the fiscal and paying agent or, if applicable, calculation agent, shall, in the absence of manifest error, gross negligence or willful misconduct, be binding on us, the fiscal and paying agent, or, if applicable, the calculation agent and all noteholders, and, in the absence of gross negligence or willful misconduct as aforesaid, no liability to us or the noteholders shall attach to the fiscal and paying agent or, if applicable, the calculation agent, in connection with any such certificates, communications, determinations, calculations or decisions or the exercise or non-exercise by it of its powers, duties and discretions.

Zero Coupon Notes

If a zero coupon note becomes due and repayable prior to the maturity date and is not paid when due, the amount due and repayable shall be the amount determined in accordance with “Redemption and Purchase—Early Redemption Amounts” below, as its amortized face amount (as defined under “Early Redemption Amounts”). As from the maturity date, any overdue principal of such note shall bear interest at a rate per annum equal to the accrual yield specified in the applicable pricing supplement. Such interest shall continue to accrue, after as well as before any judgment, until the day on which all sums due in respect of such note up to that day are received by or on behalf of the holder of such note. Such interest will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each, and in the case of an incomplete month the actual number of days elapsed in that incomplete month or on such other basis as may be specified in the applicable pricing supplement.

Interest on Index Linked Notes and Physical Delivery Notes

For index linked notes and physical delivery notes, if applicable, for which the rate of interest and/or the amount of interest, whether on any interest payment date, fixed interest payment date, early redemption, maturity or otherwise, the rate of interest and/or the amount of interest shall be determined in accordance with the index and/or the formula or otherwise in the manner specified in the applicable pricing supplement.

Interest on Partly Paid Notes

For partly paid notes, other than partly paid notes that are zero coupon notes, interest will accrue as aforesaid on the paid-up nominal amount of such notes and otherwise as specified in the applicable pricing supplement.

Interest Payments

Interest will be paid subject to and in accordance with the provisions of “Payments” below. Interest will cease to accrue on each note, or, in the case of redemption of part of a note, that part of the note, on the due date for redemption thereof unless, upon due presentation thereof, payment of principal or the payment, and/or delivery of the physical delivery amount, if applicable, is improperly withheld or refused, in which event interest will continue to accrue, as well after as before any judgment, until whichever is the earlier of (1) the day on which all sums due in respect of such note up to that day are received by or on behalf of the holder of such note and (2) the day on which the fiscal and paying agent has notified the holder thereof, either in accordance with “Notices” below, or individually, of receipt of all sums due in respect thereof up to that date.

Calculation Agent

Upon request of the holder of any floating rate note, the “calculation agent” (as specified in the applicable pricing supplement) will disclose the interest rate then in effect and, if determined, the interest rate that will become effective as a result of a determination made for the next succeeding interest reset date with respect to such floating rate note. Unless otherwise specified in the applicable pricing supplement, the “calculation date”, if applicable, pertaining to any interest determination date will be the earlier of (1) the tenth calendar day after the interest determination date or, if such day is not a business day, the next succeeding business day or (2) the business day immediately preceding the applicable interest payment date or the maturity, as the case may be. The calculation agent will notify us of the interest rate that will become effective on the next succeeding interest reset date with respect to the floating rate note within four business days of the interest determination date.

Unless otherwise specified in the applicable pricing supplement, the calculation agent will determine each interest rate basis for the notes in accordance with the following provisions.

CD Rate

Unless otherwise specified in the applicable pricing supplement, “CD Rate” means, with respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to the CD Rate, a “CD Rate interest determination date”, the rate on such date for negotiable U.S. dollar certificates of deposit having the index maturity specified in the applicable pricing supplement as published in H.15(519) (as defined below) under the heading “CDs (secondary market)” or, if not so published by 3:00 P.M., New York City time, on the related calculation date, the rate on such CD Rate interest determination date for negotiable U.S. dollar certificates of deposit of the index maturity specified in the applicable pricing supplement as published in H.15 Daily Update (as defined below), or such other recognized electronic source used for the purpose of displaying such rate, under the caption “CDs (secondary market)”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the related calculation date, then the CD Rate on such CD Rate interest determination date will be calculated by the calculation agent and will be the arithmetic mean of the secondary market offered rates as of 10:00 A.M., New York City time, on such CD Rate interest determination date, of three leading nonbank dealers in negotiable U.S. dollar certificates of deposit in New York City (which may include the dealers or their affiliates) selected by the calculation agent for negotiable U.S. dollar certificates of deposit of major United States money center banks for negotiable certificates of deposit with a remaining maturity closest to the index maturity specified in the applicable pricing supplement in an amount that is representative for a single transaction in that market at that time; however, if the dealers so selected by the calculation agent are not quoting as

mentioned in this sentence, the CD Rate determined as of the CD Rate interest determination date will be the CD Rate in effect on the CD Rate interest determination date.

“Index maturity” means the period to maturity of the instrument or obligation with respect to which the related interest rate basis or bases will be calculated.

“H.15(519)” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System.

“H.15 Daily Update” means the daily update of H.15(519), available through the worldwide web site of the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/h15/update/>, or any successor site or publication.

CMT Rate

Unless otherwise specified in the applicable pricing supplement, “CMT Rate” means, with respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to the CMT Rate, a “CMT Rate interest determination date”, the rate displayed on the designated CMT Reuters page under the caption “. . . . Treasury Constant Maturities Federal Reserve Board Release H.15 Mondays Approximately 3:45 P.M.”, under the column for the designated CMT maturity index (as defined below) for (i) if the designated CMT Reuters page is 7051 or FRBCMT, the rate on such CMT Rate interest determination date and (ii) if the designated CMT Reuters page is 7052 or FEDCMT, the weekly or monthly average, as specified in the applicable pricing supplement, for the week or the month, as applicable, ended immediately preceding the week or the month, as applicable, in which the related CMT Rate interest determination date falls. If such rate is no longer displayed on the relevant page or is not so displayed by 3:00 P.M., New York City time, on the related calculation date, then the CMT Rate for such CMT Rate interest determination date will be such treasury constant maturity rate for the designated CMT maturity index as published in H.15(519). If such rate is no longer published or is not so published by 3:00 P.M., New York City time, on the related calculation date, then the CMT Rate on such CMT Rate interest determination date will be such treasury constant maturity rate for the designated CMT maturity index (or other United States Treasury rate for the designated CMT maturity index) for the CMT Rate interest determination date with respect to the interest reset date as may then be published by either the Board of Governors of the Federal Reserve System or the U.S. Department of the Treasury that the calculation agent determines to be comparable to the rate formerly displayed on the designated CMT Reuters page and published in H.15(519). If such information is not so provided by 3:00 P.M., New York City time, on the related calculation date, then the CMT Rate on the CMT Rate interest determination date will be calculated by the calculation agent and will be a yield to maturity based on the arithmetic mean of the secondary market offered rates as of approximately 3:30 P.M., New York City time, on such CMT Rate interest determination date reported, according to their written records, by three leading primary U.S. government securities dealers in New York City (which may include the dealers or their affiliates), each, a “reference dealer”, selected by the calculation agent (from five such reference dealers selected by the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for the most recently issued direct noncallable fixed rate obligations of the United States, or “treasury notes”, with an original maturity of approximately the designated CMT maturity index and a remaining term to maturity of not less than such designated CMT maturity index minus one year. If the calculation agent is unable to obtain three such treasury note quotations, the CMT Rate on such CMT Rate interest determination date will be calculated by the calculation agent and will be a yield to maturity based on the arithmetic mean of the secondary market offered rates as of approximately 3:30 P.M., New York City time, on such CMT Rate interest determination date of three reference dealers in New York City (from five such reference dealers selected by the calculation agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for treasury notes with an original maturity of the number of years that is the next highest to the designated CMT maturity index and a remaining term to maturity closest to the designated CMT maturity index and in an amount of at least US\$100,000,000. If three or four (and not five) of such reference dealers are quoting as described above, then the CMT Rate will be based on the arithmetic mean of the offered rates obtained and neither

the highest nor the lowest of such quotes will be eliminated; however, if fewer than three reference dealers so selected by the calculation agent are quoting as mentioned herein, the CMT Rate determined as of such CMT Rate interest determination date will be the CMT Rate in effect on the CMT Rate Interest determination date. If two treasury notes with an original maturity as described in the second preceding sentence have remaining terms to maturity equally close to the designated CMT maturity index, the calculation agent will obtain quotations for the treasury note with the shorter remaining term to maturity.

“Designated CMT maturity index” means the original period to maturity of the U.S. Treasury securities (either 1, 2, 3, 5, 7, 10, 20 or 30 years) specified in the applicable pricing supplement with respect to which the CMT Rate will be calculated or, if no such maturity is specified in the applicable pricing supplement, 2 years.

“Designated CMT Reuters page” means the display on Reuters (or any successor service) on the page specified in the applicable pricing supplement (or any other page as may replace such page on such service) for the purpose of displaying Treasury Constant Maturities as reported in H.15(519), where page 7051 is specified the page shall be FRBCMT and where page 7052 is specified the page shall be FEDCMT or, if no such page is specified in the applicable pricing supplement, page FEDCMT.

Commercial Paper Rate

Unless otherwise specified in the applicable pricing supplement, “Commercial Paper Rate” means, with respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to the Commercial Paper Rate, a “Commercial Paper Rate interest determination date”, the money market yield (as defined below) on such date of the rate for commercial paper having the index maturity specified in the applicable pricing supplement as published in H.15(519) under the caption “Commercial Paper—Nonfinancial” or, if not so published by 3:00 P.M., New York City time, on the related calculation date, the rate on such Commercial Paper Rate interest determination date for commercial paper having the Index Maturity specified in the applicable pricing supplement as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Commercial Paper-Nonfinancial”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the related calculation date, then the Commercial Paper Rate on such Commercial Paper Rate interest determination date will be calculated by the calculation agent and will be the money market yield of the arithmetic mean of the offered rates at approximately 11:00 A.M., New York City time, on such Commercial Paper Rate interest determination date of three leading dealers of U.S. dollar commercial paper in New York City (which may include the dealers or their affiliates) selected by the calculation agent for commercial paper having the index maturity specified in the applicable pricing supplement placed for industrial issuers whose bond rating is “Aa”, or the equivalent, from a nationally recognized statistical rating organization; however, if the dealers so selected by the calculation agent are not quoting as mentioned in this sentence, the Commercial Paper Rate determined as of the Commercial Paper Rate interest determination date will be the Commercial Paper Rate in effect on the Commercial Paper Rate interest determination date.

“Money market yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Money market yield} = \frac{D \times 360}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for commercial paper quoted on a bank discount basis and expressed as a decimal, and “M” refers to the actual number of days in the applicable interest reset period.

Eleventh District Cost of Funds Rate

Unless otherwise specified in the applicable pricing supplement, “Eleventh District Cost of Funds Rate” means, with respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to the Eleventh District Cost of Funds Rate, an “Eleventh District Cost of Funds Rate interest determination date”, the rate equal to the monthly weighted average cost of funds for the calendar month immediately preceding the month in which such Eleventh District Cost of Funds Rate interest determination date falls as set forth under the caption “11th Dist COFI” on the display on Reuters (or any successor service) on page COFI/ARMS (or any other page as may replace such page on such service) (“COFI/ARMS Page”) as of 11:00 A.M., San Francisco time, on such Eleventh District Cost of Funds Rate interest determination date. If such rate does not appear on the COFI/ARMS Page on such Eleventh District Cost of Funds Rate interest determination date, then the Eleventh District Cost of Funds Rate on such Eleventh District Cost of Funds Rate interest determination date shall be the monthly weighted average cost of funds paid by member institutions of the Eleventh Federal Home Loan Bank (“FHLB”) District that was most recently announced, or the “Index”, by the FHLB of San Francisco as such cost of funds for the calendar month immediately preceding such Eleventh District Cost of Funds Rate interest determination date. If the FHLB of San Francisco fails to announce the Index on or prior to such Eleventh District Cost of Funds Rate interest determination date for the calendar month immediately preceding such Eleventh District Cost of Funds Rate interest determination date, the Eleventh District Cost of Funds Rate determined as of such Eleventh District Cost of Funds Rate interest determination date will be the Eleventh District Cost of Funds Rate in effect on such Eleventh District Cost of Funds Rate interest determination date.

EURIBOR

Unless otherwise specified in the applicable pricing supplement, “EURIBOR” means the rate determined in accordance with the following provisions:

- (1) With respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to EURIBOR, the rate for deposits in euro having the index maturity specified in such pricing supplement, commencing on such interest reset date, that appears on the designated EURIBOR page as of 11:00 A.M., Brussels time, on such EURIBOR interest determination date, or if no such rate so appears, as applicable, EURIBOR on such EURIBOR interest determination date will be determined in accordance with the provisions described in paragraph (2) below.
- (2) With respect to a EURIBOR interest determination date on which no rate appears on the designated EURIBOR page as specified in paragraph (1) above, the calculation agent will request the principal Euro-zone office of each of four major reference banks (which may include affiliates of the dealers) in the Euro-zone interbank market, as selected by the calculation agent, to provide the calculation agent with its offered quotation for deposits in euro for the period of the index maturity specified in the applicable pricing supplement commencing on the applicable interest reset date, to prime banks in the Euro-zone interbank market at approximately 11:00 A.M., Brussels time, on such EURIBOR interest determination date and in a principal amount that is representative for a single transaction in euro in such market at such time. If fewer than two such quotations are so provided, then EURIBOR on such EURIBOR interest determination date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., Brussels time, on such EURIBOR interest determination date by three major banks (which may include affiliates of the dealers) in the Euro-zone selected by the calculation agent for loans in euro to leading European banks, having the index maturity specified in the applicable pricing supplement and in a principal amount that is representative for a single transaction in euro in such market at such time; provided, however, that if the banks so selected by the calculation agent are not quoting as mentioned in this sentence, EURIBOR determined as of the EURIBOR interest determination date will be EURIBOR in effect on the EURIBOR interest determination date.

“Designated EURIBOR page” means the display on the page specified in the applicable pricing supplement for the purpose of displaying the Euro-zone interbank rates of major banks for the euro; provided, however, if no such page is specified in the applicable pricing supplement, the display on Reuters (or any successor service) on the EURIBOR 01 page (or any other page as may replace such page on such service) will be used.

“EURIBOR” means the rate for deposits in euro designated as such and sponsored jointly by the European Banking Federation and ACI—The Financial Market Association (or any company established by the joint sponsors for the purposes of compiling and publishing such rates).

“Euro-zone” means the region comprised of member states of the European Union that have adopted the single currency in accordance with the Treaty on European Union signed at Maastricht on February 7, 1992.

Federal Funds Rate

Unless otherwise specified in the applicable pricing supplement, “Federal Funds Rate” means, with respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to the Federal Funds Rate, a “Federal Funds Rate interest determination date”, the rate with respect to such date for U.S. dollar federal funds as published in H.15(519) under the heading “Federal Funds (Effective)”, as such rate is displayed on Reuters (or any successor service) on page FEDFUNDS 1 (or any other page as may replace such page on such service) (“Reuters Page FEDFUNDS 1”), or, if such rate does not appear on Reuters Page FEDFUNDS 1 or is not so published by 3:00 P.M., New York City time, on the related calculation date, the rate with respect to such Federal Funds Rate interest determination date for U.S. dollar federal funds as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Federal Funds (Effective)”. If such rate does not appear on Reuters Page FEDFUNDS 1 or is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the related calculation date, then the Federal Funds Rate with respect to such Federal Funds Rate interest determination date will be calculated by the calculation agent and will be the arithmetic mean of the rates for the last transaction in overnight U.S. dollar federal funds arranged by three leading brokers of U.S. dollar federal funds transactions in New York City (which may include the dealers or their affiliates) selected by the calculation agent prior to 9:00 A.M., New York City time, on the business day following such Federal Funds Rate interest determination date; however, if the brokers so selected by the calculation agent are not quoting as mentioned in this sentence, the Federal Funds Rate determined as of the Federal Funds Rate interest determination date will be the Federal Funds Rate in effect on the Federal Funds Rate interest determination date.

LIBOR

Unless otherwise specified in the applicable pricing supplement, “LIBOR” means the rate determined in accordance with the following provisions:

- (1) With respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to LIBOR, a “LIBOR interest determination date”, LIBOR will be the rate for deposits in the designated LIBOR currency having the index maturity specified in such pricing supplement, commencing on such interest reset date, that appears on the designated LIBOR page as of 11:00 A.M., London time, on such LIBOR interest determination date, or if no such rate so appears, as applicable, LIBOR on such LIBOR interest determination date will be determined in accordance with the provisions described in paragraph (2) below.
- (2) With respect to a LIBOR interest determination date on which no rate appears on the designated LIBOR page as specified in paragraph (1) above, the calculation agent will request the principal London offices of each of four major reference banks (which may include affiliates of the dealers) in the London interbank market, as selected by the

calculation agent, to provide the calculation agent with its offered quotation for deposits in the designated LIBOR currency for the period of the index maturity specified in the applicable pricing supplement, commencing on the applicable interest reset date, to prime banks in the London interbank market at approximately 11:00 A.M., London time, on such LIBOR interest determination date and in a principal amount that is representative for a single transaction in the designated LIBOR currency in such market at such time. If at least two such quotations are so provided, then LIBOR on such LIBOR interest determination date will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, then LIBOR on such LIBOR interest determination date will be the arithmetic mean of the rates quoted at approximately 11:00 A.M., in the applicable principal financial center, on such LIBOR interest determination date by three major banks (which may include affiliates of the dealers) in such principal financial center selected by the calculation agent for loans in the designated LIBOR currency to leading European banks, having the index maturity specified in the applicable pricing supplement and in a principal amount that is representative for a single transaction in the designated LIBOR currency in such market at such time; however, if the banks so selected by the calculation agent are not quoting as mentioned in this sentence, LIBOR determined as of the LIBOR interest determination date will be LIBOR in effect on the LIBOR interest determination date.

“Designated LIBOR currency” means the currency specified in the applicable pricing supplement as to which LIBOR shall be calculated or, if no such currency is specified in the applicable pricing supplement, U.S. dollars.

“Designated LIBOR page” means the display on the page specified in the applicable pricing supplement for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR currency; provided, however, if no such page is specified in the applicable pricing supplement, the display on Reuters (or any such service) on the LIBOR 01 page (or any other page as may replace such page on such service) shall be used for the purpose of displaying the London interbank rates of major banks for the Designated LIBOR currency.

Prime Rate

Unless otherwise specified in the applicable pricing supplement, “Prime Rate” means, with respect to any interest determination date relating to a floating rate note for which the interest rate is determined with reference to the Prime Rate, a “Prime Rate interest determination date”, the rate on such date as such rate is published in H.15(519) under the caption “Bank Prime Loan” or, if not published by 3:00 P.M., New York City time, on the related calculation date, the rate on such Prime Rate interest determination date as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “Bank Prime Loan”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source by 3:00 P.M., New York City time, on the related calculation date, then the Prime Rate shall be the arithmetic mean of the rates of interest publicly announced by each bank that appears on the Reuters screen US PRIME 1 page (as defined below) as such bank’s prime rate or base lending rate as of 11:00 A.M., New York City time, on such Prime Rate interest determination date. If fewer than four such rates so appear on the Reuters screen US PRIME 1 Page for such Prime Rate interest determination date, then the Prime Rate shall be the arithmetic mean of the prime rates or base lending rates quoted on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on such Prime Rate interest determination date by three major banks (which may include affiliates of the dealers) in New York City selected by the calculation agent; however, if the banks so selected by the calculation agent are not quoting as mentioned in this sentence, the Prime Rate determined as of the Prime Rate interest determination date will be the Prime Rate in effect on the Prime Rate interest determination date.

“Reuters screen US PRIME 1 page” means the display on the Reuter Monitor Money Rates Service (or any successor service) on the “US PRIME 1” page (or such other page as may replace the US

PRIME 1 page on such service) for the purpose of displaying prime rates or base lending rates of major U.S. banks.

Treasury Rate

Unless otherwise specified in the applicable pricing supplement, “Treasury Rate” means, with respect to any interest determination date relating to a floating rate note for which the interest rate is determined by reference to the Treasury Rate, a “Treasury Rate interest determination date”, the rate from the auction held on such Treasury Rate interest determination date, or the “Auction”, of direct obligations of the United States, or “treasury bills”, having the index maturity specified in the applicable pricing supplement under the caption “INVESTMENT RATE” on the display on Reuters (or any successor service) on page USAUCTION 10 (or any other page as may replace such page on such service) (“Reuters Page USAUCTION 10”) or page USAUCTION 11 (or any other page as may replace such page on such service) (“Reuters Page USAUCTION 11”) or, if not so published by 3:00 P.M., New York City time, on the related calculation date, the bond equivalent yield (as defined below) of the rate for such treasury bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/Auction High” or, if not so published by 3:00 P.M., New York City time, on the related calculation date, the bond equivalent yield of the auction rate of such treasury bills as announced by the U.S. Department of the Treasury. In the event that the auction rate of treasury bills having the index maturity specified in the applicable pricing supplement is not so announced by the U.S. Department of the Treasury, or if no such Auction is held, then the Treasury Rate will be the bond equivalent yield of the rate on such Treasury Rate interest determination date of treasury bills having the index maturity specified in the applicable pricing supplement as published in H.15(519) under the caption “U.S. Government Securities/Treasury Bills/Secondary Market” or, if not yet published by 3:00 P.M., New York City time, on the related calculation date, the rate on such Treasury Rate interest determination date of such treasury bills as published in H.15 Daily Update, or such other recognized electronic source used for the purpose of displaying such rate, under the caption “U.S. Government Securities/Treasury Bills/Secondary Market”. If such rate is not yet published in H.15(519), H.15 Daily Update or another recognized electronic source, then the treasury rate will be calculated by the calculation agent and will be the bond equivalent yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 P.M., New York City time, on such Treasury Rate interest determination date, of three primary U.S. government securities dealers (which may include the dealers or their affiliates) selected by the calculation agent, for the issue of treasury bills with a remaining maturity closest to the index maturity specified in the applicable pricing supplement; however, if the dealers so selected by the calculation agent are not quoting as mentioned in this sentence, the Treasury Rate determined as of such Treasury Rate interest determination date will be the Treasury Rate in effect on such Treasury Rate interest determination date.

“Bond equivalent yield” means a yield (expressed as a percentage) calculated in accordance with the following formula:

$$\text{Bond equivalent yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where “D” refers to the applicable per annum rate for treasury bills quoted on a bank discount basis, “N” refers to 365 or 366, as the case may be, and “M” refers to the actual number of days in the applicable interest reset period.

Payments

References below to payment or repayment, as the case may be, of principal and/or interest and other similar expressions shall, where the context so admits, be deemed also to refer to delivery of any physical delivery amounts.

Method of Payment

Payments of the final installment of principal, in respect of each certificated note, will be made against presentation and surrender, or, in the case of partial payment of any sum due, endorsement, of the note at the specified office of any paying agent. Such payments will be made by transfer to the designated account (as defined below) of the holder or joint holders, of the note appearing in the register of holders of the notes maintained by the fiscal and paying agent at the close of business on the third business day, being for this purpose a day on which banks are open for business in the city where the specified office of such paying agent is located, before the relevant due date or the “record date”. Notwithstanding the previous sentence, if (1) a holder does not have a designated account or (2) the principal amount of the notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other specified currency), payment may instead be made by a check in the specified currency drawn on a designated bank (as defined below). “Designated account” means the account that, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account, maintained by a holder with a designated bank and identified as such in its register, and “designated bank” means, in the case of payment in a specified currency other than U.S. dollars, a bank in the principal financial center of the country of such specified currency and, in the case of a payment in U.S. dollars, any bank that processes payments in U.S. dollars.

Payments of interest and payments of installments of principal, including the final installment, on each note in global form, will be made by wire transfer of same day funds to the designated bank account of the holder, or joint holders, of the note appearing in the register at the close of business on the fifteenth day, whether or not such fifteenth day is a business day, before the record date at the address shown in the register on the record date. Payment of the interest due in respect of each note on redemption will be made in the same manner as payment of the principal amount of such note.

No commissions or expenses shall be charged to such holders by the registrar in respect of any payments of principal or interest in respect of the notes.

None of us or any of the dealers will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal and interest, if any, on certificated notes, subject as provided below, will be made against presentation or surrender of such certificated notes at any specified office of any paying agent. Payments of installments of principal, if any, other than the last installment, subject as provided below, will be made against surrender of the relevant receipt. Payment of the last installment will be made against surrender of the relevant certificated note. Each receipt must be presented for payment of such installment together with the relevant certificated note against which the amount of that installment will be paid. If any certificated notes are redeemed or become repayable prior to their respective maturity dates, or the interest payment date falling in the redemption month in respect thereof, as the case may be, principal will be payable on surrender of each such note together with all unmatured receipts appertaining thereto. Unmatured receipts and receipts presented without the certificated notes to which they relate do not constitute our obligations. All payments of interest and principal with respect to certificated notes will be made only against presentation and surrender of the relevant certificated notes or receipts, except as otherwise provided in the third succeeding paragraph.

Subject as provided below and, in the case of physical delivery notes, subject also as provided in the applicable pricing supplement, payments on certificated notes, other than dual currency notes, denominated in a specified currency, other than U.S. dollars, or, in the case of dual currency notes, payable in a specified currency, other than U.S. dollars, subject as provided below, will be made by wire transfer of same day funds to the designated bank account of the holder, or joint holders. Payments in U.S. dollars will be made by credit or wire transfer to a U.S. dollar account or any other account to which U.S. dollars may be credited or transferred specified by the registered holder or, at the option of the registered holder. The applicable pricing supplement may also contain provisions for variation of settlement where, for reasons beyond the control of us or any noteholder, including, without limitation, unlawfulness, illegality, impossibility, force majeure, non-transferability or the like (each a “payment disruption event”), we are not

able to make, or any noteholder is not able to receive, as the case may be, payment on the due date and in the specified currency of any amount of principal or interest due under the notes.

For physical delivery notes that are settled by way of delivery, on the due date for redemption, we will deliver, or procure the delivery of, the documents evidencing the number of and/or constituting the underlying assets plus or minus any amount due to or from the noteholder deliverable in respect of each note, the “physical delivery amount”, to, or to the order of, the noteholder in accordance with the instructions of the noteholder contained in the transfer notice. The physical delivery amount shall be evidenced in the manner described in the applicable pricing supplement. The applicable pricing supplement also may contain provisions for variation of settlement pursuant to an option to such effect or where we or the holder of a physical delivery note, as the case may be, is not able to deliver or take delivery of as the case may be, the underlying assets, or where a settlement disruption event, as described in the applicable pricing supplement has occurred, all as provided in the applicable pricing supplement.

Payments of principal and interest, if any, on notes represented by any global note will be made in the manner specified above and otherwise in the manner specified in the relevant global note against presentation or surrender, as the case may be, of such global note at the specified office of any paying agent. A record of each payment made on such global note, distinguishing between any payment of principal and any payment of interest, will be made on the books and records of the paying agent to which such global note is presented for the purpose of making such payment, and such record shall be prima facie evidence that the payment in question has been made.

The holder of the relevant global note shall be the only person entitled to receive payments in respect of notes represented by such global note. Our payment obligation will be discharged by payment to, or to the order of, the holder of such global note with respect to each amount so paid. Each of the persons shown in the records of DTC, Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of notes must look solely to DTC, Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment so made by us to, or to the order of, the holder of the relevant global note. No person other than the holder of the relevant global note shall have any claim against us in respect of any payments due on that global note.

Fixed rate notes in certificated form must be presented for payment on or before the relevant redemption date.

If any date for payment of any amount in respect of any note is not a payment day (as defined below), then the holder thereof shall not be entitled to payment of the amount due until the next following payment day and shall not be entitled to any interest or other sum in respect of any such delay.

For these purposes, “payment day” means any day that, subject to “Prescription” below, is:

- (1) a day on which commercial banks and foreign exchange markets settle payments and are open for general business, including dealing in foreign exchange and foreign currency deposits, in:
 - (A) the relevant place of presentation; and
 - (B) any additional financial center specified in the applicable pricing supplement; and
- (2) either (a) in relation to any sum payable in a specified currency other than the U.S. dollar, a day on which commercial banks and foreign exchange markets settle payments and are open for general business, including dealing in foreign exchange and foreign currency deposits, in the principal financial center of the country of the relevant specified currency, as set forth in the applicable pricing supplement, or (b) in relation to any sum payable in U.S. dollars, a day on which the Federal Reserve is open.

If the due date for redemption of any interest bearing note in certificated form is not a due date for the payment of interest relating thereto, interest accrued on such note from and including the last preceding due date for the payment of interest, or from the interest commencement date, will be paid against surrender of such note.

The initial specified offices of the fiscal and paying agent are located at Deutsche Bank Trust Company Americas, 60 Wall Street, 27th Floor, MS: NYC60-2710, New York, NY 10005. We reserve the right at any time to vary or terminate the appointment of the fiscal and paying agent and to appoint additional or other paying agents and/or to approve any change in the specified office of any paying agent, provided that there will at all times be a fiscal and paying agent. Any such variation, termination, appointment or change shall only take effect, other than in the case of insolvency of the fiscal and paying agent, when it shall be of immediate effect, after not less than 10 nor more than 45 days' prior notice shall have been given to the noteholders in accordance with "Notices" below.

Payments in respect of the notes will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment.

Physical Delivery Notes

The applicable pricing supplement will contain provisions relating to the procedure for the delivery of any physical delivery amount in respect of physical delivery notes, including, without limitation, liability for the costs of transfer of underlying assets.

The underlying assets will be delivered at the risk of the relevant noteholder in such manner as may be specified in the transfer notice pursuant to which such underlying assets are delivered and, notwithstanding the provisions of "Interest—Interest Payments" above, no additional payment or delivery will be due to a noteholder where any underlying assets are delivered after their due date in circumstances beyond the control of either us or the fiscal and paying agent.

Redemption and Purchase

Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, we will redeem notes at their final redemption amount, or, in the case only of physical delivery notes where the applicable pricing supplement specify that such notes will be redeemed by payment and/or delivery of a physical delivery amount, by the payment and the delivery of the physical delivery amount, specified in, or determined in the manner specified in, the applicable pricing supplement in the specified currency on the maturity date specified in the applicable pricing supplement, in the case of notes that are not floating rate notes, or on the interest payment date falling in the redemption month specified in the applicable pricing supplement, in the case of floating rate notes.

Redemption for Taxation Reasons

If as a result of any change in, or in the official interpretation or administration of, any laws or regulations of Iceland or the United States or any other authority thereof or therein we would be required to pay additional amounts in respect of the notes in order that the noteholders, after deduction of any withholding taxes or duties, will receive the full amount then due and payable under the notes, then we may at our option at any time (in the case of notes other than floating rate notes) or on any interest payment date (in the case of floating rate notes) redeem all, but not part, of the notes to which this condition applies at their "early redemption amount" (as defined under "Early Redemption Amounts") together with interest accrued to the date fixed for redemption, provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the latest practicable date upon which we could make payment without withholding for such taxes.

If we would, on the next due date for payment of any amount in respect of the notes, be prevented by Icelandic law from making such payment notwithstanding the undertaking to pay additional amounts as provided in this offering circular, then we shall promptly give notice of such fact to the principal paying agent and shall, at any time (in the case of notes other than floating rate notes) or on any interest payment date (in the case of floating rate notes), redeem all, but not part, of the notes then outstanding as to which the conditions set forth above apply at their early redemption amount together with interest accrued to the date fixed for redemption, upon giving not less than 30 nor more than 60 days' prior notice to the noteholders, provided that the due date for redemption of which notice hereunder shall be given shall be no earlier than the latest practicable date on which we could make payment of the full amount of interest payable in respect of the notes or, if such date is already past, as soon as practicable thereafter.

Redemption at Our Option ("Issuer Call")

If "Issuer Call" is specified in the applicable pricing supplement, we may redeem all or part of the notes then outstanding on any optional redemption date and at the optional redemption amounts specified in, or determined in the manner specified in, the applicable pricing supplement together, if appropriate, with interest accrued to, but excluding, the relevant optional redemption date.

Any such redemption must be of a nominal amount equal to the minimum redemption amount or a higher redemption amount. In the case of a partial redemption of certificated notes, the notes to be redeemed will be selected by lot, and in the case of partially redeemed notes represented by a global note, the notes to be redeemed will be selected by lot or in accordance with the rules of DTC, Euroclear and/or Clearstream, Luxembourg, in each case not more than 30 days prior to the date fixed for redemption, such date of selection being the "selection date". If a note is in certificated form, a list of the serial numbers of such redeemed note will be published in accordance with "Notices" below, not less than 30 days prior to the date fixed for redemption. The aggregate nominal amount of redeemed notes represented by certificated notes shall bear the same proportion to the aggregate nominal amount of all redeemed notes as the aggregate nominal amount of certificated notes outstanding bears to the aggregate nominal amount of the notes outstanding, in each case on the selection date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the specified denomination, and the aggregate nominal amount of redeemed notes represented by a global note shall be equal to the balance of the redeemed notes. No exchange of the relevant global note will be permitted during the period from, and including, the selection date to, and including, the date fixed for redemption pursuant to an Issuer Call, and notice to that effect shall be given by us to the noteholders in accordance with "Notices" below not less than 30 days nor more than 60 days from the date fixed for redemption.

Early Redemption Amounts

For purposes of paragraph above and "Events of Default" below, the notes will be redeemed at an amount, the "early redemption amount", calculated as follows, together, if appropriate, with interest accrued to, but excluding, the date fixed for redemption or, as the case may be, the date upon which such note becomes due and repayable:

- (1) in the case of notes with a final redemption amount equal to the issue price, at the final redemption amount thereof; or
- (2) in the case of notes, other than zero coupon notes, with a final redemption amount that is or may be lesser or greater than the issue price or which is payable in a specified currency other than that in which the notes are denominated, at the amount set out in, or determined in the manner set out in, the applicable pricing supplement or, if no such amount or manner is set out in the supplement or supplements, at their nominal amount; or
- (3) in the case of physical delivery notes, as determined in the manner specified in the applicable pricing supplement; or

- (4) in the case of zero coupon notes, except as otherwise specified in the applicable pricing supplement, at an amount (the “amortized face amount”) equal to the sum of:
 - (A) the reference price specified in the applicable pricing supplement; and
 - (B) the product of the accrual yield specified in the applicable pricing supplement, compounded annually, being applied to the reference price from and including the issue date to, but excluding the date fixed for redemption or, as the case may be, the date upon which the note becomes due and repayable.

If the calculation is to be made for a period of less than a full year, it shall be made on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed in such incomplete month or such other calculation basis as may be specified in the applicable pricing supplement.

Purchases

We may at any time purchase notes at any price in the open market or otherwise.

Cancellation

All notes that are redeemed or purchased by us will forthwith be cancelled and accordingly may not be re-issued or resold.

Installments

Each note in certificated form that is redeemable in installments will be redeemed in the installment amounts and on the installment dates specified in the applicable pricing supplement. All installments, other than the final installment, will be paid by surrender of, in the case of a certificated note, the relevant receipt, which must be presented with the note to which it appertains, and, in the case of a global note, the relevant note and issue of a new note in the nominal amount remaining outstanding, all as more fully described in “Payments” above.

Late Payment on Zero Coupon Notes

If the amount payable in respect of any zero coupon note upon redemption of such zero coupon note is improperly withheld or refused, the amount due and repayable in respect of such zero coupon note shall be the amount calculated as provided in this offering circular, as though the references therein to the date fixed for redemption or the date upon which the zero coupon note becomes due and repayable were replaced by references to the date that is the earlier of:

- (1) the date on which all amounts due in respect of the zero coupon note have been paid; and
- (2) the date on which the full amount payable has been received by the fiscal and paying agent and notice to that effect has been given to the noteholders in accordance with “Notices” below.

Partly Paid Notes

Partly paid notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this offering circular or varied by the information specified in the applicable pricing supplement.

Discount Notes

We may from time to time offer notes, or “discount notes”, that have an issue price (as specified in the applicable pricing supplement) that is less than 100% of the principal amount (i.e., par) by more than a percentage equal to the product of 0.25% and the number of full years to the stated maturity. Discount notes may not bear any interest currently or may bear interest at a rate that is below market rates at the time of issuance. The difference between the issue price of a discount note and par is referred to herein as the “discount”. In the event of redemption, repayment or acceleration of maturity of a discount note, the amount payable to the holder of such discount note will be equal to the sum of (i) the amortized face amount and (ii) any unpaid interest accrued thereon to the date of such redemption, repayment or acceleration of maturity, as the case may be.

Unless otherwise specified in the applicable pricing supplement, for purposes of determining the amount of discount that has accrued as of any date on which a redemption, repayment or acceleration of maturity occurs for a discount note, the discount will be accrued using a constant yield method. The constant yield will be calculated using a 30-day month, 360-day year convention, a compounding period that, except for the initial period (as defined below), corresponds to the shortest period between interest payment dates for the applicable discount note (with ratable accruals within a compounding period), a coupon rate equal to the initial coupon rate applicable to the discount note and an assumption that the maturity of the discount note will not be accelerated. If the period from the original issue date to the initial interest payment date for a discount note, or the “initial period”, is shorter than the compounding period for the discount note, a proportionate amount of the yield for an entire compounding period will be accrued. If the initial period is longer than the compounding period, then the compounding period will be divided into a regular compounding period and a short period with the short period being treated as provided in the preceding sentence. The accrual of the applicable discount may differ from the accrual of issue discount for purposes of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). Certain discount notes may not be treated as having original issue discount within the meaning of the Code, and notes other than discount notes may be treated as issued with original issue discount for federal income tax purposes. See “Certain United States Federal Income Tax Considerations”.

Amortizing Notes

We may from time to time offer notes, or “amortizing notes”, with the amount of principal thereof and interest thereon payable in installments over the term of such notes. Unless otherwise specified in the applicable pricing supplement, interest on each amortizing note will be computed on the basis of a 360-day year of twelve 30-day months. Payments with respect to amortizing notes will be applied first to interest due and payable thereon and then to the reduction of the unpaid principal amount thereof. Further information concerning additional terms and provisions of amortizing notes will be specified in the applicable pricing supplement, including a table, formula or formulae setting forth repayment information for such amortizing notes.

Additional Amounts

If Iceland or U.S. law requires that any payments in respect of the notes be subject to withholding with respect to any taxes or duties whatsoever, we will, to the fullest extent then permitted by law, pay such additional amounts as may be necessary in order that the holder of each note, after deduction of such taxes or duties, will receive the full amount then due and payable; provided, however, that we may, in that event, redeem all of the notes then outstanding as to which such requirement to pay additional amounts applies, and provided further that no such additional amounts shall be payable with respect to any note:

- (1) presented for payment by or on behalf of a holder who is subject to such taxes or duties in respect of such note by reason of his being connected with Iceland or the United States (as the case may be) otherwise than by reason only of the holding of such note; or

- (2) presented for payment more than 30 days after the relevant date (as defined below), except to the extent that the holder would have been entitled to such additional amounts on presenting the same for payment on the last day of such period of 30 days.

As used herein the “relevant date” in relation to any note means whichever is the later of:

- (1) the date on which the payment in respect of such note first became due and payable; or
- (2) if the full amount of the moneys payable on such a date in respect of such note has not been received by the principal paying agent on or prior to the due date, the date on which notice is duly given to the noteholders that such moneys have been so received.

References herein to principal and/or interest shall be deemed also to refer to any additional amounts which may be payable as described above.

Redenomination

If redenomination is specified in the applicable pricing supplement as being applicable, we may, without the consent of the noteholders, on giving prior notice to the fiscal and paying agent, DTC, Euroclear and Clearstream, Luxembourg and at least 30 days’ prior notice to the noteholders in accordance with “Notices” below, elect that, with effect from the redenomination date specified in the notice, the relevant notes shall be redenominated in euro.

The election, with respect to the relevant notes, will have effect as follows:

- (1) the notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each note equal to the principal amount of that note in the specified currency, converted into euro at the established rate, provided that, if we determine that the then market practice in respect of the redenomination into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and we shall promptly notify the noteholders, the stock exchange, if any, on which the notes may be listed and the paying agents of such deemed amendments;
- (2) except to the extent that notice has been given in accordance with sub-paragraph (4) below, the amount of interest due in respect of the notes will be calculated by reference to the aggregate principal amount of notes presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;
- (3) if certificated notes are required to be issued after the redenomination date, they shall be issued at our expense in the denominations of euro 1,000, euro 10,000, euro 100,000 and, but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as we may approve, euro 0.01 and such other denominations as we shall determine and notify the fiscal and paying agent and the noteholders;
- (4) the payment obligations contained in any notes so issued will also become void on that redenomination date although those notes will continue to constitute our valid exchange obligations. New euro-denominated notes will be issued in exchange for notes denominated in the specified currency in such manner as we may specify and as shall be notified to the noteholders in the notice given by us that replacement euro-denominated notes are available for exchange. No such notice may be given less than 15 days prior to any date for payment of principal or interest on the notes;
- (5) after the redenomination date, all payments in respect of the notes, other than payments of interest in respect of periods commencing before the redenomination date, will be

made solely in euro as though references in the notes to the specified currency were to euro. Payments will be made in euro by credit or transfer to a euro account, or any other account to which euro may be credited or transferred, specified by the payee or, at the option of the payee, by a euro check;

- (6) if the notes are fixed rate notes and interest for any period ending on or after the redenomination date is required to be calculated for a period ending other than on a fixed interest payment date, it will be calculated by applying the rate of interest to each specified denomination, multiplying such sum by the applicable day count fraction, and rounding the resulting figure to the nearest sub-unit of the relevant specified currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention as determined by us in our sole discretion;
- (7) if the notes are floating-rate notes, the applicable pricing supplement will specify any relevant changes to the provisions relating to interest; and
- (8) such other changes shall be made to these conditions as we may decide, after consultation with the fiscal and paying agent, and as may be specified in the notice, to conform them to conventions then applicable to instruments denominated in euro.

Negative Pledge

The terms of the senior notes will provide that we will not, and we will ensure that none of our subsidiaries will, create or have outstanding any mortgage, charge, pledge, lien or other security interest, each a “security interest” other than a permitted security interest (as defined below), upon the whole or any part of our undertakings, assets or revenues (including any uncalled capital), present or future, in order to secure any relevant indebtedness (as defined below) or to secure any guarantee of or indemnity in respect of any relevant indebtedness unless (1) all amounts payable by us under the senior notes are equally and ratably secured by the security interest or (2) the other security interest or other arrangement (whether or not it includes the giving of a security interest) is in the form to be approved by a majority of the holders of outstanding senior notes.

“Excluded indebtedness” means any relevant indebtedness in respect of which the person or persons to whom any relevant indebtedness is or may be owed by the relevant borrower has or have no recourse whatsoever to us or any subsidiary (whether or not also the relevant borrower) for the repayment thereof other than:

- (1) recourse to the borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from a specified asset (as defined below), except for our asset or an asset of a any subsidiary over which security is given in connection with the issuance of covered bonds; and/or
- (2) recourse to the borrower for the purpose only of enabling amounts to be claimed in respect of the relevant indebtedness in an enforcement of any encumbrance given by the borrower over a specified asset or the income, cash flow or other proceeds deriving from the specified asset (or given by a shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure the relevant indebtedness, provided that (a) the extent of the recourse to the borrower is limited solely to the amount of any recoveries made on any enforcement, and (b) the person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with the relevant indebtedness, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of the encumbrance); and/or

- (3) recourse of the borrower generally, or directly or indirectly to us or any subsidiary, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect to such obligation or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against which the recourse is available.

“Government entities” means any body, agency, ministry, department, authority, statutory corporation or other entity of or pertaining to a member state of the European Economic Area or the government thereof or any political subdivision, municipality or local government thereof (whether autonomous or not).

“Permitted security interest” means any security interest created by us or our subsidiaries over the whole or any part of their present or future assets or revenues where such assets or revenues are comprised of the following (or are otherwise qualifying collateral for issues of covered bonds pursuant to any relevant contractual arrangements and/or specific provisions of laws of Iceland relating to covered bonds): (1) mortgage receivables; (2) receivables against government entities; (3) asset-backed securities backed by any of the assets under paragraph (1) or (2); or (4) any other assets permitted by Icelandic law to collateralize the covered bonds, in each case provided that the creation of the security interest is pursuant to the relevant contractual arrangements or, as the case may be, specific provisions of the laws of Iceland relating to covered bonds applicable at the time of creation of the security interest.

“Relevant indebtedness” means any present or future indebtedness (which term shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent) in the form of, or represented or evidenced by, bonds, debentures, notes or other securities which are, or are intended to be, with the agreement of the Issuer, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities market other than indebtedness which by its terms will mature within a period of one year from its date of issue and other than excluded indebtedness.

“Specified asset” means our asset or an asset of any subsidiary over which security is given in connection with any limited recourse securitization or other asset-backed financing, including the issuance of covered bonds.

“Subsidiary” means any entity whose affairs are required by law or in accordance with generally accepted accounting principles applicable to Iceland to be consolidated in our consolidated accounts.

Events of Default

Events of Default Relating to Senior Notes

The holder of any senior note may give written notice to us and the fiscal and paying agent that the senior note is, and shall become immediately due and repayable at its early redemption amount, together, if appropriate, with interest accrued to the date of repayment, if any of the following events of default occurs:

- (1) if default is made in the payment of any principal, premium, if any, or interest due in respect of the senior notes or any of them and the default continues for a period of three days in the case of principal or premium, if any, and seven days in the case of interest; or
- (2) if we fail to perform or observe any of our other obligations under the senior notes and, except in any case where the failure is incapable of remedy when no such continuation or notice in accordance with “Notices” below will be required, the failure continues for the period of 30 days next following the service by a holder on us of notice requiring the obligation to be remedied; or

- (3) if any indebtedness of either us or any of our “principal subsidiaries” (as defined below) is not paid when due or becomes, whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same, due and payable prior to the date when it would otherwise have become due or any creditor of either us or any of our principal subsidiaries becomes entitled to declare any such indebtedness due and payable or any facility or commitment available to either us or any of our principal subsidiaries relating to indebtedness is withdrawn, suspended or cancelled by reason of any default, however described, of the company concerned, provided that, for the purposes of this paragraph (3), the indebtedness must, when aggregated with all other indebtedness to which any part of this paragraph (3) applies, exceed U.S.\$5,000,000 or its equivalent in any other currency; or
- (4) if any order is made by any competent court or resolution passed for the winding up or dissolution of us or any of our principal subsidiaries, save for the purposes of reorganization on terms approved by an “extraordinary resolution” (as defined in the Fiscal and Paying Agency Agreement) of the holders; or
- (5) if either we or any of our principal subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganization on terms approved by an extraordinary resolution of the holders, or either we or any of our principal subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts, or any class of its debts, as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (6) if (A) proceedings are initiated against either us or any of our principal subsidiaries under any applicable liquidation, insolvency, composition, reorganization or other similar laws, or an application is made or documents filed with a court for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to either us or any of our principal subsidiaries or, as the case may be, in relation to the whole or a part of its undertaking or assets, or an encumbrancer takes possession of the whole or a part of its undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of its undertaking or assets and (B) in any case, other than the appointment of an administrator, the same is not discharged within 14 days; or
- (7) if either we or any of our principal subsidiaries initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganization or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally, or any class of its creditors, or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally, or any class of its creditors.

As used in the previous paragraph, the term “principal subsidiary” means a subsidiary:

- (1) whose sales, consolidated in the case of a subsidiary which itself has subsidiaries, or whose total assets, consolidated in the case of a subsidiary which itself has subsidiaries, represent not less than five percent of our consolidated sales, or, as the case may be, of our consolidated total assets, all as calculated respectively by reference to the then latest audited accounts, consolidated or, as the case may be, unconsolidated, of the subsidiary and our then latest audited consolidated accounts; or
- (2) to which is transferred the whole or substantially the whole of the undertaking and assets of one of our subsidiaries which immediately before the transfer is a principal subsidiary.

Enforcement Relating to Subordinated Notes

If we fail to meet our obligations under the subordinated notes, any holder may, at its own discretion and without further notice, institute proceedings in Iceland for our compulsory winding-up in accordance with the Act on Financial Undertakings No. 161/2002. Any holder may at its discretion and without further notice institute such proceedings against us as it may think fit to enforce any obligation, condition or provision binding on us under the subordinated notes provided that we shall not by virtue of the institution of any such proceedings be obligated to pay any sum or sums sooner than the same would otherwise have been payable by us. If an order is made or an effective resolution is passed for our winding-up or liquidation, then the subordinated notes will become due and payable at the early redemption amount together with interest accrued to the date of repayment, without presentment, demand, pretext or other notice of any kind.

Prescription

Claims for payment of principal in respect of the notes will be prescribed upon the expiration of 10 years from the due date thereof and claims for payment of interest, if any, in respect of the notes will be prescribed upon the expiration of five years from the due date thereof.

Replacement of Notes

Subject to the provisions of the Fiscal and Paying Agency Agreement, if any note, including any global note, is mutilated, defaced, stolen, destroyed or lost, it may be replaced at the specified office of the fiscal and paying agent upon payment by the claimant of the costs incurred in connection therewith and on such terms as to evidence and indemnity as we may require. Mutilated or defaced notes must be surrendered before replacements will be issued. Cancellation and replacement of notes shall be subject to compliance with such procedures as may be required under any applicable law and subject to any applicable stock exchange requirements.

Further Issues

We may issue additional notes, or “additional notes”, of a series having identical terms to that of a prior tranche of notes of the same series except for the original issue date and the offering price. The pricing supplement relating to any additional notes will set forth matters related to the issuance, including identifying the prior tranche of notes, their original issue date and the aggregate principal amount of notes then comprising the series. The period of the resale restrictions applicable to any notes previously offered and sold in reliance on Rule 144A shall automatically be extended to the last day of the period of any resale restrictions imposed on any additional notes.

Notices

All notices to the holder of registered notes will be valid if mailed to the address of the registered holder.

Until such time as any certificated notes are issued, so long as all the global notes for a particular series, whether listed or not, is or are held in its or their entirety on behalf of DTC, Euroclear and/or Clearstream, Luxembourg, all notices regarding such notes will be valid if the relevant notice is delivered to DTC, Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the notes except that if the notes are listed on a stock exchange and the rules of that stock exchange so require, we will publish the relevant notice in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange. However, for so long as notes of any series are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require (visit www.bourse.lu for more information), notices with respect to that series shall also be published in a leading newspaper of general circulation in Luxembourg (which is expected to be *d'Wort*) or on the website of the Luxembourg Stock Exchange at www.bourse.lu. Any such notice shall be deemed to have been given to

the noteholders on the seventh day after the day on which the notice was given to DTC, Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any holder of any notes shall be in writing and given by delivering the same, together with the relevant note or notes, to the fiscal and paying agent. While any notes are represented by a global note, such notice may be given by a holder of any of the interests in such global note to the fiscal and paying agent via DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the fiscal and paying agent and DTC, Euroclear and/or Clearstream, Luxembourg may approve for this purpose.

All notices given to noteholders, irrespective of how given, shall also be delivered in writing to DTC, Euroclear and Clearstream, Luxembourg and, in the case of listed notes, to the relevant stock exchange.

Modification, Waiver and Meetings of Noteholders

The Fiscal and Paying Agency Agreement contains provisions for convening meetings of the holders to consider any matter affecting their interests, including the sanctioning by extraordinary resolution of a modification of the notes or any of the provisions of the Fiscal and Paying Agency Agreement. Such a meeting may be convened by us or holders holding not less than 5% in nominal amount of the notes then outstanding. The quorum at any such meeting for passing an extraordinary resolution will be one or more persons holding or representing not less than 50% in nominal amount of the notes then outstanding, or at any adjourned meeting one or more persons being or representing holders whatever the nominal amount of the notes held or represented, except that at any meeting the business of which includes the modification of certain provisions of the notes, including modifying the date of maturity of the notes or any date for payment of interest thereon, reducing or canceling the amount of principal or the rate of interest payable in respect of the notes or altering the currency of payment of the notes, the quorum will be one or more persons holding or representing not less than two-thirds in nominal amount of the notes then outstanding, or at any adjourned meeting one or more persons holding or representing not less than one-third in nominal amount of the notes then outstanding. An extraordinary resolution passed at any meeting of the holders will be binding on all the holders, whether or not they are present at the meeting.

We and the fiscal and paying agent may agree, without the consent of the holders, to:

- (1) any modification, except as mentioned above, of the notes or the Fiscal and Paying Agency Agreement which is not prejudicial to the interests of the holders; or
- (2) any modification of the notes or the Fiscal and Paying Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any of these modifications will be binding on the holders and notified to the holders in accordance with “Notices” above as soon as practicable thereafter.

Transfer, Registration, Costs; Denomination

Notes offered in the United States to QIBs in reliance on Rule 144A will be represented by one or more 144A global notes (“144A Global Notes”) and notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S global notes (“Regulation S Global Notes”) and together with the 144A Global Notes the “global notes”). If the applicable pricing supplement so provides, notes may be offered to institutional investors that qualify as accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) and such notes initially will be represented by physical registered certificates (“Certificated Notes”). If any such Certificated Notes are thereafter transferred to QIBs in reliance on Rule 144A or offered outside the United States in reliance on Regulation

S, then the Certificated Notes will be represented by one or more 144A Global Notes or Regulation S Global Notes, as the case may be. Except as set forth herein, physical registered certificates will not be issued in exchange for global notes.

Notes will be issued only in fully registered form, unless we specify in the applicable pricing supplement, that we will issue Certificated Notes to institutional investors that qualify as accredited investors under Rule 501(a)(1), (2), (3) or (7) under the Securities Act. Global notes representing notes of a series will be deposited with a custodian for DTC and held by or on behalf of DTC for the benefit of participants in DTC.

A note in certificated form may be transferred in whole or in part as set forth in the Fiscal and Paying Agency Agreement. Any such transfer will be subject to such reasonable regulations as we and the fiscal and paying agent may from time to time prescribe (the initial such regulations being set out in the Fiscal and Paying Agency Agreement). Subject as provided above, the fiscal and paying agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of such paying agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request, a new note in certificated form of a like aggregate nominal amount to the note (or the relevant part of the note) transferred. In the case of the transfer of only part of a note in certificated form, a new note in certificated form in respect of the balance of the note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Transfers of ownership interests in global notes will be made as set forth below under “—Book-Entry System”.

The notes have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and accordingly transfers of the notes will be subject to the restrictions set forth below under “Notice to Investors”.

Certificated Notes and interests in the 144A Global Notes may be transferred to a person who takes delivery in the form of interests in a Regulation S Global Note only upon receipt by the fiscal and paying agent and any relevant transfer agent, of written certifications (in the form provided in the Fiscal and Paying Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act.

Certificated Notes and interests in Regulation S Global Notes may be transferred to a person who takes delivery in the form of interests in a 144A Global Note only upon receipt by the fiscal and paying agent of written certifications (in the form provided in the Fiscal and Paying Agency Agreement) to the effect that such transfer is being made in accordance with Rule 144A to a person whom the transferor reasonably believes is purchasing for its own account or for an account as to which it exercises sole investment discretion and that such person and such account or accounts are “qualified institutional buyers” within the meaning of Rule 144A and agree to comply with the restrictions on transfer set forth under “Notice to Investors”.

Certificated Notes may be transferred to a person who takes delivery in the form of Certificated Notes (other than transfers to us or a dealer and transfers by or through or approved by a dealer) only upon receipt by the fiscal and paying agent of written certifications (in the form provided in the Fiscal and Paying Agency Agreement) to the effect that such Certificated Note is being acquired by an institutional investor that qualifies as an accredited investor (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) for investment purposes and not for distribution in violation of the Securities Act, and containing such other evidence of compliance with the Securities Act as may be required by us or the fiscal and paying agent.

In the event of any redemption of notes, the we will not be required to (i) register the transfer of or exchange the notes during a period of 15 calendar days next preceding the date of redemption; or (ii) register the transfer of or exchange the notes, or any portion thereof, called for redemption, except the unredeemed portion of any of the notes being redeemed in part.

In the event of a partial redemption of notes under “Redemption and Purchase” above, we will not be required to register the transfer of any note, or part of a note, called for partial redemption.

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular, uninsured mail and except that we may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

Holders of notes in certificated form may exchange such notes for interests in a global note of the same type at any time.

Unless otherwise specified in the applicable pricing supplement, the notes will be issuable in U.S. dollars in denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof. The authorized denominations of any note denominated in other than U.S. dollars will be the equivalent amount of the specified currency for such note translated, at the noon dollar buying rate in New York City by the Federal Reserve Bank of New York (the “Market Exchange Rate”) on the first Business Day in New York City and the country issuing such currency (or, in the case of euro, the first TARGET Settlement Date) next preceding the date on which we accept the offer to purchase such note, to US\$100,000, or such other minimum denomination as may be allowed or required from time to time by any relevant central bank or equivalent governmental body, however designated, or by any laws or regulations applicable to the notes or to such specified currency. The notes will be issued in integral multiples of 1,000 units of any such specified currency in excess of their minimum denominations. If any of the notes are to be denominated in a specified currency other than U.S. dollars, or if the principal of and premium, if any, and interest, if any, on any of the notes not denominated in U.S. dollars are to be payable at the option of us or the noteholder in U.S. dollars, the applicable pricing supplement will provide additional information, including applicable exchange rate information, pertaining to the terms of such notes and other matters of interest to such noteholders.

Book-Entry System

DTC will act as securities depository for the global notes. Unless otherwise specified, the global notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee).

We understand that DTC is a limited-purpose trust company organized under the laws of the State of New York, a “Banking Organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the clearance and settlement among Participants of transactions in such securities through electronic book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants (“Direct Participants”) include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the Financial Industry Regulatory Authority. Access to DTC’s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission (the “SEC”).

Purchases of global notes under DTC's system must be made by or through Direct Participants, which will receive a credit for the global notes on DTC's records. The ownership interest of each actual purchaser of each global note is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the global notes are to be accomplished by entries made on the books of Participants acting on behalf of the beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in global notes, except in the event that use of the book-entry system for one or more global notes is discontinued.

To facilitate subsequent transfers, all global notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of global notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the global notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such global notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the notes in a series are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each Direct Participant in that series to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to notes. Under its usual procedures, DTC will mail an "Omnibus Proxy" to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the global notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case of securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is our responsibility, disbursement of such payments to Direct Participants are the responsibility of DTC, and disbursement of such payments to the beneficial owners are the responsibility of Direct and Indirect Participants.

A beneficial owner must give notice to elect to have its global notes purchased or tendered, through its Participant, to the fiscal and paying agent, and shall effect delivery of such global notes by causing the Direct Participant to transfer the Participant's interest in the global notes, on DTC's records, to the fiscal and paying agent. The requirement for physical delivery of global notes in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the global notes are transferred by a Direct Participant on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the global notes at any time by giving reasonable notice to us and the dealers. Under such circumstances, in the event that a successor securities depository is not obtained, Certificated Notes will be printed and delivered in exchange for the global notes.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, registered or book-entry Certificated Notes will be printed and delivered in exchange for the global notes held by DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for its accuracy.

None of us, the fiscal and paying agent, any other paying agent, any registrar for the notes or any dealer will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

DTC

DTC has advised us as follows:

- (i) DTC is:
 - a limited-purpose trust company organized under the laws of the State of New York, which is a wholly-owned subsidiary of Depository Trust and Clearing Company, owned in turn by the principal users of DTC, consisting primarily of banks, broker-dealers and other financial institutions, including the initial purchasers of the notes,
 - a member of the Federal Reserve System,
 - a "clearing corporation" within the meaning of the Uniform Commercial Code, and
 - a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.
- (ii) DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions, including transfers and pledges, in deposited securities between its participants through electronic book-entry changes to the accounts of its participants. This eliminates the need for physical movement of certificates.
- (iii) Participants in DTC include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. DTC is partially owned by some of these participants or their representatives.
- (iv) Indirect access to the DTC system is also available to banks, brokers, dealers and trust companies that have relationships with participants.
- (v) The rules applicable to DTC and DTC participants are on file with the SEC.

Clearstream, Luxembourg

Clearstream, Luxembourg has advised us as follows:

- (i) Clearstream, Luxembourg is a duly licensed bank organized as a société anonyme incorporated under the laws of Luxembourg and is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream, Luxembourg is owned by Deutsche Borse AG. The shareholders of Deutsche Borse AG are banks, securities dealers and financial institutions.

- (ii) Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions among them. It does so through electronic book-entry changes to the accounts of its customers. This eliminates the need for physical movement of certificates.
- (iii) Clearstream, Luxembourg provides other services to its participants, including safekeeping, administration, clearance and settlement of internationally traded securities, lending and borrowing of securities and collateral management. It interfaces with the domestic markets in over 30 countries through established depositary and custodial relationships.
- (iv) Clearstream, Luxembourg's customers include worldwide securities brokers and dealers, banks, trust companies and clearing corporations and may include professional financial intermediaries. Its U.S. customers are limited to securities brokers and dealers and banks.
- (v) Indirect access to the Clearstream, Luxembourg system is also available to others that clear through Clearstream, Luxembourg customers or that have custodial relationships with its customers, such as banks, brokers, dealers and trust companies.
- (vi) Clearstream, Luxembourg is an indirect participant in DTC.
- (vii) Clearstream, Luxembourg has established an electronic bridge with Euroclear to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.
- (viii) Distributions with respect to the notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg customers in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

Euroclear

Euroclear has advised us as follows:

- (i) Euroclear is incorporated under the laws of Belgium as a bank and is subject to regulation by the Belgian Banking and Finance Commission (Commission Bancaire et Financiere) and the National Bank of Belgium (Banque Nationale de Belgique). The Euroclear system is owned by Euroclear Clearance System Public Limited Company (ECS plc) and operated through a license agreement by Euroclear.
- (ii) Securities clearance accounts and cash accounts with Euroclear are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of Euroclear, and applicable Belgian law. These terms and conditions and operating procedures govern transfer of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipt of payments with respect to securities in Euroclear. Euroclear acts under these terms and conditions and operating procedures only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear accounts.
- (iii) Euroclear holds securities for its customers and facilitates the clearance and settlement of securities transactions among them. It does so through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates.
- (iv) Euroclear provides other services to its customers, including credit custody, lending and borrowing of securities and tri-party collateral management. It interfaces with the domestic markets of several other countries.

- (v) Euroclear customers include banks, central banks, securities brokers and dealers, trust companies and clearing corporations and may include certain other professional financial intermediaries.
- (vi) Euroclear is an indirect participant in DTC.
- (vii) Indirect access to the Euroclear system is also available to others that clear through Euroclear customers or that maintain a custodial relationship with a Euroclear participant, either directly or indirectly.
- (viii) All securities in Euroclear are held on a fungible basis. This means that specific certificates are not matched to specific securities clearance accounts.

Agents

In acting under the Fiscal and Paying Agency Agreement, the agents will act solely as our agents and do not assume any obligations or relationship of agency or trust to or with the noteholders, except that, without affecting our obligations to the noteholders, to repay notes and pay interest thereon. Funds received by the fiscal and paying agent for the payment of the principal of or interest on the notes shall be held by it in trust for the noteholders until the expiration of the relevant period of prescription described under “Prescription” above. We will agree to perform and observe the obligations imposed upon us under the Fiscal and Paying Agency Agreement. The Fiscal and Paying Agency Agreement contains provisions for the indemnification of the agents and for relief from responsibility in certain circumstances and entitles any of them to enter into business transactions with us and any of our affiliates without being liable to account to the noteholders for any resulting profit.

Governing Law; Consent to Jurisdiction and Service of Process; Immunity

The Fiscal and Paying Agency Agreement and the notes are governed by, and shall be construed in accordance with, the internal laws of the State of New York, except for the subordination provisions of the notes which are governed by, and shall be construed in accordance with, the laws of Iceland.

We have irrevocably consented and agreed, for the benefit of the holders from time to time of the notes, that any legal action, suit or proceeding against us with respect to our obligations or liabilities arising out of or in connection with the Fiscal and Paying Agency Agreement or the notes may be brought in any state or federal court located in the Borough of Manhattan, City of New York, State of New York, for which we have designated and appointed CT Corporation System, in the Borough of Manhattan, City and State of New York, as our authorized agent upon which process may be served, and, until amounts due and to become due in respect of the notes have been paid, have irrevocably consented and submitted to the non-exclusive jurisdiction of each such court in personam, generally and unconditionally with respect to any action, suit or proceeding for ourselves and in respect of our properties, assets and revenues.

We and the fiscal and paying agent have irrevocably waived, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to the Fiscal and Paying Agency Agreement, the notes, or the transactions contemplated thereby.

THE REPUBLIC OF ICELAND

About Iceland

Iceland is one of the Nordic countries, located in the North Atlantic between Norway, Scotland and Greenland. Iceland is the second largest island in Europe and has a land area of some 103,000 square kilometers and an exclusive 200 nautical mile economic zone of 758,000 square kilometers in the surrounding waters. Because of the Gulf Stream, Iceland enjoys a warmer climate than its northerly location would indicate.

The population of Iceland is approximately 300,000. Iceland was first settled late in the 9th century. The majority of the settlers were undoubtedly of Norse origin, but it is generally assumed that a certain element of the early settlers were of Celtic origin. In 930, a general legislative and judicial assembly, the Althing, was established, and a uniform code of laws for the country was adopted. In 1262, Iceland entered a treaty, which established a union with the Norwegian monarchy. When Norway came under the rule of Denmark in 1380, Iceland became a Danish dominion. Iceland was granted limited home rule in 1874, which was extended in 1904. With the Act of Union in 1918, Iceland became an autonomous state in monarchical union with Denmark. In 1944 Iceland terminated its union with Denmark and became an independent republic. Iceland has a parliamentary system of government. Legislative power is vested in the parliament and executive power is vested in a cabinet headed by a prime minister.

Iceland is a member of the United Nations and its affiliates, the International Monetary Fund and the World Bank. Iceland is also a member of the Organization for Economic Co-operation and Development and a number of other multinational organizations, including the Nordic Council and the Council of Europe. Iceland joined the European Free Trade Association ("EFTA") in 1970 and is a member of the European Economic Area, a 28-nation free-trade zone of the European Union and EFTA countries. Iceland is a contracting party to the General Agreement on Tariffs and Trade and ratified the agreement establishing the World Trade Organization ("WTO") in December 1994, thus becoming a founding member of the WTO.

Economy

Iceland's modern economic history spans about one century. In the early years of industrialization the economy was based mainly on fisheries and agriculture. Rapid developments in these areas formed the basis for improved living standards and a fundamental change in the economic structure. In recent decades the economy has diversified into the export of manufactured goods, process industries and a range of services for export and domestic use. At the same time, the marine sector has diversified significantly.

With GDP of approximately US \$16 billion in 2005, the size of the Icelandic economy is relatively small. However, the economy has experienced high growth in recent years and the per capita GDP, approximately US \$40,100 in 2006, is high by international standards. The economy relies on foreign trade and services in maintaining the high standard of living. Foreign direct investment in Iceland and abroad has been growing over the past few years as a result of financial liberalization, which together with increased lending by the banking sector has resulted in low private sector savings.

Recently, interest rates and the rate of inflation in Iceland have been rising. The Central Bank of Iceland's policy interest rate has increased from 10.50% at December 31, 2005 to 13.30% at December 31, 2006 and 13.75% at November 1, 2007. Inflation has increased from 4.4% in 2005 to 6.8% in 2006 and 5.1% in 2007. In addition, Iceland's current account deficit at December 31, 2006 was approximately 26.7% of GDP for 2006, adversely affecting the value of the Icelandic krona, which fell in value against the U.S. dollar during 2006. At December 31, 2006, the krona had declined 14.7% against the U.S. dollar to ISK 71.83 to \$1.00 from its high of ISK 60.56 to \$1.00 at January 12, 2006. However, in 2007, the krona rebounded to ISK 62.00 to \$1.00 as of December 31, as the current account deficit declined to approximately 15% of GDP at December 31.

Iceland is endowed with rich fishing grounds in its exclusive 200 nautical mile economic zone. The marine sector, including fishing and fish processing, is of fundamental importance to the Icelandic economy. Iceland has developed a comprehensive fisheries management policy in order to manage the fish stocks based on biological estimates of the status of the fish stocks and forecasts for their development in the near future. The fish processing industry employs modern technology and management techniques. The production systems are flexible and the processing methods are, to a large extent, interchangeable. The fishing fleet is technologically advanced and includes vessels designed to perform high-quality processing at sea. The diversification in the marine sector extends not only to the species and methods of processing, but also to marketing. Icelandic marine products have developed established brand names in the United States, Europe and Japan.

Iceland is also richly endowed with energy resources consisting of hydro and geothermal energy. Almost all of the electricity consumed in Iceland is produced from indigenous renewable energy resources. Hot water from geothermal sources and natural steam are extensively used for residential heating. Only a small percentage of the country's vast hydro and geothermal resources has been exploited so far.

Industrial expansion in Iceland is, to a considerable extent, based on the abundant energy resources and their attractiveness for power-intensive industries, and is aided by tariff-free access to the European market. Among the largest manufacturing enterprises in Iceland are two aluminum smelters and a ferro-silicon plant. Large projects in power-intensive industries are planned for the future including the construction of a new aluminum smelter and the possible enlargement of existing plants. Smaller-scale manufacturing is also important and growing. This includes production of high technology and heavy equipment for fishing and fish processing, largely for exports. With the development of the economy, the share of services in GDP has grown rapidly. The tourism sector has been one of the fastest growing industries in recent years due to a rapid increase in the number of foreign visitors to Iceland.

The following table shows certain economic indicators relating to Iceland in the years 2001-2007:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Volume changes on previous year, per cent.							
Real GDP	3.9	0.1	2.4	7.7	7.1	4.2	2.6*
Real exports of goods and services.....	7.4	3.8	1.6	8.4	7.2	(5.1)	10.3*
Real imports of goods and services	(9.1)	(2.5)	10.7	14.4	29.4	10.1	3.0*
Percentage changes on previous year							
Consumer price index (Y/Y) change	6.7	4.8	2.1	3.2	4.0	6.8	5.1
Effective price of foreign currency.....	20.1	(3.0)	(6.0)	(2.0)	(10.3)	11.7	(6.8)
Real exchange rate.....	(12.7)	5.1	4.7	2.2	13.5	(6.4)	6.3
Unemployment rate	1.4	2.5	3.4	3.1	2.1	1.3	1.0
Percentage of GDP							
Current account balance	(4.3)	1.5	(4.8)	(9.8)	(16.2)	(25.7)	(11.7)
Treasury revenue balance	(0.5)	(1.3)	(1.8)	1.0	4.5	5.3	5.5

*Through the end of the third quarter of 2007.

Sources: National Economic Institute, Ministry of Finance, Central Bank of Iceland and Glitnir banki.

FINANCIAL MARKETS IN ICELAND

The Icelandic financial system has undergone an important transition over the last decade, generated by liberalization and legislative reforms. In connection with the agreement on the European Economic Area, Icelandic legislation and regulations regarding credit institutions and other financial undertakings and the financial market have been adopted to implement various regulations and directives of the European Union.

Currently there are four commercial banks in Iceland. The three largest, Glitnir banki hf., Landsbanki Íslands hf., and Kaupthing Bank hf., provide all conventional banking and securities services. Glitnir, Landsbanki, and Kaupthing are all privately held credit institutions. There are 18 savings banks in Iceland, which mutually run a clearing bank, Icebank hf. Total assets of commercial and savings banks groups amounted to ISK 9,682 billion at the end of 2007.

In addition to the commercial banks, there are five investment banks, four investment funds and two leasing companies, as well as the HFF, that operate in Iceland. The HFF is a state-owned investment fund that provides financing for residential housing in Iceland. The bulk of mortgage lending to households was historically provided by the HFF, but the market share of the banks has risen since the last quarter of 2004 to approximately 43% at the end of 2007.

There are 15 insurance companies licensed to operate in Iceland, three of which are the main players in the insurance market. Insurance companies are becoming active in the financial market through their investment activities and increasingly through their lending operations. Pension funds receive payments from employers and employees and are the most important source of long term finance in the country. Membership in a pension fund is obligatory for wage earners and self-employed people. The pension funds are independent non-government entities. They invest mainly in domestic bond issues, equity capital and foreign securities.

OMX Nordic Exchange Iceland operates under legislation adopted in 1998, which converted OMX Nordic Exchange Iceland into a limited liability company. At the same time, its monopoly on exchange activities was abolished. Currently there are 31 members of OMX Nordic Exchange Iceland. Shares of 27 companies are listed on OMX Nordic Exchange Iceland, as well as government securities and corporate bonds. OMX Nordic Exchange Iceland joined the NOREX Alliance of Nordic exchanges in 2000, which included the adoption of the SAXESS trading system. Eignarhaldsfélagið Verðbréfabíng hf., the owner of OMX Nordic Exchange Iceland and Verðbréfaskráning Íslands hf. (Icelandic Securities Depository), is currently fully owned by OMX AB, a Nordic securities exchange group, currently operating exchanges in Copenhagen, Stockholm, Helsinki, Iceland, Riga, Tallin and Vilnius. OMX Nordic Exchange Iceland was previously known as the Iceland Stock Exchange.

Pension funds represent the largest part of the financial system in Iceland. The pension fund system is fully funded and at the end of 2007 the total assets of the system amounted to approximately 130% of GDP for that year. The pension funds receive payments from employers and employees and are the single most important source of long term finance in the country. Membership in a pension fund is obligatory for wage earners and the self-employed. The pension funds are independent non-governmental entities and invest mainly in domestic bond issues, equity capital and foreign securities.

Since 1999, the FSA has handled the task of supervising commercial banks, savings banks and other credit institutions, insurance companies, companies and individuals acting as insurance brokers, undertakings engaged in securities services, Undertakings for Collective Investment in Transferable Securities ("UCITS"), management companies, stock exchanges and other regulated markets, central securities depositories and pension funds. The FSA is charged with ensuring that the activities of these institutions are conducted in accordance with the laws and regulations of Iceland.

The Central Bank of Iceland is responsible for implementing monetary policy consistent with the goal of maintaining price stability. The Central Bank imposes a reserve requirement on all the commercial banks and savings banks, at present 2% of total disposable funds with maturity less than two years. As of

April 1, 2003, the use of reserves as collateral in payments systems are limited to half the negotiated collateral amount. The purpose of this limitation is to ensure that credit institutions have sufficient margin on the reserve requirement account to meet fluctuations in their liquidity positions.

The Central Bank of Iceland raised its policy rate seven times during 2006 from 10.00% to 13.30%, bringing to 18 the total number of policy rate increases since interest rates began to rise in May 2004. In 2007, the Central Bank of Iceland has raised its policy rate once and such rate now stands at 13.75%.

REGULATION

We operate in seven countries, including Canada where our representative office is located. In four of these countries, Iceland, Luxembourg, Norway and the United Kingdom, we operate under full banking licenses. In other countries, including Canada and Sweden, where our subsidiary Fischer Partners Fondkommission AB is located, we operate under other licenses as an investment firm. Our Norwegian subsidiary, Union Group ASA, has two subsidiaries, Union Norsk Næringsmægling AS, a commercial real estate broker, and Union Eiendomskapital AS, which offers services within structured financing and facilitation of real estate projects for investors and commercial real estate brokers, are self-regulated entities which due to their activities are not required to be licensed by Norwegian authorities. We believe we have all the licenses required to carry out our business in all the jurisdictions in which we operate.

The following is a brief summary of certain laws and regulations which govern the Icelandic financial markets. This summary is not exhaustive, as other laws or regulations not specifically mentioned here also may be applicable, and this brief summary may not cover all aspects of the laws and regulations referred to. All references to laws apply to those laws as amended. In addition, our subsidiaries are subject to laws and regulations governing their activities and the financial markets of their respective jurisdictions.

These laws and regulations require us, among other things, to disclose certain information likely to have an impact on our share price, as well as to provide certain notifications regarding employee stock option plans and certain payments to our senior management and members of our board of directors. In addition, we are required to provide to OMX Nordic Exchange Iceland notification of material changes (or plans to make changes) in our financing and we are required to submit to the Financial Services Authority regulatory reports and other documents, such as annual reports and interim financial statements, reports on large exposures, auditor's reports, reports on related party loans and biannual notifications of non-financial services and ancillary activities. We strive to be in compliance with all the laws and regulations to which we are subject. However, we cannot assure you that we are at all times in compliance with all the relevant laws and regulations.

European Union Regulations

Iceland has been a member of the EEA since 1994. The framework for supervision and regulation of banking and financial services in Iceland has been, and continues to be, heavily influenced by EU regulations, which are required to be implemented by EEA member states through national legislation.

Primary Icelandic Regulation

The principal law governing the establishment, supervision and regulation of financial institutions in Iceland is the Act on Financial Undertakings.

The Financial Supervisory Authority of Iceland has the authority to grant operating licenses pursuant to the Act on Financial Undertakings. A financial institution may commence operations upon receiving an operating license from the Financial Supervisory Authority and must operate as a limited liability company.

A financial institution must have an auditing department to handle internal auditing. This department must be part of a financial institution's organizational structure and one aspect of its internal surveillance system. A financial institution must also have a secure risk management system for all its activities. Rules on ownership of its own shares and large exposures can be found in Chapters IV and VI of the Act on Financial Undertakings.

The Act on Financial Undertakings specifies standards of suitability for the members of the board of directors and the managing directors of a financial institution, as well as of the suitability of employees involved in securities transactions.

The board of directors of a financial institution, its managing directors, auditors, employees and any persons undertaking tasks on its behalf are bound by an obligation of confidentiality concerning any information of which they may become aware in the course of their duties concerning business dealings or private concerns of the financial institution's customers. This obligation continues even after termination of employment. Anyone receiving this type of information will be bound by an obligation of confidentiality in the same manner as described above.

Other Relevant Laws and Regulations

Act. No. 87/1998 on Official Supervision of Financial Activities

Under this act, we are obliged to grant the Financial Supervisory Authority access to all of our accounts, minutes, documents and other material in our possession regarding our activities to whatever extent the Financial Supervisory Authority considers necessary. The Financial Supervisory Authority may perform spot checks or request information in such a manner and as often as it deems necessary. If an inspection carried out by the Financial Supervisory Authority reveals that parties subject to supervision are not in compliance with the law or other regulations governing their activities, the Financial Supervisory Authority must insist on corrective action being taken within a certain time limit, and if the party subject to supervision does not provide requested information or obey requests for corrective action within a certain time limit, the Financial Supervisory Authority may impose daily fines. The Financial Supervisory Authority can also impose liquidated damages on a party subject to supervision in violation of its orders. In the event of a serious infringement, where the party subject to supervision has in the opinion of the Financial Supervisory Authority committed a criminal offence, the Financial Supervisory Authority is obliged to notify the State Police Commissioner (*Ríkislögreglustjóri*).

Act No. 34/1998 on Activities of Stock Exchanges and Regulated OTC Markets

Activities of stock exchanges and regulated over-the-counter markets operating in Iceland are subject to Act No. 34/1998. According to this act, stock exchanges shall be operated as limited liability companies under operating licenses granted by the minister of commerce pursuant to an opinion of the Financial Supervisory Authority. The ICEX is the only company with an operating license under this act.

The Financial Supervisory Authority supervises the activities of stock exchanges and regulated over-the-counter markets to ensure they comply with the provisions of the Act and the rules and regulations issued in accordance with it.

Further rules are contained in Government Regulation No. 433/1999 on the disclosure requirements of issuers, stock exchange members and owners of shares listed on the stock exchange and Government Regulation No. 245/2006 on public listing of securities on a stock exchange.

Act No. 87/1992 on Foreign Exchange

According to Article 2 of Act No. 87/1992 on Foreign Exchange, foreign exchange transactions relating to the import and export of goods and services are unrestricted, as are capital movements and foreign exchange transactions relating to them, unless otherwise stipulated in statutes. According to Article 3 of the act, the Central Bank of Iceland (*Seðlabanki Íslands*) may decide in consultation with the Ministry of Commerce (*viðskiptaráðuneyti*) to impose certain restrictions on foreign exchange transactions if short term capital movements to and from Iceland create, in the Central Bank of Iceland's opinion, exchange rate and monetary instability. According to the Article, the Central Bank may decide to restrict or suspend for a period of up to six months any or all of the following categories of capital movements if short-term capital movements to and from Iceland create, in the Central Bank's opinion, exchange-rate and monetary instability:

- Sale or purchase of short-term securities;

- Deposits in and withdrawals from accounts with depositary institutions;
- The issue, sale or purchase of unit shares in mutual funds which invest in short-term securities;
- Lending or borrowing for a period of less than one year not relating to international trade in goods and services;
- The import and export of short-term securities and of domestic and foreign currency; and
- Other short-term capital movements analogous to those stated above.

The Minister of Commerce may issue regulations imposing restrictions upon foreign exchange transactions relating to any or all of the following categories of capital movements, provided that the provisions of the Act on Investment by Non-residents in Business Enterprises and the Act on the Rights of Ownership and Use of Real Estate are considered, as well as international agreements to which Iceland is party:

- Direct investment by non-residents in business operations in Iceland;
- Sale or purchase by non-residents of shares in domestic enterprises; and
- Real estate purchases in Iceland by non-residents.

Such restrictions may not, however, extend to the transfer from Iceland of capital realized by a non-resident on the sale of a share in an enterprise, liquidation of an enterprise or sale of real estate in Iceland.

Agreement on the Use of Guarantees for the Debts of Individuals

In 2001, the Bankers' and Securities Dealers' Association of Iceland (*Samtök banka og verðbréfafyrirtækja*), on behalf of its members, the Association of Icelandic Savings Banks (*Samband íslenskra sparisjóða*) on behalf of the savings banks, the Consumers' Association of Iceland (*Neytendasamtökin*) and the Minister of Commerce, on behalf of the Icelandic authorities, entered into an agreement on the use of guarantees for the debts of individuals. The objective of the agreement was to reduce the relative importance of guarantees issued by individuals and to base the granting of credit on the ability of the borrower to pay and on the collateral provided.

The agreement applies to all guarantees of debt and when an individual grants permission to mortgage his or her property as collateral for the debts of another individual. According to the agreement, a financial institution must assess the ability of the borrower to pay when a guarantee of debt or a mortgage is given as collateral for a financial obligation, unless the guarantor specifically requests in writing that this not be done. Such a request may only be made in respect of amounts of less than ISK 1 million. A financial institution must ensure that a guarantor has access to the results of a credit rating before providing a guarantee, provided that the borrower has agreed to this.

We are a member of the Bankers' and Securities Dealers' Association of Iceland.

Act No. 98/1999 on Deposit Guarantees and Investor-Compensation Scheme

According to Article 3 of Act No. 98/1999 on Deposit Guarantees and Investor Compensation Scheme, commercial banks, savings banks, companies providing investment services, and other parties engaging in securities brokerage pursuant to law and established in Iceland, must be members of the Depositors' and Investors' Guarantee Fund (*Tryggingarsjóður innstæðueigenda og fjárfesta*). A member company must make payments into the fund as specified in the act.

The fund will pay a customer of a member company, which in the opinion of the Financial Supervisory Authority is unable to make payment of the amount of deposits, securities or cash, the amount of the customer's deposit from the deposit department (*Innstæðudeild*) and the value of their securities and cash in connection with securities brokerage from the securities department (*Verðbréfadeild*). The obligation of the fund to pay also applies if the estate of a member company is subject to bankruptcy proceedings in accordance with the Act on Commercial Banks and Savings Banks and the Act on Securities Trading. In the event that payment is made from the fund, the claims made on the relevant member company or bankruptcy estate will be assumed by the fund.

Act No. 33/2003 on Securities Transactions

Financial institutions are required to maintain impartiality towards their customers and should always conduct their work in such a manner that customers receive equal treatment with regard to information, prices and other terms of business. According to the act, financial institutions must operate in accordance with proper and sound business practices and customs in securities transactions, making the credibility of the financial market and the interests of their customers their priority.

A financial institution must keep its customers' financial instruments segregated from its own assets. A financial institution that is authorized to hold financial instruments owned by its customers may hold these instruments in a special nominee account and accept payment on behalf of its customers from individual issuers of financial instruments, provided the financial institution has explained to the customer the legal effects of this arrangement and the customer has given its approval. The financial institution must keep a record of the holdings of each individual customer. In the event that a financial institution is put into receivership, granted a debt moratorium, is wound up or comparable measures are taken, the customer can withdraw its financial instruments from the nominee account, provided there is no dispute as to the holding.

A financial institution must demonstrate that conflicts of interest in securities transactions are prevented by a clear separation of individual areas of operation, or "Chinese Walls". It must also adopt rules to implement certain requirements of the act, which must be approved by the Financial Supervisory Authority. The financial institution must inform the Financial Supervisory Authority of any violation of the provisions of its rules.

The act stipulates the rules which govern public offers of securities. Public offers of securities must be subject to the prior publication of a prospectus in accordance with the provisions of the act.

The act also stipulates the rules on major holdings, which apply to changes in the ownership of major holdings in listed companies. According to the act, a major holding is 5% of voting rights or the nominal value of the share capital, and multiples thereof of up to 90%. When a party acquires a major holding, or increases a holding to exceed or reduces a holding to fall below this limit, the party must give notice to both the relevant registered securities market and the company immediately.

The provisions of the act which govern takeover bids apply to a takeover of a company which has had one or more classes of its shares listed on a regulated securities market in Iceland. The act stipulates among other things the circumstances under which it is mandatory for a person or persons acting in concert to make a takeover bid to other shareholders, when the takeover bid must be made and the terms of such a bid, the obligations of the board of directors of the target company in such circumstances and the available sanctions when the provisions of the act are not met. Generally, the act requires a person to complete a takeover once 40% of the voting rights of a company have been acquired by such person. A takeover panel was established in 2005 by ICEX, the Financial Supervisory Authority, the Bankers' and Securities Dealers' Association of Iceland, the Association of Small Investors (*Samtök fjárfesta*), the Icelandic Chamber of Commerce (*Viðskiptaráð Íslands*), the Ministry of Commerce and others. The Financial Supervisory Authority supervises takeovers in Iceland despite the existence of the takeover panel, which was established by contract to strengthen the equity market by resolving wherever possible questions of uncertainty in connection with takeovers. The takeover panel has no supervisory power in accordance with law.

Rules regarding the treatment of insider information and insider trading are also covered in the act, including a primary insider's obligation to consult with the relevant compliance officer as to whether inside information is available within a company before trading in the company's securities. A primary insider is also obliged to notify the relevant compliance officer when a trade has taken place. The same applies to parties financially connected to primary insiders. The meanings of the phrases "insider information", "primary insider", "temporary insider" and "other insider" are defined in the act, which also covers rules on market abuse.

The Financial Supervisory Authority supervises the implementation of the act and rules adopted by virtue of it.

Act No. 36/2001 on the Central Bank of Iceland

The Central Bank of Iceland is an independent institution, owned by the Icelandic state but under separate administration. Its governance is subject to the provisions of Act No. 36/2001. The Central Bank of Iceland is in charge of monetary policy implementation in Iceland and performs a wide range of functions to this end. The main objective of monetary policy is price stability. By agreement with the Prime Minister, the Central Bank can declare a numerical target for inflation. The Governor of the Central Bank of Iceland currently has declared an aim to keep inflation, which is calculated as the annual increase in the 12-month Consumer Price Index (*vísitala neysluverðs*), as close as possible to 2.5%. The Central Bank of Iceland promotes the implementation of the economic policy of the government as long as it does not regard it to be inconsistent with its main objective of promoting price stability. For the purpose of pursuing its monetary policy objectives, the Central Bank of Iceland is authorized to buy and sell government bonds and other securities on an organized securities market or in direct transactions with credit institutions. The Central Bank of Iceland also undertake other tasks, such as maintaining external reserves and promoting an efficient and secure financial system, including domestic and international payment systems.

Act No. 34/1991 on Investment by Non-residents in Business Enterprises

According to this act, non-residents are permitted to invest in business enterprises in Iceland within the limitations stipulated by the act or in special legislation and upon the fulfillment of other conditions and the acquisition of licenses required by law. There are some restrictions on foreign investment, the most significant of which relate to investment in the fisheries sector and exploitation of hydro and geothermal energy resources.

Investment in Icelandic enterprises by foreign states, local authorities or other foreign authorities involved in enterprises is prohibited except with special permission from the Minister of Commerce. Non-residents may acquire title to real estate in Iceland for direct use in their enterprise in accordance with the provisions of the act governing the ownership and utilization rights of real estate.

Act No. 64/2006 on Measures to Prevent Money Laundering and Terrorist Financing

On June 2, 2006, the Icelandic parliament, Althingi, passed a new Act on Measures to Counteract Money Laundering and Terrorist Financing. This new act transposes into Icelandic law the provisions of Directive 2005/60/EC of the European Parliament and the Council of October 26, 2005, on the prevention of the use of the financial system for purposes of money laundering and terrorist financing. According to the act, each financial undertaking subject to its provisions (including Glitnir) must adopt a series of strict rules regarding business relationships, in particular upon opening an account or depositing assets, such as requiring a customer to prove his identity by presenting personal identification documents, preserving photocopies of the personal identification documents and carefully examining any transactions exceeding prescribed thresholds or suspected of being traceable to a violation and notifying the police authorities of any transaction considered to be so related. Furthermore, the financial undertaking must, after establishing a business relationship, conduct ongoing monitoring of transactions for the purpose of ensuring that such business relationships are not used for money laundering or terrorist financing. These entities must also operate a system of internal controls designed to prevent use of their operations for crime-related

transactions. The Financial Supervisory Authority is responsible for supervising the activities of the financial undertakings subject to the act.

Act No. 30/2003 on Undertakings for Collective Investment in Transferable Securities (UCITS) and Investment Funds

According to this act, only UCITS and investment funds may accept funds from members of the public for collective investment in financial instruments and other assets on the basis of spreading risk, in accordance with a prior-stated investment policy. Administration and safekeeping of the financial instruments of a UCITS shall be entrusted to a depositary which has been approved by the Financial Supervisory Authority.

The Financial Supervisory Authority shall ensure that the activities of UCITS, investment funds, management companies and depositaries comply with the act and regulations issued on its basis. The Financial Supervisory Authority shall grant UCITS accreditation. Activities may begin once accreditation has been received from the Financial Supervisory Authority. A UCITS may not operate without the accreditation of the Financial Supervisory Authority. A foreign UCITS established and accredited in another state of EEA may market its unit shares in Iceland two months after the UCITS has notified the Financial Supervisory Authority of its proposed activity.

Management companies which operate UCITS or investment funds may, according to the act, establish funds for collective investment which do not accept funds from members of the public (institutional investor funds) and issue unit shares or shares. The management companies must notify the Financial Supervisory Authority of the establishment of institutional investment funds but the funds are not subject to the surveillance of the Financial Supervisory Authority.

Other Relevant Legislation in Iceland

Other relevant legislation includes Act No. 121/1994 on Consumer Credit, Act No. 77/2000 on The Protection of Privacy as regards the Processing of Personal Data and Act No. 38/2001 on Price and Indexation.

SPECIAL PROVISIONS RELATING TO FOREIGN CURRENCY NOTES

Exchange Rates and Exchange Controls

An investment in notes that are denominated in, or the payment of which is determined with reference to, a specified currency other than U.S. dollars entails significant risks that are not associated with a similar investment in a security denominated in U.S. dollars. Similarly, an investment in an Indexed Note entails significant risks that are not associated with an investment in non-indexed linked notes. Such risks include, without limitation, the possibility of significant changes in rates of exchange between U.S. dollars and the specified currency (or, in the case of each indexed linked note, the rate of exchange between the denominated currency and the indexed currency for such indexed linked note), including changes resulting from official redenomination with respect to such specified currency (or, in the case of each indexed linked note, with respect to the denominated currency or the indexed currency therefor) and the possibility of the imposition or modification of foreign exchange controls with respect to the specified currency. Such risks generally depend on factors over which we have no control, such as economic and political events and the supply of and demand for the relevant currencies. In recent years, rates of exchange between specified currencies have been highly volatile, and such volatility may continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in the rate that may occur during the term of any note.

Depreciation of a currency or composite currency in which a note is denominated against the U.S. dollar would result in a decrease in the effective yield of such note below its coupon rate, and in certain circumstances could result in loss to the investor on a U.S. dollar basis. Similarly, depreciation of the denominated currency with respect to an indexed linked note against the applicable indexed currency would result in the principal amount payable with respect to such indexed linked note at the stated maturity being less than the face amount of such indexed linked note which, in turn would decrease the effective yield of such indexed linked note below its applicable interest rate and could also result in a loss to the investor.

The notes will provide that, in the event of an official redenomination of a foreign currency (including, without limitation, an official redenomination of a foreign currency that is a composite currency) our obligations with respect to payments on notes denominated in such currency shall, in all cases, be deemed immediately following such redenomination to provide for the payment of that amount of redenomination currency representing the amount of such obligations immediately before such redenomination. Except as expressly provided herein or in the applicable pricing supplement, the notes do not provide for any adjustment to any amount payable under the notes as a result of (a) any change in the value of a foreign currency relative to any other currency due to fluctuations in exchange rates or (b) any redenomination of any component currency of any composite currency (unless such composite currency is itself officially redenominated).

Governments have from time to time imposed, and may in the future impose, exchange controls that could affect exchange rates as well as the availability of a foreign currency for making payments with respect to a note denominated in such currency. There can be no assurances that exchange controls will not restrict or prohibit payments of principal or interest in any currency or composite currency. Even if there are not actual exchange controls, it is possible that, with respect to any particular note, the currency for such note will not be available to the Issuer to make payments of interest and principal then due because of circumstances beyond our control. In that event, the Issuer will make such payment in the manner set forth below under “—Payment Currency”.

The pricing supplement relating to notes denominated in a specified currency other than U.S. dollars or relating to indexed linked notes will contain information concerning historical exchange rates for such specified currency or denominate currency against the U.S. dollar or other relevant currency (including, in the case of indexed linked notes, the applicable indexed currency) and any exchange controls affecting such currency or currencies. Information concerning exchange rates is furnished as a matter of information only and should not be regarded as indicative of the range of or trend in fluctuations in currency exchange rates that may occur in the future.

Payment Currency

Except as otherwise provided herein or in the applicable pricing supplement, if payment on a note is required to be made in a specified currency other than U.S. dollars or in any currency unit and such currency or currency unit is unavailable due to the imposition of exchange controls or other circumstances beyond our control or if such currency is no longer used by the government of the country issuing such currency or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of such note shall be made in U.S. dollars until such currency or currency unit is again available or so used. The amount so payable on any date in such currency or currency unit will be converted into U.S. dollars on the basis of the market exchange rate for such currency, or for each component currency, as of the conversion date. See “Description of the Notes—Payments” above. Any payment made under such circumstances in U.S. dollars will not constitute an event of default under the notes.

If the official unit of any component currency is altered by way of combination or subdivision, the number of units of that currency as a component currency shall be divided or multiplied in the same proportion. If two or more component currencies are consolidated into a single currency, the amounts of those currencies as component currencies shall be replaced by an amount in such single currency equal to the sum of the amounts of the consolidated component currencies expressed in such single currency. If any component currency is divided into two or more currencies, the amount of the original component currency shall be replaced by the amounts of such two or more currencies having an aggregate value on the date of division equal to the amount of the former component currency immediately before such division.

Foreign Currency Judgments

The notes will be governed by and construed in accordance with the laws of the State of New York applicable to instruments made to be performed wholly within such jurisdiction, except that the subordination provisions in the subordinated notes will be governed by and construed in accordance with the laws of Iceland. Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than U.S. dollars. If a note is denominated in a specified currency other than U.S. dollars, any judgment under New York law will be rendered in the foreign currency of the underlying obligations and converted into U.S. dollars at a rate of exchange prevailing on the date of entry of the judgment or decree.

Information Limited to United States Holders

The information set forth in this offering circular (except for certain tax information) is directed to prospective purchasers of notes who are United States Holders (as defined below), and we disclaim any responsibility to advise prospective purchasers who are residents of countries other than the United States with respect to any matters that may affect the purchase or holding of, or receipt of payments of principal, premium or interest in respect of, notes. Such persons should consult their own counsel with regard to such matters.

ICELANDIC TAXATION

The comments below are of a general nature based upon our understanding of current law and practice in Iceland. They should not be construed as providing specific advice as to Icelandic taxation and are subject to changes as to the applicable rules in the future. They relate only to the position of persons who are the absolute beneficial owners of the notes. Prospective holders of the notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

Non-Icelandic Tax Residents

There are no taxes or other governmental charges payable under the laws of Iceland or any authority of, or in, Iceland in respect of the principal, interest or any other amount payable on the notes paid to a Holder who is not a tax resident of Iceland.

There are no estate or inheritance taxes, succession duties, gift taxes or capital gains taxes imposed on the Holder of the notes by Iceland or any authority of, or in, Iceland in respect of the notes if, at the time of the death of the Holder or the transfer of the notes, such Holder or transferor is not a tax resident of Iceland.

For a recipient who is not a tax resident of Iceland, we may be required to withhold tax in the amount of 10% on any payment of interest due under the Notes, if the recipient does not file an application (on Form RSK 5.35) with the Icelandic Revenue Service to qualify for the exemption from such withholding. If an application is not made prior to such withholding, the recipient may apply through the same channels for a refund of the withholding tax. In the event we are required to withhold tax, we will pay such additional amounts as shall be necessary in order that the net amounts received by the Holders of the notes after such withholding shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, in the absence of such withholding, as described above under “Description of the Notes—Additional Amounts”.

Icelandic Tax Residents

Beneficial owners of the notes that are resident in Iceland for tax purposes are subject to income tax in Iceland on their interest income in accordance with Icelandic tax law. The rate depends on their tax status.

Subject to certain exemptions applicable to, for example, most banks and pension funds, we are required to withhold a 10% tax on the interest paid to the Holders of the notes which is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the Holder.

UNITED STATES FEDERAL INCOME TAXATION

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, NOTEHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY NOTEHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON NOTEHOLDERS UNDER THE U.S. INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY US IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY US AND DEALERS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) NOTEHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following summary of certain material United States federal income tax consequences of the purchase, ownership, and disposition of the notes is based upon the tax laws of the United States, including the Internal Revenue Code of 1986 (the “Code”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all of which are subject to change at any time, possibly with retroactive effect. It deals only with notes held as capital assets and does not purport to deal with persons in special tax situations, including financial institutions, insurance companies, regulated investment companies, tax-exempt entities, dealers in securities or currencies, persons holding notes in a tax-deferred or tax-advantaged account, persons holding notes as a hedge against currency risks or as a position in a “straddle” or as part of a “conversion” transaction for tax purposes, or persons who are required to mark-to-market for tax purposes. It also does not deal with holders other than original purchasers, except where otherwise specifically noted. Persons considering the purchase of the notes should consult their own tax advisors concerning the application of United States federal income tax laws to their particular situations as well as any consequences of the purchase, ownership, and disposition of the notes arising under the laws of any other taxing jurisdiction.

As used in this offering circular, the term “United States Holder” means a beneficial owner of a note that is for United States federal income tax purposes:

- (1) an individual that is a citizen or resident of the United States;
- (2) a corporation or partnership (including an entity treated as a corporation or partnership for United States federal income tax purposes) created or organized in or under the laws of the United States, or any state of the United States or the District of Columbia (other than a partnership that is not treated as a United States person under any applicable Treasury regulations);
- (3) an estate whose income is subject to United States federal income tax regardless of its source; or
- (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. To the extent provided in regulations, some types of trusts in existence on 20th August, 1996 and treated as United States persons prior to that date which elect to continue to be so treated will also be considered United States Holders.

As used in this section, the term “Non-United States Holder” means a beneficial owner of a note that is not a United States Holder.

Unless otherwise noted below, we have assumed for purposes of the discussion below that the notes are issued in U.S. dollars and that the functional currency of a United States Holder is the U.S. dollar.

Depending on the relevant economic terms of the notes, including whether a holder of a note has principal protection, the note may be characterized for United States federal income tax purposes as indebtedness, a forward contract or another type of financial derivative. The following discussion assumes that the notes will be characterized as indebtedness for United States federal income tax purposes and that holders agree to treat the notes as such, unless an alternate characterization of the notes is specified in the applicable pricing supplement. Any special United States federal income tax considerations relevant to a particular issue of notes, including any index linked notes, dual currency notes, zero coupon notes or amortizing notes will be provided in the applicable pricing supplement.

United States Holders

The following is a summary of certain material United States federal income tax consequences of the ownership of notes, other than index linked notes, dual currency notes, zero coupon notes or amortizing notes.

Payments of Interest

In General. Subject to the discussions on “Market Discount” and “Original Issue Discount” below, interest on a note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars (each a “Foreign Currency”), will be taxable to a United States Holder as ordinary income at the time it is received or accrued, depending on the United States Holder’s method of accounting for tax purposes.

Foreign Currency Denominated Interest. If an interest payment is denominated in, or determined by reference to, a Foreign Currency, the amount of income recognized by a cash basis United States Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

Accrual Method. If the noteholder is a United States Holder who uses the accrual method of accounting for United States federal income tax purposes, or who otherwise is required to accrue interest prior to receipt, it will be required to include in income the U.S. dollar value of the amount of interest income that has accrued or is otherwise required to be taken into account with respect to a note during an accrual period. The U.S. dollar value of that accrued income will be determined by translating that income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The noteholder may elect, however, to translate the accrued interest income using the rate of exchange on the last day of the accrual period or, for an accrual period that spans two taxable years, using the rate of exchange on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, the noteholder may translate the interest using the rate of exchange on the date of receipt. This election will apply to all other debt obligations held by the noteholder and may not be changed without the consent of the United States Internal Revenue Service (the “IRS”). The noteholder should consult a tax advisor before making this election.

In addition to the interest income described above, if the notes are denominated, and interest will be paid, in a Foreign Currency, the noteholder will be required to recognize currency gain or loss. This gain or loss will be treated as ordinary income or loss. The currency gain or loss will be recognized on the date interest is received or the notes are disposed of and will equal the difference, if any, between the U.S. dollar value of the Foreign Currency payment received (determined on the date the payment is received) in respect of the related accrual period and the U.S. dollar value of interest income that has accrued during that accrual period (as determined above).

Sale, Exchange, and Retirement of notes

Upon the sale, exchange, or retirement of a note, the noteholder will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, or retirement and its adjusted tax

basis in the note. The noteholder's adjusted tax basis in a note will equal the amount it paid for the note, increased by the amounts of any market discount or original issue discount it previously included in income with respect to such note and reduced by any amortized acquisition or other premium and any principal payments it received in respect of the note. This gain or loss generally will be capital gain or loss (except to the extent of any accrued market discount the noteholder did not previously include in income and the amount of any currency gain or loss as described below) and will be long-term capital gain or loss if at the time of sale, exchange, or retirement the noteholder has held the note for more than one year. To the extent the amount realized represents accrued but unpaid interest (including original issue discount), however, these amounts must be taken into account as interest income, with currency gain or loss computed as described in "United States Holders — Payments of Interest".

If the noteholder receives Foreign Currency on such a sale, exchange, or retirement, the amount realized will be based on the U.S. dollar value of the Foreign Currency on the date the payment is received or the note is disposed of (or deemed disposed of as a result of a material change in the terms of the note). If, however, a note is traded on an established securities market and the noteholder is a cash basis taxpayer (or an accrual basis taxpayer that has made an appropriate election), the U.S. dollar value of the amount realized will be determined by translating the Foreign Currency payment at the spot rate of exchange on the settlement date of the sale. For purposes of computing a United States Holder's adjusted tax basis, the amount of any payment in or adjustments measured by Foreign Currency will be equal to the U.S. dollar value of that Foreign Currency on the date of the purchase or adjustment.

Gain or loss realized upon the sale, exchange, or retirement of a note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates will equal the difference between the U.S. dollar value of the Foreign Currency principal amount of the note, determined on the date the payment is received or the note is disposed of, and the U.S. dollar value of the Foreign Currency principal amount of the note, determined on the date the noteholder acquired the note. This Foreign Currency gain or loss will be recognized only to the extent of the total gain or loss the noteholder realized on the sale, exchange, or retirement of the note.

Premium

If the noteholder purchases a note at a cost greater than the note's remaining redemption amount, it will be considered to have purchased the note at a premium, and it may elect to amortize the premium as an offset to interest income, using a constant yield method, over the remaining term of the note. If the noteholder makes this election, it generally will apply to all debt instruments that it holds at the time of the election, as well as any debt instruments that it subsequently acquires. In addition, it may not revoke the election without the consent of the IRS. If it elects to amortize the premium, it will be required to reduce its tax basis in the note by the amount of the premium amortized during its holding period.

If the notes are denominated in a Foreign Currency, the noteholder should calculate the amortization of the premium in the Foreign Currency. Premium amortization deductions attributable to a period reduce interest income in respect of that period, and therefore are translated into U.S. dollars at the rate that it uses for interest payments in respect of that period. Currency gain or loss will be realized with respect to amortized premium based on the difference between the exchange rate computed on the date or dates the premium is amortized against interest payments on the note and the exchange rate on the date it acquired the note. If the noteholder does not elect to amortize premium, the amount of premium will be included in its tax basis in the note. Therefore, if it does not elect to amortize premium and it holds the note to maturity, it will generally be required to treat the premium as capital loss when the note matures.

Market Discount

A note will be treated as purchased at a "market discount" if (i) the amount for which the noteholder purchased the note is less than the note's issue price and (ii) the note's stated redemption price at maturity exceeds the amount for which the noteholder purchased the note by at least 0.25% of such note's stated redemption price at maturity multiplied by the number of remaining whole years to maturity.

In this case, any gain that the noteholder realizes on the disposition of the note generally will be treated as ordinary interest income to the extent of the market discount that accrued on the note during its holding period. In addition, it may be required to defer the deduction of a portion of the interest paid on any indebtedness that it incurred or maintained to purchase or carry the note. In general, market discount will be treated as accruing ratably over the term of the note, or, at the noteholder's election, under a constant yield method.

The noteholder may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield basis), in lieu of treating a portion of any gain realized on a sale of the note as ordinary income. If it elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. If it does make such an election, it will apply to all market discount debt instruments that it acquires on or after the first day of the first taxable year to which the election applies. The election may not be revoked without the consent of the IRS.

The noteholder must accrue market discount on a note denominated in a foreign currency in the specified currency. The amount that it will be required to include in income in respect of accrued market discount will be the U.S. dollar value of the accrued amount, generally calculated at the exchange rate in effect on the date that it disposes of the note. No part of this accrued market discount will be treated as currency gain or loss. Any accrued market discount on a note denominated in a foreign currency that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion of the accrual period within the holder's taxable year). Currency gain or loss with respect to accrued market discount currently includable in income is determined in the manner described above in "United States Holders - Payments of Interest" with respect to the computation of currency gain or loss on accrued interest.

Exchange of Foreign Currencies

The noteholder will have a tax basis in any Foreign Currency received as interest or on the sale, exchange, or retirement of a note equal to the U.S. dollar value of such Foreign Currency, determined at the time the interest is received or at the time of the sale, exchange, or retirement. Any gain or loss that it realizes on a sale or other disposition of Foreign Currency (including its exchange for U.S. dollars or its use to purchase notes) will be ordinary income or loss.

Original Issue Discount

A note that is issued at an issue price that is less than its stated redemption price at maturity (i.e., the sum of all payments to be made on the note other than "qualified stated interest") is treated as issued at original issue discount, or "OID", if the difference between the stated redemption price at maturity of the note and its issue price exceeds a statutorily defined de minimis amount. In the case of OID notes where the OID does not exceed a de minimis amount, a United States Holder who acquires the OID notes at the time they are issued is required to include the de minimis OID in income as stated principal payments are made. As discussed below, United States Holders of OID notes with a maturity in excess of one year must, in general, include OID in income on a daily basis as the OID accrues. In general, the "issue price" of each note is the first price at which a substantial amount of the issue of which the notes is a part is sold to purchasers other than underwriters, placement agents, or wholesalers. "Qualified stated interest" is stated interest that is unconditionally payable in cash or in property, other than our debt instruments, at least annually and, with respect to a fixed rate note, at a single fixed rate. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments, subject to a special rule for first and final interest payments.

Notes that may be redeemed prior to their maturity date at our option, or that may be prepaid prior to their maturity date at holder's option, will be treated from the time of issuance as having a maturity date for certain United States federal income tax purposes on the redemption or prepayment date if:

- in the case of a redemption at our option, the redemption would minimize yield to maturity; or

- in the case of a prepayment at the holder's option, the prepayment would maximize yield to maturity.

Notes whose term can be extended on fixed terms and conditions at our or the holder's option will be treated as having a maturity date on the latest date on which it could be repaid if:

- in the case of an option held by us, the extension would minimize yield to maturity; or
- in the case of an option held by the holder, the extension would maximize yield to maturity.

The applicable pricing supplement will indicate when we determine that a particular note will be deemed to have a maturity date for United States federal income tax purposes prior to or later than its maturity date.

In some cases, notes that bear stated interest and are issued at par may be treated as having been issued with OID for United States federal income tax purposes, and all or a portion of the stated interest would be recharacterized as OID. This could affect the amount of interest income on the notes that would be includable in income by United States Holders for any tax year for United States federal income tax purposes. In addition, the amount may vary from the actual cash payments of interest made on the notes received during the tax year, which could affect the timing of income recognition with respect to taxpayers owning the notes.

The applicable pricing supplement will indicate when we determine that a particular note will be an OID Note.

United States Holders of OID notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includable in income by the initial United States Holder of an OID Note is the sum of the "daily portions" of OID with respect to the OID Note for each day during the taxable year or portion of the taxable year in which the United States Holder held the OID Note. This is referred to as "accrued OID". The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" for an OID Note may be of any length and may vary in length over the term of an OID Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or final day of an accrual period. In general, the computation of OID is simplest if accrual periods correspond to the intervals between interest payment dates provided by the terms of an OID Note. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the note's adjusted issue price at the beginning of the accrual period and its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over (b) the sum of any qualified stated interest allocable to the accrual period. In determining OID allocable to an accrual period, if an interval between payments of qualified stated interest contains more than one accrual period, the amount of qualified stated interest payable at the end of the interval is allocated on a pro rata basis to each accrual period in the interval, and the adjusted issue price at the beginning of each accrual period must be increased by the amount of any qualified stated interest that has accrued prior to the beginning of the accrual period but is not payable until a later date. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. If all accrual periods are of equal length, except for an initial short accrual period, the amount of OID allocable to the initial short accrual period may be computed under any reasonable method. The "adjusted issue price" of an OID Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period and reduced by any prior payments with respect to the OID Note that were not qualified stated interest. Under the OID rules, a United States Holder of a non-amortizing OID Note will generally have to include in its taxable income increasingly greater amounts of OID in successive accrual periods. We are required to report to the IRS the amount of OID accrued on OID notes held of record by persons other than corporations and certain other exempt persons.

OID notes having a term of one year or less are called “short-term OID notes”. In the case of short-term OID notes, all payments, including all stated interest, will be included in the stated redemption price at maturity. As a result, United States Holders generally will be taxable on OID in lieu of stated interest. The amount of OID will be equal to the excess of the stated redemption price at maturity over the issue price of the short-term OID Note, unless the United States Holder elects to compute acquisition discount using tax basis with appropriate adjustments to reflect the difference between OID and acquisition discount. In general, individuals and certain other cash method United States Holders of a short-term OID Note are not required to include accrued OID or acquisition discount in their income currently, but they may elect to do so, and they may be required to include in income any payments actually received. United States Holders who report income for United States federal income tax purposes on the accrual method and certain other United States Holders are required to accrue OID or acquisition discount on the short-term OID notes, as ordinary income, on a straight-line basis, unless an election is made to accrue the OID or acquisition discount using a constant yield method, compounded on a daily basis. In the case of a United States Holder who is not required, and does not elect, to include OID or acquisition discount in income currently, any gain realized on the sale, exchange, or retirement of the short-term OID Note will be ordinary income to the extent of the OID or acquisition discount accrued through the date of sale, exchange, or retirement. In addition, United States Holders who do not elect to currently include accrued OID or acquisition discount in income may be required to defer deductions for a portion of the United States Holder’s interest expense with respect to any indebtedness incurred or continued to purchase or carry the short-term OID Note.

Floating rate notes generally will be treated as “variable rate debt instruments” under the OID regulations. The OID regulations generally convert a variable rate debt instrument into a fixed rate instrument and then apply the general OID rules to such deemed fixed rate instrument. The application of the OID regulations to a variable rate debt instrument is not described in this offering circular. In the event a floating rate note would be treated as an OID Note, a description of the tax considerations relevant to the United States Holders of any such notes will be provided in the applicable pricing supplement. If a floating rate note does not qualify as a “variable rate debt instrument”, such note will be subject to special rules (the “Contingent Payment Regulations”) that govern the tax treatment of debt obligations that provide for contingent payments. A description of the tax considerations relevant to the United States Holders of any such note will be provided in the applicable pricing supplement.

For notes denominated in a foreign currency or interest paid in, or determined by reference to a foreign currency, a United States Holder should determine the U.S. dollar amount includable in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the Foreign Currency using the constant-yield method described above, and (b) translating the amount of the Foreign Currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a United States Holder’s taxable year) or, at the United States Holder’s election (as described above under “Payments of Interest”), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. Because exchange rates may fluctuate, a United States Holder of an OID Note may recognize a different amount of OID income in each accrual period than would the holder of an otherwise similar OID Note denominated in U.S. dollars. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the OID Note), a United States Holder will recognize ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the OID Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

U.S. Foreign Tax Credit

If withholding taxes are imposed on OID or stated interest (or additional amounts) paid on the notes, United States Holders will be treated as having actually received an amount equal to the amount of such taxes and as having paid such amount to the relevant taxing authority. As a result, the amount of interest income included in gross income by a United States Holder will be greater than the amount of cash

actually received by the United States Holder. A United States Holder may be able, subject to applicable limitations, to claim a foreign tax credit or deduction for withholding taxes imposed. The calculation of United States foreign tax credits and, in the case of a United States Holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend on a United States Holder's particular circumstances. United States Holders should, therefore, consult their own tax advisors regarding the application of the United States foreign tax credit rules.

Index Linked Notes, Dual Currency Notes, Zero Coupon Notes, Amortizing Notes and Other Notes

The applicable pricing supplement will discuss any special United States federal income tax rules with respect to index linked notes, dual currency notes, zero coupon notes, amortizing notes and other notes that are subject to U.S. federal income tax consequences different from those set forth herein.

Reportable Transactions

Applicable Treasury regulations require taxpayers that participate in "reportable transactions" to disclose that participation to the IRS by attaching Form 8886 to their tax returns and to retain a copy of all documents and records related to the transaction. In addition, "material advisers" with respect to a reportable transaction may be required to file returns and maintain records, including the lists identifying investors in the transaction, and to furnish those records to the IRS upon demand. A transaction may be a "reportable transaction" based on any of several criteria, one or more of which may be present with respect to an investment in the notes. Whether an investment in the notes constitutes a "reportable transaction" for any investor depends on that investor's particular circumstances. The regulations provide that, in addition to certain other transactions, a "loss transaction" constitutes a "reportable transaction". A "loss transaction" is any transaction resulting in the taxpayer claiming a loss under Section 165 of the Code in an amount equal to or in excess of certain threshold amounts. The regulations specifically provide that a loss resulting from a "Section 988 transaction" will constitute a Section 165 loss. In general, a note will be subject to the rules governing foreign currency exchange gain or loss. Therefore, losses realized with respect to a note may constitute a Section 988 transaction, and a holder of notes that recognizes exchange loss in an amount that exceeds the loss threshold amount applicable to that holder may be required to file Form 8886. Investors should consult their own tax advisors concerning any possible disclosure obligation they may have with respect to their investment in the notes and should be aware that, should any "material adviser" determine that the return filing or investor list maintenance requirements apply to this transaction, they would be required to comply with this requirement.

Non-United States Holders

Except as noted in the applicable pricing supplement, under current United States federal income tax law, and subject to the backup withholding rules discussed below under "Information Reporting And Backup Withholding", a Non-United States Holder will generally be exempt from United States federal income withholding tax on payments of interest on a note and gain realized in connection with the sale, retirement or other disposition of a note, although to gain this exemption the Non-United States Holder may need to provide the appropriate party with an IRS Form W-8 BEN (or substitute form) attesting to the holder's status as a Non-United States person.

A Non-United States Holder generally will be subject to regular U.S. income tax on interest (including stated interest, additional amounts, OID and market discount, as adjusted by amortizable bond premium and acquisition premium) and gain realized in connection with the sale, retirement or other disposition of a note in the same manner as if it were a United States Holder if such Non-United States Holder is (a) engaged in a trade or business in the United States or, if an income tax treaty applies, has a United States permanent establishment, and the interest or gain on the note, as the case may be, is effectively connected with the conduct of such trade or business or is attributable to such permanent establishment, respectively; (b) in the case of gain realized by a Non-United States Holder who is an individual, such holder is present in the United States for 183 days or more in the taxable year of disposition and other conditions are satisfied; (c) the Non-United States Holder is subject to tax pursuant to the provisions of the Code applicable to United States expatriates; or (d) the Non-United States Holder is

otherwise subject to United States federal income taxation on a net basis in respect of income attributable to the note. In addition, if such Non-United States Holder is a foreign corporation that is engaged in a trade or business within the United States, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to adjustments.

Information Reporting and Backup Withholding

Payments of principal and interest, as well as payments of proceeds from the sale, retirement or other disposition of a note, may be subject to a “backup withholding” tax (currently at a 28% rate but scheduled to be increased to 31% after 2010) if the recipient of such payments fails to furnish to the payor identifying information or fails to establish its status as a United States Holder or a Non-United States Holder. Any amounts deducted and withheld would be allowed as a credit against such recipient’s United States federal income tax, provided that appropriate proof is provided under rules established by the IRS. Furthermore, penalties may be imposed by the IRS on a recipient of payments that is required to supply information but that does not do so in the proper manner. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and financial institutions. Information may also be required to be provided to the IRS concerning payments on the notes, unless an exemption applies. Holders of notes are cautioned to consult their own tax advisors regarding their qualification for an exemption from backup withholding and information reporting, and the procedure for obtaining such an exemption.

ERISA MATTERS

The U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain restrictions on employee benefit plans subject to ERISA (“ERISA Plans”) and on persons who are fiduciaries with respect to these ERISA Plans. In accordance with ERISA’s general fiduciary requirements, a fiduciary with respect to an ERISA Plan who is considering the purchase of Notes on behalf of the ERISA Plan should determine whether the purchase is permitted under the governing ERISA Plan documents and is prudent and appropriate for the ERISA Plan in view of its overall investment policy and the composition and diversification of its portfolio. A fiduciary of an ERISA Plan should also determine whether it holds any of our senior debt and consider how any such holdings and the exercise of rights thereunder might impact its proposed acquisition or retention of the offered Notes. Other provisions of ERISA and Section 4975 of the Code, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with any entities whose underlying assets include the assets of any such plans and with ERISA Plans, “Plans”)) and persons who have certain specified relationships to the Plan (“parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of Section 4975 of the Code). Thus, a Plan fiduciary considering the purchase of the Notes should consider whether such a purchase might constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code.

Treatment of “Parties in Interest” and “Disqualified Persons”

As a result of the nature of our business, we and some of our affiliates may be considered “parties in interest” or “disqualified persons” with respect to one or more Plans. For example, if we provide banking or financial advisory services to a Plan, or act as a trustee or in a similar fiduciary role for Plan assets, we may be considered a party in interest or a disqualified person for that Plan. The purchase of the notes by a Plan with respect to which we are a “party in interest” or a “disqualified person” may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless the notes are acquired pursuant to and in accordance with an applicable exemption, such as Section 408(b)(17) of ERISA (an exemption for certain transactions between a plan and a non-fiduciary service provider), Prohibited Transaction Class Exemption (“PTCE”) 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 95-60 (an exemption for certain transactions involving insurance company general accounts), or PTCE 96-23 (an exemption for certain transactions determined by an in-house asset manager). Note that there is no assurance that any of these exemptions would apply with respect to all transactions involving the acquisition of the notes described herein. Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code.

By its purchase of any offered note, the purchaser or transferee thereof will be deemed to represent, on each day from the date on which the purchaser or transferee acquires the offered note through and including the date on which the purchaser or transferee disposes of its interest in such offered note, either that (a) it is not a Plan, an entity whose underlying assets include the assets of any Plan, or a governmental or church plan which is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase, holding and disposition of such offered note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or in the case of a governmental or church plan, any substantially similar federal, state or local law) unless an exemption is available with respect to such transactions and all the conditions of such exemption have been satisfied.

THIS DISCUSSION IS A GENERAL DISCUSSION OF SOME OF THE RULES WHICH APPLY TO EMPLOYEE BENEFIT PLANS AND THEIR RELATED INVESTMENT VEHICLES. PRIOR TO ACQUIRING ANY OF THE OFFERED NOTES, PROSPECTIVE BENEFIT PLAN INVESTORS SHOULD CONSULT WITH THEIR LEGAL AND OTHER ADVISORS CONCERNING THE IMPACT

OF ERISA AND THE CODE, AND, PARTICULARLY IN THE CASE OF GOVERNMENT PLANS AND RELATED INVESTMENT VEHICLES, ANY ADDITIONAL STATE LAW CONSIDERATIONS, AND THE POTENTIAL CONSEQUENCES IN THEIR SPECIFIC CIRCUMSTANCES.

SETTLEMENT

Unless otherwise specified in the applicable pricing supplement, payment of the purchase price of the notes will be required to be made in immediately available funds in the applicable specified currency in New York City three business days after the trade date.

PLAN OF DISTRIBUTION

Unless otherwise specified in the applicable pricing supplement, under the terms and subject to the conditions contained in the Distribution Agreement, the dealers have agreed to arrange for the private placement of all of the notes being offered under this offering circular and under each supplement.

None of the notes will be registered under the Securities Act and the notes may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and in accordance with all applicable securities laws of the States of the United States. We have been advised by the dealers that, unless otherwise indicated in the relevant supplement or supplements, the dealers propose to privately place each series of notes issued hereunder and under each related supplement or supplements only to QIBs in reliance on Rule 144A under the Securities Act or to accredited investors (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) (“accredited investors”).

We have agreed to indemnify each dealer against, or to make contributions relating to, certain civil liabilities, including liabilities under the Securities Act.

We have the right to withdraw, cancel, or modify the offer made by this offering circular without notice. We will have the sole right to accept offers to purchase notes, and in our absolute discretion, we may reject any proposed purchase of notes in whole or in part. Each dealer will have the right, in its reasonable discretion, to reject in whole or in part any proposed purchase of notes through that dealer.

In connection with an offering of notes purchased by one or more dealers as principal on a fixed offering price basis, certain persons participating in the offering (including such dealers) may engage in stabilizing and syndicate covering transactions. Syndicate covering transactions involve purchases of notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing and syndicate covering transactions may cause the price of the notes to be higher than they would otherwise be in the absence of such transactions. These transactions, if commenced, may be discontinued at any time.

We have been advised by the dealers that they may make a market in the notes; however, such market making activity may be terminated at any time and we cannot provide any assurance that a secondary market for the notes will develop.

This offering circular and any supplement or supplements hereto may be used by our affiliates in connection with offers and sales related to secondary market transactions in the notes. Such affiliates may act as principal or agent in such transactions. Such sales will be made at prices related to prevailing prices at the time of a sale.

Each dealer may be deemed to be an “underwriter” within the meaning of the Securities Act of 1933, as amended, and any discounts and commissions received by it and any profit realized by it on resale of the notes may be deemed to be underwriting discounts and commissions.

Each purchaser of notes offered hereby in making its purchase may be required to deliver a letter to us, in the form available from us as set forth in the accompanying supplement, containing representations, warranties and agreements as set forth under “Notice to Investors”.

Each of the dealers, severally and not jointly, has agreed and each dealer will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the notes or possesses or distributes this offering circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither we nor any of the other dealers shall have any responsibility therefore.

Neither we nor the dealers represent that this offering circular may be lawfully distributed, or that any notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and the dealers do not assume any responsibility for facilitating any such distribution or offering.

Selling Restrictions

United States

The notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in reliance on an exemption from the Securities Act. The notes are being offered and sold in the United States to QIBs in accordance with Rule 144A who are purchasing notes for their own account or for the account of one or more QIBs or to accredited investors.

Public Offer Selling Restrictions under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each dealer has represented and agreed, and each further dealer appointed under the Program will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering circular as completed by the applicable pricing supplement to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the notes to the public in that Relevant Member State:

- (i) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (ii) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) at any time to fewer than 100 natural or legal persons (other than “qualified investors” as defined in the Prospectus Directive) subject to obtaining prior written consent of the relevant dealer or dealers nominated by the Issuer for the offer; or
- (iv) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided, that no offer of notes referred to in (i) and (iv) above will require the Issuer or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purpose of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each dealer has represented and agreed, and each further dealer appointed under the Program will be required to represent and agree, that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

Japan

The notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”) and each dealer has agreed and each further dealer appointed under the Program will be required to agree that it will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Iceland

Each dealer has agreed and each further dealer appointed under the Program will be required to agree that, during the period up to but excluding the date of implementation of the Prospectus Directive in Iceland, it will not offer the notes to the public in Iceland, except in compliance with the Icelandic Financial Services and Markets Act No. 33/2003 on Securities Transactions and any applicable laws or regulations of Iceland.

General

No action has been or will be taken by any dealer or by us that would permit the offer or sale of any notes or any interest therein or possession or distribution of the offering circular or any other offering material relating to any notes in any jurisdiction where action for that purpose is required.

Without prejudice to the above paragraphs, each dealer has represented and agreed that it has not and will not directly or indirectly offer, sell or deliver any notes or distribute the offering circular or any other offering material relating to any notes in or from any jurisdiction except under circumstances that to the best of such dealer’s knowledge or belief will result in compliance with the applicable laws and regulations thereof and will not impose any obligations on us.

With regard to each issuance of notes, the relevant dealer will be required to comply with such other restrictions as we and the relevant dealer shall agree and as shall be set out in the applicable pricing supplement.

Dealers Transacting with Us

Certain of the dealers and their affiliates have engaged in investment banking and/or commercial banking transactions with us for which they have received customary fees and reimbursement of expenses, and may in the future perform investment banking and/or commercial banking or other advisory services

for us and our affiliates in the ordinary course of business for which they will receive customary fees and reimbursement of expenses.

NOTICE TO INVESTORS

Because of the following restrictions on the notes, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any notes.

The notes have not been, and will not be, registered under the Securities Act or the state securities laws of any state of the United States or the securities laws of any other jurisdiction and may not be offered, sold, pledged or otherwise transferred except (1) (i) in reliance on Rule 144A to QIBs that (ii) if specified in the applicable Pricing Supplement to institutional investors that qualify as accredited investors (“Institutional Accredited Investors”) as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act, purchasing for their own account or as fiduciary or agent for others (which others also must be Institutional Accredited Investors unless the purchaser is a bank acting in its fiduciary capacity) for investment purposes and not for distribution in violation of the Securities Act, (iii) in offers and sales that occur outside the United States to persons other than U.S. persons in offshore transactions meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act and (2) in compliance with any other applicable securities laws.

Each purchaser of notes acquired in connection with their initial distribution and each transferee of notes from any such holder or beneficial owner will be deemed to have represented and agreed with us regarding the notes as follows (terms used in this paragraph that are defined in Rule 144A and Regulation S, as applicable are used herein as defined therein):

- (1) It is either (A) (i) a U.S. person (within the meaning of Regulation S of the Securities Act), (ii) a qualified institutional buyer under Rule 144A(a)(1), (iii) aware that the sale of the notes to it is being made in reliance on Rule 144A, and (iv) acquiring such notes for its own account or the account of a qualified institutional buyer, (B) if permitted in the applicable pricing supplement, an institutional investor that qualifies as an accredited investor (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) acquiring the notes for investment purposes and not for distribution in violation of the Securities Act or (C) a foreign purchaser that is outside the United States (or a foreign purchaser that is a dealer or other fiduciary as referred to above) in accordance with Rule 903 or 904 of Regulation S under the Securities Act.
- (2) It understands and acknowledges that the Bank has not been registered under the Investment Company Act and that the notes have not been, and will not be, registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred by it except (A) to us (B) within the United States to a qualified institutional buyer, purchasing for its own account or the account of a qualified institutional buyer under Rule 144A(a)(1) whom the seller has informed, in each case, that the offer, resale, pledge or other transfer is being made in reliance on Rule 144A, in accordance with all applicable securities laws of the states of the United States and foreign jurisdictions, (C) or if permitted in the applicable pricing supplement, to an institutional investor that qualifies as an accredited investor (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) acquiring the notes for investment purposes and not for distribution in violation of the Securities Act and any applicable securities laws of the states of the United States and foreign jurisdictions or (D) outside the United States, in compliance with Rule 903 or 904 of Regulation S under the Securities Act.
- (3) It will, and each subsequent holder or beneficial owner is required to, notify any subsequent purchaser of the notes from it of the resale restrictions referred to in paragraph (2) above.
- (4) On each day from the date on which it acquires an interest in a note through and including the date on which it disposes of such interests, either (a) it is not an “employee benefit plan” as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), subject to Title I of ERISA, a plan subject to Section

4975 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), an entity whose underlying assets include the assets of any Plan (as defined in “ERISA Matters”), or a governmental or church plan which is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Internal Revenue Code or (b) its purchase, holding and disposition of its interest in a note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code (or, in the case of a governmental or church plan, any substantially similar federal, state or local law) unless an exemption is available with respect to such transactions and all the conditions of such exemption have been satisfied.

The certificates representing the global notes will bear a legend to the following effect, unless we determine otherwise in compliance with applicable law:

“THE ISSUER OF THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE “INVESTMENT COMPANY ACT”). THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY AGREES FOR THE BENEFIT OF GLITNIR BANKI HF. (THE “ISSUER”) THAT THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE SECURITIES LAWS AND ONLY (1) TO THE ISSUER, (2) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE SELLER REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, AND (4) IF PERMITTED IN THE APPLICABLE PRICING SUPPLEMENT TO AN INSTITUTIONAL INVESTOR THAT QUALIFIES AS AN ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) OF THE SECURITIES ACT) ACQUIRING THE SECURITY FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE”.

LEGAL MATTERS

Morrison & Foerster LLP, New York, New York, our U.S. counsel, and Allen & Overy LLP, U.S. counsel for the dealers, will pass upon certain matters in connection with the offering. Morrison & Foerster LLP and Allen & Overy LLP will rely upon the opinion of Logos as to certain matters of Icelandic law.

INDEPENDENT PUBLIC ACCOUNTING FIRM

KPMG hf., Reykjavík, Iceland, independent public accountants, have audited the consolidated financial statements of Glitnir banki hf. as of and for the year ended December 31, 2005, which are included in this offering circular along with the notes thereto, as stated in the related report of KPMG hf.

The consolidated financial statements of Glitnir banki hf. as of December 31, 2006 and 2007 and for each of the two years in the period ended December 31, 2007, which are included in this offering circular along with the notes thereto, have been audited by PricewaterhouseCoopers hf., independent accountants, as stated in the related reports of PricewaterhouseCoopers hf.

GENERAL INFORMATION

Listing

Application has been made for notes under the Program to be admitted to listing on the Official List of the Luxembourg Stock Exchange and trading on the Luxembourg Stock Exchange's Euro MTF market. The Euro MTF Market of the Luxembourg Stock Exchange is an unregulated market for the purposes of Directive 2004/39/EC.

In March 2003, the European Commission published a proposal for a Directive of the European Parliament and of the Council on the harmonization of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market in the European Union (2003/0045(COD)), known as the "Transparency Directive". While the Euro MTF market of the Luxembourg Stock Exchange is not a regulated market, the Transparency Directive may become effective in a form such that it becomes unduly burdensome for us to maintain a listing on the Euro MTF market of the Luxembourg Stock Exchange. In particular, we may be required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information. In such circumstances, we may seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system outside the European Union, or, alternatively, we may opt not to have the notes listed, traded and/or quoted by any listing authority, stock exchange and/or quotation system.

Program Number

The Luxembourg Stock Exchange has assigned to the Program the number "13366".

Authorization

The establishment of the Program and the issue of notes have been duly authorized in accordance with our Articles of Association by a resolution of our board of directors dated February 13, 2006. The increase in the size of the Program from US\$5,000,000,000 to US\$10,000,000,000 has been duly authorized in accordance with our Articles of Association by a resolution of our board of directors dated October 30, 2007.

Documents Available

For the period of 12 months following the date of this offering circular, copies of the following documents will, when published, be available from our registered office, from the specified office of the Fiscal and Paying Agent and from the specified office of the Luxembourg Listing Agent:

- (1) our articles of association (with an English translation thereof);
- (2) our audited financial statements in respect of the financial years ended December 31, 2006 and 2007 (with an English translation thereof) together with the audit reports prepared in connection therewith;
- (3) our most recently published audited annual financial statements and our most recently published unaudited interim financial statements, if any, in each case with an English translation thereof and together with any audit or review reports prepared in connection therewith;
- (4) the Distribution Agreement, the Fiscal and Paying Agency Agreement, the Luxembourg Paying Agent Agreement, the forms of the global notes and the notes in definitive form;
- (5) a copy of this offering circular;
- (6) any future offering circulars, prospectuses, information memoranda and supplements to this offering circular and any other documents incorporated herein or therein by reference; and
- (7) in the case of each issue of listed notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate CUSIP number, Common Code, ISIN and/or any other security number for each offering of notes allocated by DTC, Euroclear and/or Clearstream, Luxembourg will be specified in the applicable pricing supplement. If the notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable pricing supplement.

The address of DTC is 55 Water Street, New York, New York, 10041, Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg.

We will apply to DTC for acceptance in its book-entry settlement system of notes represented by the Rule 144A Global Notes. Upon issuance of the relevant Rule 144A Global Note, DTC or its custodian will credit, on its internal system, the respective principal amounts of the individual beneficial interests represented by the Rule 144A Global Note to the accounts of DTC Participants.

Significant or Material Change

There has been no significant change in our or our subsidiaries' financial or trading position, taken as a whole, since December 31, 2007 and there has been no material adverse change in our or our subsidiaries' prospects, taken as a whole, since December 31, 2007.

Litigation

Neither we nor any of our subsidiaries have been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on our or the Group's financial position or profitability.

Post-Issuance Information

We do not intend to provide any post-issuance information in relation to any issues of notes.

below)

11. Redemption/Payment Basis: [Redemption at maturity][Linked Redemption] [Dual Currency][Partly Paid] [Installment] [Physical Delivery/specify other]
12. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of notes into another Interest Basis or Redemption/Payment Basis]
13. Call Options: [Issuer Call] (further particulars specified below)
14. Listing: [Specify/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Fixed Rate[(s)] of Interest: [] percent per annum [payable annually/semiannually/quarterly] in arrear
- (ii) Fixed Interest Payment Date(s): [] in each year
- (iii) Fixed Coupon Amount(s): [] per [] in nominal amount
- (iv) Initial or Broken Amount(s): *[Insert particulars of any Initial or Final Broken Amounts of interest that do not correspond with the Fixed Coupon Amount]*
- (v) Day Count Fraction: [30/360/Actual/Actual (ISMA)] [specify other]
- (vi) Determination Date(s): [] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon] (NB: This will need to be amended in the case of regular interest payment dates that are not of equal duration.) (NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA))
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
17. **Floating Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Interest Period(s)/ Interest Payment Dates: []
- (ii) Business Day Convention: [FRN Convention/Modified Following Business Day Convention/[specify other]]
- (iii) Additional Business Center(s): []

- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal and Paying Agent): []
- (vi) Screen Rate Determination:
- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required for other- [including fallback provisions in the Agency Agreement])
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR and second TARGET day prior to the start of each Interest Period if EURIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not EURIBOR 01 ensure it is a page which shows a composite rate)
- (vii) ISDA Determination []
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Margin(s): [+/-] [] percent per annum
- (ix) Minimum Rate of Interest: [] percent per annum
- (x) Maximum Rate of Interest: [] percent per annum
- (xi) Day Count Fraction: []
- (xii) Fall back provisions, day count fraction, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Description of the notes:
18. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub paragraphs of this paragraph)*
- (i) Amortization/Accrual Yield: [] percent per annum

- (ii) Reference Price: []
- (iii) Any other formula/basis of determining Amortized Face Amount payable: []
(Consider applicable Day Count Fraction if U.S. dollar denominated)
19. **Index Linked Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating the principal and/or interest due: []
- (iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (iv) Interest Period(s)/Interest Payment Dates/Fixed Interest Payment Dates: []
- (v) Business Day Convention: []
- (vi) Additional Business Center(s): []
- (vii) Day Count Fraction: []
20. **Dual Currency Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: []
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
- (iv) Personal whose option Specified Currency(ies) is/are payable: []
21. **Physical Delivery Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
[The provisions for Physical Delivery Notes may be set out below and/or in a Schedule to this pricing supplement]

or any other supplements. Capitalized terms used below and not referred to in the Description of the notes shall be defined in a Schedule to this pricing supplement or any other supplements]

- (i) Underlying Assets and/or Formula to be used to determine principal and/or interest or the Physical Delivery Amount: []
- (ii) Settlement by way of cash and/or physical delivery []
- (iii) [Issuer/noteholder] option to vary method of settlement and, if yes, method of election, and procedure, for variation of settlement [Yes/No]
- (iv) If settlement is by way of physical delivery: []
 - (a) method of delivery of Physical Delivery Amount [and consequences of a Settlement Disruption Event]: []
 - (b) details of how entitlement to Physical Delivery Amount will be evidenced: []
- (v) The party responsible for calculating the amount of principal and/or interest or the Physical Delivery Amount (if not the Fiscal and Paying Agent): []
- (vi) Provisions where calculation by reference to the Underlying Assets and/or Formula is impossible or impracticable: []
- (vii) Details of any other relevant terms: []
- (viii) Method of calculating Early Redemption Amount (if for reasons other than following a redemption for tax reasons or an Event of Default): []
- (ix) Valuation Date(s): []
- (x) Details of Stock Exchange(s) and Related Exchange(s), if any: []
- (xi) Such other additional terms or provisions as may be required (including, without limitation, definitions of Settlement Disruption Event(s), Potential Adjustment Events and Market Disruption Events): []

PROVISIONS RELATING TO REDEMPTION

22. **Issuer Call Option** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub paragraphs of this paragraph)
23. (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(a) and method, if any, of calculation of such amount(s): []
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Higher Redemption Amount: []
- (iv) Notice period (if other than as set out in the Description of the notes: []
25. **Final Redemption Amount** [Par/specify other/see Appendix]
26. **Early Redemption Amount**
Early Redemption Amount(s) payable on redemption for taxation reasons or on Event of Default and/or the method of calculating the same (if required or if different from that set out in Description of the notes: []
- GENERAL PROVISIONS APPLICABLE TO THE NOTES**
27. Form of notes: [Certificated Notes:]
[Registered Notes:]
28. Additional Financial Center(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which item 18(iii) relates)
29. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and: [Not Applicable/give details]
30. Details relating to notes redeemable in installments: amount of each installment, date on which each payment is to be made: [Not Applicable/give details]
31. Redenomination applicable: Redenomination [not] applicable
(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))
32. Details of Exchange Agent (if any) and manner []

in which conversion of the Specified Currency
into U.S. dollars is to take place:

33. Registered Holder (Registered Notes): []
34. Registered Address (Registered Notes): []
35. ERISA Restrictions: []
36. Other terms or special conditions: [Not Applicable/give details/specify rating, if applicable/specify, any Payment Disruption Events and the consequences thereof, if applicable.]

DISTRIBUTION

37. (i) If syndicated, names of Managers
(specifying Lead Manager): [Not Applicable/give details]
- (ii) Arranger: [Not Applicable/give details]
- (iii) Stabilizing Manager (if any): [Not Applicable/give details]
38. If non-syndicated, name of relevant dealer: [Not Applicable/give details]
39. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

40. Any clearing system(s) other than DTC,
Euroclear and Clearstream, Luxembourg
approved by the Issuer and the Fiscal and Paying
Agent and the relevant identification number(s): [Not Applicable/give name(s) and numbers(s)]
41. Delivery: Delivery [against/free of] payment
42. Additional Paying Dealer(s) (if any): []
43. DTC: CUSIP No.:
Euroclear and Clearstream, Luxembourg: ISIN:
Common Code:

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THE ISSUER

Glitnir banki hf.
Kirkjusandur 2
155 Reykjavík
Iceland

FISCAL AND PAYING AGENT

Deutsche Bank Trust Company Americas
60 Wall Street, 27th Floor
MS: NYC60-2710
New York, NY 10005

LUXEMBOURG PAYING AGENT

Deutsche Bank Luxembourg SA
2 Boulevard Konrad Adenauer
L-1115 Luxembourg

LEGAL ADVISERS

*To the Issuer and the Managers
as to Icelandic law*

Logos
Efstaleiti 5
IS-103 Reykjavík
Iceland

To the Managers as to U.S. law

Allen & Overy LLP
One Bishops Square
London E1 6AO
United Kingdom

To the Issuer as to U.S. law
Morrison & Foerster LLP
1290 Avenue of the Americas
New York, NY 10104

AUDITORS

To the Issuer

KPMG hf.
Borgartún 27
105 Reykjavík
Iceland

PricewaterhouseCoopers hf.
Skógarhlid 12
105 Reykjavík
Iceland

LUXEMBOURG LISTING AGENT

Deutsche Bank Luxembourg SA
2 Boulevard Konrad Adenauer
L-1115 Luxembourg

DEALERS

J.P. Morgan Securities Inc.

270 Park Avenue
New York, NY 10017

HSBC Securities (USA) Inc.

452 Fifth Avenue
New York, NY 10018

Banc of America Securities LLC

9 West 57th Street
New York, NY 10019

Lehman Brothers Inc.

745 Seventh Avenue
New York, NY 10019

Barclays Capital Inc.

200 Park Avenue
New York, NY 10016

**Merrill Lynch, Pierce, Fenner &
Smith Incorporated**

4 World Financial Center
New York, NY 10080

Citigroup Global Markets Inc.

388 Greenwich Street
New York, NY 10013

Morgan Stanley & Co. Incorporated

1585 Broadway
New York, NY 10036

Credit Suisse Securities (USA) LLC

11 Madison Avenue
New York, NY 10010

UBS Securities LLC

677 Washington Boulevard
Stamford, CT 06901

Deutsche Bank Securities Inc.

60 Wall Street
New York, NY 10005

Wachovia Capital Markets, LLC

One Wachovia Center
301 South College Street
Charlotte, NC 28288-0602

Greenwich Capital Markets, Inc.

600 Steamboat Road
Greenwich, CT 06830