



Íslandsbanki-FBA hf.

(Incorporated in Iceland as a public limited company)

¥5,000,000,000

**Non-cumulative Undated Step-up Capital Notes
Issue Price 100 per cent.**

Interest on the ¥5,000,000,000 Non-cumulative Undated Step-up Capital Notes (the "**Notes**") of Íslandsbanki-FBA hf. (the "**Issuer**", the "**Bank**" or "**Íslandsbanki**") will, subject to Condition 4, be payable, with respect to the period from, and including, 25 June, 2001 to, but excluding, 25 June, 2031, on 25 December and 25 June in each year at a rate of 3.58 per cent. per annum. Thereafter, interest will be payable in arrear on the Interest Payment Dates (as defined in Condition 4) falling in December and June in each year at a rate of interest equal to 2.35 per cent. above six month JPY LIBOR (as defined in Condition 4), as more fully described herein.

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Notes and carefully review the Terms and Conditions of the Notes. In particular:

- (i) the Notes are undated and deeply subordinated;
- (ii) principal and accrued interest in respect of the Notes may be converted into conditional capital contributions as described in Condition 3;
- (iii) conditional capital contributions may only be reconverted and reinstated as provided in Condition 3;
- (iv) the Issuer shall not pay accrued interest in certain circumstances as provided in Condition 4; and
- (v) the Notes may be redeemed at the option of the Issuer, in whole but not in part (a) on 25 June, 2011, on 25 June, 2031 or on any Interest Payment Date thereafter or (b) (subject as provided herein) in the event of certain tax or regulatory changes affecting the Issuer, in each case subject to prior approval of the Icelandic Financial Supervisory Authority and provided that any conditional capital contributions have been reconverted and reinstated as provided in Condition 3, all as further described in Condition 6.

No application will be made to list the Notes on any stock exchange.

The Notes will initially be represented by a temporary global Note (the "**Temporary Global Note**"), without interest coupons ("**Coupons**"), to be deposited with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on or about 25 June, 2001 (the "**Closing Date**"). The Temporary Global Note will be exchangeable for interests in a permanent global Note (the "**Permanent Global Note**"), without Coupons, on and after 6 August, 2001 upon certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes in bearer form, with Coupons attached, only in certain limited circumstances as described in Condition 1.

The Notes have been rated A- by Fitch Ratings Ltd. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by assigning the rating agency.

Merrill Lynch International

The date of this Offering Circular is 22 June, 2001.

The Issuer confirms that the statements contained in this Offering Circular are in all material respects true and accurate and not misleading and that there are no other facts the omission of which would in the context of the issue of the Notes make any statement in this Offering Circular misleading in any material respect.

The Issuer accepts responsibility for all the information contained in this Offering Circular. To the best of its knowledge and belief (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.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Incorporation by Reference" below). This Offering Circular shall be read and construed on the basis that such documents are incorporated in and form part of this Offering Circular.

No person has been authorised to give any information or to make any representations other than those contained in this Offering Circular in connection with the offering or sale of the Notes and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Manager (as defined under "**Subscription and Sale**"). Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances create any implication or constitute a representation that there has been no change in the affairs of the Issuer since the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Manager to subscribe for or purchase, any of the Notes.

This document may not be passed on in the United Kingdom to any person unless that person is of a kind described in paragraph (3) of article 11 of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom this document may otherwise lawfully be issued or passed on.

The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Neither the Issuer nor the Manager represents that this Offering Circular may be lawfully distributed or that the 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 assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Manager which would permit a public offering of the Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material relating to the Notes may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in regulation S under the Securities Act ("**Regulation S**")) except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. This Offering Circular has been prepared by the Issuer solely for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons pursuant to Regulation S. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "**Subscription and Sale**".

Unless otherwise specified or the context requires, references to "ISK", "krona" and "krónur" are to Icelandic krona.

INCORPORATION BY REFERENCE

The following documents shall be deemed to be incorporated in, and form part of this Offering Circular:

- (i) the consolidated and non-consolidated financial statements of the Issuer for the year ended 31st December, 2000;
- (ii) merger balance sheet of the Issuer as at 1st January, 2000;
- (iii) the consolidated and non-consolidated financial statements of Islandsbanki hf for the year ended 31st December, 1999;
- (iv) the consolidated and non-consolidated financial statements of FBA - The Icelandic Investment Bank, for the year ended 31st December, 1999; and
- (v) unaudited consolidated quarterly financial statements of the Issuer for the first quarter of 2001.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference. Written requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular.

TABLE OF CONTENTS

Terms and Conditions of the Notes	5
Use of Proceeds	24
Capitalisation	25
The Issuer	26
The Republic of Iceland	39
Financial Markets in Iceland	41
Icelandic Taxation	43
Rights of providers of conditional capital contributions on a liquidation	44
Subscription and Sale	45
General Information	47

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes which, subject to completion and amendment, will be incorporated by reference into the Global Notes (as defined below) and which will be endorsed on each Note in definitive form (if issued).

The ¥5,000,000,000 Non-cumulative Undated Step-up Capital Notes (the "**Notes**") of Íslandsbanki-FBA hf. (the "**Issuer**") are issued subject to and with the benefit of a Fiscal Agency Agreement dated 25 June, 2001 (the "**Agency Agreement**") made between the Issuer, Deutsche Bank AG London (the "**Fiscal Agent**") and Deutsche Bank Luxembourg S.A. (together with the Fiscal Agent, the "**Paying Agents**"). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes and the holders of the interest coupons appertaining to the Notes (the "**Couponholders**" and the "**Coupons**", respectively) at the specified office of each of the Paying Agents. Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Terms and Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

1. Form, Denomination and Title

- (1) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without Coupons attached which has been deposited with a common depository for both Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**"), and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") on 25 June, 2001. Upon deposit of the Temporary Global Note, Euroclear or Clearstream, Luxembourg, as the case may be, credited each subscriber with a principal amount of Notes equal to the principal amount thereof for which such subscriber had subscribed and paid. Payments of principal and interest on the Temporary Global Note will be made only upon certification as to non-U.S. beneficial ownership as provided therein.

The Temporary Global Note is exchangeable in whole or in part as provided therein for a further global Note (the "**Permanent Global Note**" and, together with the Temporary Global Note, the "**Global Notes**" and each a "**Global Note**") without Coupons attached on and after 6 August, 2001, provided certification as to non-U.S. beneficial ownership has been received. Each Global Note is or will be in bearer form and transferable by delivery. The Permanent Global Note will be exchangeable in whole, but not in part, for definitive Notes with Coupons attached only upon an "**Exchange Event**" as described therein. For these purposes, "**Exchange Event**" means that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days or more (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor or alternative clearing system satisfactory to the Fiscal Agent is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 11 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Permanent Global Note) may give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The Issuer undertakes that, in the event that any Notes are to be represented by Notes in definitive form, it will make any amendments necessary prior to the issue of such Notes in definitive form to the Notes and the Agency Agreement to permit the issue of Notes in definitive form with talons

attached thereto. Any reference herein to "Coupons" or "coupons" shall, unless the context otherwise requires, be deemed to include a reference to talons.

- (2) The Notes are in bearer form, serially numbered (in the case of the definitive Notes), in the denomination of ¥100,000,000. Definitive Notes (if issued) will have Coupons attached.
- (3) Whenever there is any adjustment to the principal amount of any Note pursuant to these Terms and Conditions, upon presentation of such Note to the Fiscal Agent at its specified office, a record of such adjustment shall be endorsed by it on such Note provided that any failure to so present or record shall not in any way affect the decrease or increase pursuant to Condition 3.
- (4) Subject as set out below, title to the Notes and to the Coupons will pass by delivery.
- (5) The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Note and the holder of any Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon) but, in the case of a Global Note, without prejudice to the provisions set out in Condition 1(6).
- (6) For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of the Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of the Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such principal amount of the Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and the Paying Agents as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to 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 the Issuer and the Fiscal Agent.

2. Status and Subordination

The Notes and the Coupons constitute and will constitute unsecured, subordinated debt obligations of the Issuer.

In the event of the voluntary or involuntary liquidation or bankruptcy of the Issuer, the rights of

- (a) the Noteholders and Couponholders to payments of the principal amount of the Notes and any other amounts including interest due in respect of the Notes and

- (b) where any Accrued Interest (as defined below) or the whole or any part of the principal amount of the Notes has been converted into conditional capital contributions as described below and such conditional capital contributions have not been reconverted and reinstated as provided below, the providers of such conditional capital contributions, in respect of such conditional capital contributions,

shall rank:

- (i) *pari passu* without any preference among the Noteholders, the Couponholders and such providers;
- (ii) at least *pari passu* with the rights of the holders of any other outstanding Capital Securities (as defined below) whether or not such Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of any other obligations of the Issuer constituting or eligible ("eligible" to be construed, *mutatis mutandis*, as provided in the definition of Capital Event in Condition 6(3)) as constituting Tier 1 Capital (as defined below) of the Issuer, in each case in relation to their rights as such holders and to payments in respect thereof;
- (iii) in priority to the rights of holders of all classes of ordinary share capital, preferred share capital and other share capital, of the Issuer and in priority to the rights of holders of any obligation of the Issuer expressed to rank junior to the Notes, in each case in relation to their rights as such holders and to payments in respect thereof; and
- (iv) junior in right of payment to the payment of any present or future claims of (a) depositors of the Issuer, (b) other unsubordinated creditors of the Issuer and (c) subordinated creditors of the Issuer in respect of Subordinated Indebtedness (as defined below) (other than Capital Securities).

No Noteholder or Couponholder or provider of any conditional capital contribution who shall in the event of the liquidation or bankruptcy of the Issuer be indebted to the Issuer shall be entitled to exercise any right of set-off or counterclaim against moneys owed by the Issuer in respect of the Notes or conditional capital contributions held or provided by such Noteholder, Couponholder or provider, as the case may be.

The Issuer reserves the right to issue other Capital Securities in the future or other obligations constituting or eligible as constituting Tier 1 Capital of the Issuer, provided, however, that any such obligations may not in the event of voluntary or involuntary liquidation or bankruptcy of the Issuer rank in priority to the Notes.

3. Utilisation and Conversion

To the extent that may be required to avoid the Issuer being obliged to enter into liquidation, the Board of Directors of the Issuer, by resolution passed at a board meeting, may decide that any Accrued Interest (as defined herein) and the principal amount (or part thereof, as the case may be) of each Note will be utilised in meeting losses of the Issuer by first writing down the part or whole of any Accrued Interest on the Notes and then, to the extent that the amount of Accrued Interest so written down is not sufficient to avoid liquidation, by writing down the part or whole of any principal amount to the extent and by the amount (when aggregated with the amount of any Accrued Interest written down) required to avoid liquidation and converting such aggregate amount (the "**Converted Amount**") into a conditional capital contribution. The rights of the

Noteholders and the Couponholders in respect of the Converted Amount will thereupon be converted into rights of providers of conditional capital contributions as set out herein.

Upon utilisation of the Converted Amount as above the Issuer shall give notice to the Noteholders in accordance with Condition 11.

"**Accrued Interest**", means, in respect of the Notes or any other Capital Securities, interest accrued from the immediately preceding Interest Payment Date or, if none, the Interest Commencement Date (each as defined in Condition 4(1)) to the time of such utilisation.

Interest will not accrue on the Converted Amount but Noteholders may be compensated for loss of interest upon redemption as further described in Condition 6(6) and Condition 9.

Utilisation of the Converted Amount for the purpose of meeting losses shall be made prior to the utilisation for the same purpose of outstanding perpetual/undated subordinated debt issued by the Issuer (other than other Capital Securities) and shall be made following the utilisation for the same purpose of the principal amount (together with Accrued Interest) of Capital Securities and any other securities ranking junior to the Notes and outstanding at the time of such utilisation and *pro rata* to the principal amount (together with Accrued Interest) of Capital Securities ranking *pari passu* with the Notes and outstanding at the time of such utilisation.

Where, pursuant to this Condition 3, writing down and conversion applies to part only of either any Accrued Interest on or principal amount of the Notes, the part of such Accrued Interest on or principal amount of each Note to be subject to such writing down and conversion shall bear the same proportion to the total amount of such Accrued Interest or principal amount in respect of such Note as the aggregate amount of such Accrued Interest on or principal amount of all the Notes to be subject to such writing down and conversion bears to the aggregate Accrued Interest on or aggregate outstanding principal amount of all the Notes respectively. Any reconversion and reinstatement as provided below will be made on the same basis.

Utilisation of the Converted Amount as aforesaid may only be made provided:

- (a) that the Fiscal Agent has received prior to such utilisation a certificate signed by two directors of the Issuer confirming that, following such conversion to a Converted Amount, the rights of the providers thereof in respect of such amounts will rank as provided in Condition 2 (copies of such certificate will be available for inspection at the specified office of the Fiscal Agent);
- (b) that the Icelandic Financial Supervisory Authority or any successor (the "FME") shall have given its approval thereto; and
- (c) that the Fiscal Agent has received prior to such utilisation a certificate signed by two directors of the Issuer confirming that following such conversion to a Converted Amount, such amount will be a conditional capital contribution and will be accounted for as such in the balance sheet of the Issuer (copies of such certificate will be available for inspection at the specified office of the Fiscal Agent).

The Issuer undertakes that, until an amount equal to such Converted Amount has been reinstated as debt in full in the balance sheet of the Issuer, or such amount has been redeemed (such redemption having been approved by the FME).

- (x) it shall not declare, pay or distribute interest, a dividend or any other amount on, or in respect of, any of its ordinary share capital, its preference share capital, any Other Tier 1

Securities, any Junior Securities or make any payment on a Tier 1 Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Notes, any redemption made on a *pro rata* basis with such Converted Amount);

- (y) it shall not redeem, purchase or otherwise acquire any of its ordinary shares, its preference shares, any Other Tier 1 Securities or Junior Securities or purchase or otherwise acquire any security benefiting from a Tier 1 Guarantee (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking in a voluntary or involuntary liquidation or bankruptcy of the Issuer to those shares or securities being redeemed, purchased or acquired); and
- (z) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security (however named or designated) benefiting from a Tier 1 Guarantee.

If the balance sheet most recently adopted at the shareholders' meeting of the Issuer shows sufficient unappropriated earnings to allow for reconversion and reinstatement (in whole or in part) as debt of amounts converted in respect of subordinated indebtedness in the form of Capital Securities and/or perpetual/undated subordinated securities and/or any other securities, the Board of Directors of the Issuer may subsequently decide that such reconversion and reinstatement shall be made with due observance taken to the prescribed ranking between the relevant instruments.

Utilisation (as described above) of any Accrued Interest or principal amount of the Notes shall not constitute an Event of Default under Condition 9.

If and to the extent that any Converted Amount (whether it was previously accrued but unpaid interest on a Note or a principal amount of the Note) has been reconverted and reinstated as an obligation in respect of such Note in the balance sheet of the Issuer, such amount shall be reinstated as principal (notwithstanding that, in the former case, it was previously accrued but unpaid interest) and shall be added to the principal amount of such Note for all purposes thereafter (and references to "principal" and "principal amount" shall be construed accordingly) and interest shall start to accrue on such amount and become payable in accordance with the terms of the Notes as from the date of such reinstatement.

Reconversion and Reinstatement

Reconversion and reinstatement (in whole or in part) as debt of the Converted Amount may only be made out of unappropriated earnings of the Issuer according to its current adopted balance sheet and subject to a resolution of the Board of Directors of the Issuer. Reconversion and reinstatement shall first be made in respect of perpetual/undated subordinated debt (other than Capital Securities) issued by the Issuer that may have been converted into conditional capital contributions.

Reconversion and reinstatement as debt of the Converted Amount shall be made *pro rata* with any amounts converted in respect of other Capital Securities of the Issuer ranking *pari passu* with the Notes. For the avoidance of doubt, amounts converted in respect of Capital Securities and any other securities expressed to rank junior to the Notes shall be reconverted and reinstated as debt only after the Converted Amount (and any other amounts converted in respect of other Capital Securities of the Issuer expressed to rank *pari passu* with the Notes) have been so reconverted and reinstated.

Upon reconversion and reinstatement as debt of the Converted Amount as described above the Issuer shall give notice to Noteholders in accordance with Condition 11.

The principal amount of the Notes may be utilised and converted as described above on one or more occasions.

For the purposes of these Terms and Conditions:

"Capital Securities" means any subordinated and undated debt instruments of the Issuer which are recognised as *"Eiginfjárháttur A"* from time to time by the FME and including, where the context so requires, the Notes.

"Junior Securities" means any securities ranking junior, whether contractually or structurally, to the Notes in a voluntary or involuntary liquidation or bankruptcy of the Issuer.

"Other Tier 1 Securities" means any securities which are Tier 1 Capital of the Issuer and which rank on a voluntary or involuntary liquidation or bankruptcy of the Issuer *pari passu* with the Notes.

"Subordinated Indebtedness" means any obligation, whether dated or undated, of the Issuer which by its terms is, or is expressed to be, subordinated in the event of liquidation or bankruptcy of the Issuer to the claims of depositors and all other unsubordinated creditors of the Issuer but not otherwise.

"Tier 1 Capital" means capital which is treated as issued tier 1 capital by the FME.

"Tier 1 Guarantee" means any guarantee, indemnity or other contractual support arrangement entered into by the Issuer in respect of securities (regardless of name or designation) issued by a Subsidiary which constitutes Tier 1 Capital of the Issuer.

4. Interest

Rate of Interest

- (1) (i) From and including 25 June, 2001 (the **"Interest Commencement Date"**) to, but excluding, 25 June, 2031, the Notes bear interest at the rate of 3.58 per cent. per annum (the **"Fixed Rate of Interest"**) payable, subject as provided below, semi-annually in arrear on 25 December and 25 June in each year, commencing on 25 December, 2001. The amount of interest payable in respect of each Interest Period ending prior to 25 June, 2031 and in respect of the Interest Period ending on but excluding 25 June, 2031, will amount to ¥1,790,000 in respect of each ¥100,000,000 in principal amount of the Notes.

From and including 25 June, 2031, the Notes bear interest at the applicable Floating Rate of Interest (as defined below) payable, subject as provided below, semi-annually in arrear on 25 December and 25 June in each year, commencing on 25 December, 2031.

Each date on which interest is payable in accordance with this Condition 4(1) is referred to as an **"Interest Payment Date"**. The period from, and including, 25 June, 2001 to, but excluding, the first Interest Payment Date and each successive period from, and including, an Interest Payment Date to, but excluding, the next Interest Payment Date is referred to as an **"Interest Period"**.

If any Interest Payment Date falling after 25 June, 2031 would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day

unless it would thereby fall into the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "**Business Day**" means 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 London and Tokyo and a day on which the TARGET System (as defined below) is open.

- (ii) Whenever it is necessary to compute an amount of interest in respect of any Note for a period other than an Interest Period and such period ends prior to 25 June, 2031 or on, but excluding, 25 June, 2031, such interest shall be calculated by applying the Fixed Rate of Interest to the principal amount of such Note (taking into account any adjustment to such amount during such period), multiplying such sum by the Fixed Day Count Fraction and rounding the resultant figure to the nearest yen, half a yen being rounded upwards or otherwise in accordance with applicable market convention.

"**Fixed Day Count Fraction**" means the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360.

- (iii) Whenever it is necessary to calculate an amount of interest in respect of any Note for a period other than an Interest Period and such period begins on or after 25 June, 2031, such interest shall be calculated on the basis of the actual number of days in the relevant period divided by 360 and otherwise in accordance with sub-clause (v) below.
- (iv) The rate of interest payable in respect of the Notes for any Interest Period commencing on 25 June, 2031 or any date thereafter (the "**Floating Rate of Interest**") shall be six month JPY LIBOR plus a margin of 2.35 per cent., as determined by the Fiscal Agent.

For the purposes of these Terms and Conditions:

"**six month JPY LIBOR**" means, in relation to an Interest Period, the rate for deposits in Japanese yen for a period of six months which appears on the Relevant Screen Page as of 11.00 a.m. London time (or such other time as may be customary for the daily reset of such rate) on the relevant Interest Determination Date.

If such rate does not appear on the Relevant Screen Page on the Interest Determination Date for an Interest Period, then six month JPY LIBOR for the Interest Period will be determined on the basis of the rates at which deposits in Japanese yen are offered by the Reference Banks at approximately 11.00 a.m., London time, on the Interest Determination Date in question to prime banks in the London interbank market for a period of six months commencing on the first day of such Interest Period and in a Representative Amount. The Fiscal Agent shall request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two quotations are provided, six month JPY LIBOR for such Interest Period shall be the arithmetic mean of such quotations.

If fewer than two quotations are provided as requested, six month JPY LIBOR for such Interest Period shall be the arithmetic mean of the rates quoted by major banks in Tokyo selected by the Fiscal Agent, at approximately 11.00 a.m., Tokyo time, on the first day of the relevant Interest Period for loans in Japanese yen to

leading European banks for a period of six months commencing on the first day of such Interest Period and in a Representative Amount, except that, if the banks so selected by the Fiscal Agent are not quoting as mentioned above, the Floating Rate of Interest for such Interest Period shall be either (i) the Floating Rate of Interest in effect for the last preceding Interest Period to which one of the preceding paragraphs of this definition of six month JPY LIBOR shall have applied or (ii) if none, the Fixed Rate of Interest.

"**Actual/360**" means the total number of days in the Interest Period divided by 360;

"**Interest Determination Date**" means, in relation to each Interest Period for which a Floating Rate of Interest is to be calculated, the second London Banking Day prior to the first day of such Interest Period;

"**London Banking Day**" means, a day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

"**Rate of Interest**" means the Fixed Rate of Interest or the Floating Rate of Interest, as the case may be;

"**Reference Banks**" means four major banks in the London interbank market as selected by the Fiscal Agent;

"**Relevant Screen Page**" means Telerate Screen page 3750 or such replacement page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to six month JPY LIBOR;

"**Representative Amount**" means an amount that is representative for a single transaction in the relevant market at the relevant time; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System.

(v) Determination of Floating Rate of Interest and calculation of Interest Amounts

The Fiscal Agent will at or as soon as practicable after each time at which the Floating Rate of Interest is to be determined, determine the Floating Rate of Interest for the relevant Interest Period.

In respect of each such Interest Period, the Fiscal Agent will calculate the amount of interest (each an "**Interest Amount**") payable in respect of the principal amount of each Note outstanding from time to time on each denomination of the Notes. Each Interest Amount shall be calculated by applying the Floating Rate of Interest to the principal amount of each Note (taking into account any adjustment to such amount during such Interest Period), multiplying such sum by the actual number of days in the Interest Period concerned divided by 360, and rounding the resultant figure to the nearest yen, half a yen being rounded upwards or otherwise in accordance with applicable market convention.

(vi) Notification of Floating Rate of Interest and Interest Amounts

The Fiscal Agent will cause the Floating Rate of Interest and each Interest Amount for each applicable Interest Period and the relevant Interest Payment Date to be notified to the Issuer and notice thereof to be given to the Noteholders in accordance with Condition 11 as soon as possible after their determination but in no event later than the fourth London 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 promptly notified to the Noteholders in accordance with Condition 11.

"London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(1) by the Fiscal Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the other Paying Agent and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

Interest accruing after the due date for redemption in certain circumstances

- (2) Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day.

Sufficiency of Available Distributable Funds

- (3) Payments of interest on any Interest Payment Date may not exceed the Available Distributable Funds. To the extent that, on any Interest Payment Date, Available Distributable Funds are insufficient to pay or provide for payment in full of all accrued but unpaid interest under the Notes and under other Capital Securities ranking *pari passu* with the Notes (in each case falling due on that Interest Payment Date), the Issuer will make partial payment of all accrued but unpaid interest under the Notes and such other Capital Securities *pro rata* to the extent of such Available Distributable Funds. If, and to the extent that Available Distributable Funds are insufficient or non-existent and the Issuer makes partial payment of, or does not pay, accrued but unpaid interest, the right of the Noteholders to receive accrued but unpaid interest in respect of the relevant Interest Period will be lost. The Issuer will have no obligation to make such payments of unpaid interest or to pay interest thereon, whether or not payments of interest in respect of subsequent Interest Periods are made, and such unpaid interest will not be deemed to have "accrued" or been earned for any purpose.

The Issuer covenants that, so long as any Note is outstanding:

- (i) it will not issue any other Capital Securities ranking *pari passu* with the Notes the interest payment dates of which differ from the Interest Payment Dates (as defined in Condition 4(1)); and
- (ii) if the two most recent scheduled payments on the Notes have not been made in full:
 - (x) it shall not declare, pay or distribute interest, a dividend or any other amount on, or in respect of, any of its ordinary share capital, its preference share capital, any Other Tier 1 Securities, any Junior Securities or make any payment on a Tier 1 Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Notes, any payments made on a *pro rata* basis as contemplated above);
 - (y) it shall not redeem, purchase or otherwise acquire any of its ordinary shares, its preference shares, any Other Tier 1 Securities or Junior Securities or purchase or otherwise acquire any security benefiting from a Tier 1 Guarantee (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking in a voluntary or involuntary liquidation or bankruptcy of the Issuer to those shares or securities being redeemed, purchased or acquired); and
 - (z) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security (however named or designated) benefiting from a Tier 1 Guarantee.

If the Issuer deems that it does not have sufficient Available Distributable Funds to pay accrued interest on the Notes on the next Interest Payment Date, the Issuer shall, if reasonably practicable and if so permitted by the applicable regulations of any stock exchange upon which the Issuer's equity or debt is then listed, give not more than 14 nor less than five days' prior notice to the Noteholders in accordance with Condition 11.

The Issuer is responsible for determining whether it has Available Distributable Funds and, on any occasion when it determines it has insufficient Available Distributable Funds to pay accrued interest on the next Interest Payment Date, it will procure that its auditors certify this to be the case and a copy of such certificate will be available for inspection at the specified office of each Paying Agent.

"Available Distributable Funds" means, in respect of the Issuer, that amount which, under the laws of Iceland is available as of the end of any fiscal year according to the Issuer's latest balance sheet adopted at a shareholders' meeting to be distributed by the Issuer to its shareholders, adjusted for any loss and profit incurred thereafter according to the Issuer's then latest published interim report or, if published later, preliminary year end report.

5. Payments

(1) *Method of payment*

Subject as provided below, payments will be made by credit or transfer to an account in Japanese yen maintained by or on behalf of the payee, or, at the option of the payee, by a cheque in Japanese yen drawn on a bank in Tokyo.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(2) *Presentation of definitive Notes and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (1) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest (if any) in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office or any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Upon the date on which any Note in definitive form becomes due and repayable, unmatured Coupons shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from, and including, the preceding Interest Payment Date shall be payable only against surrender of the relevant definitive Note.

(3) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of the Temporary Global Note will be made only upon certification as to non-U.S. beneficial ownership as provided therein. On and after 6 August, 2001 no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused.

Payments of principal and interest (if any) in respect of Notes represented by a Global Note will (subject as provided below) be made in the manner specified in paragraph (1) 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 outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular principal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

- (4) A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means a day which (subject to Condition 8)

- (a) is 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 relevant place of presentation, London and Tokyo; and
- (b) is a day on which the TARGET System is open.
- (5) The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain a Paying Agent having a specified office in Luxembourg or in another major financial centre in an EU member state. Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 11.

The Issuer undertakes that, if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, it will ensure that it maintains a Paying Agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to the Directive (as defined in Condition 7).

6. Redemption and Purchase

- (1) Subject to paragraph (8) below, on 25 June, 2011 or 25 June, 2031 or on any Interest Payment Date thereafter the Issuer may, subject to prior approval of the FME and having given not less than ten Business Days notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at a redemption price determined as provided in paragraph (6) below.
- (2) Subject to paragraph (8) below, if the Issuer satisfies the Fiscal Agent immediately before the giving of the notice referred to below that:
- (a) as a result of any change in, or amendment to, the laws or regulations of Iceland or any political subdivision of, or any authority in, or of, Iceland having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 22 June, 2001, on the occasion of the next payment due in respect of the Notes the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may, subject to the prior approval of the FME, and after having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at a redemption price determined as provided in paragraph (6) below, such redemption to occur at any time if on or prior to 25 June, 2031 or only on an Interest Payment Date if thereafter, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to

the Fiscal Agent a certificate signed by legal representatives of the Issuer stating that the requirement referred to in (a) above will apply on the occasion of the next payment due in respect of the Notes and cannot be avoided by the Issuer taking reasonable measures available to it and an opinion of two independent Icelandic law firms of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment and the Fiscal Agent shall be entitled to accept the certificate and opinions as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders and the Couponholders.

- (3) Subject as provided in paragraph (8) below, upon the occurrence of a Special Event (as defined below), the Issuer may, subject to the prior approval of the FME, at its option, having given not less than 30 days nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at any time prior to 25 June, 2031 at a redemption price determined as provided in paragraph (6) below.

For the purpose of this Condition 6(3):

A "**Special Event**" means the occurrence of any of a Tax Event or a Capital Event.

A "**Tax Event**" means the receipt by the Issuer of an opinion of counsel in Iceland (experienced in such matters) to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of Iceland or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any governmental action or (iii) any amendment to, clarification of, or change in the official position or the interpretation of such governmental action or any interpretation or pronouncement that provides for a position with respect to such governmental action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective or such pronouncement or decision is announced on or after the date of issuance of the Notes, there is more than an insubstantial risk that the Issuer is, or will be, subject to more than a *de minimis* amount of other taxes, duties or other governmental charges or civil liabilities with respect to the Notes.

A "**Capital Event**" means the determination by the Issuer (such determination to be evidenced by a certificate signed by two directors of the Issuer and to be binding on the Noteholders without further investigation (copies of such certificate to be available for inspection at the specified office of the Fiscal Agent)), having received confirmation or similar proof thereof from the FME, that the Notes are no longer eligible for inclusion in Tier 1 Capital (*Eiginfjárháttur A*) of the Issuer and for these purposes the Notes shall be deemed to be so "eligible", notwithstanding that any limits in respect of obligations which can be included in determining such eligibility would be exceeded by including in such determination all or any part of the Notes and accordingly for these purposes any such limits shall be disregarded.

- (4) The Issuer or any of its Subsidiaries may (subject to the prior approval of the FME) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. If purchases are made by tender, tenders must be available to all Noteholders alike. Notes purchased by the Issuer or any of its Subsidiaries shall be cancelled.
- (5) All Notes which are redeemed will forthwith be cancelled, together, in the case of definitive Notes, with all relative unmatured Coupons and accordingly may not be reissued or resold.

- (6) Upon the expiry of any notice referred to in paragraph (1), (2) or (3) above, the Issuer shall be bound to redeem the Notes as follows:
- (i) at an amount equal to the principal amount of the Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make payment of interest in accordance with Condition 4(3)); plus
 - (ii) if a conversion and utilisation of the principal amount of the Notes (or part thereof) has occurred as provided herein and the Converted Amount has thereafter been reconverted and reinstated as debt, an amount (the "**Interest Compensation Amount**") equal to the interest that the Issuer would (to the extent that there were, at the relevant times, Available Distributable Funds) have been required to pay in accordance with Condition 4, had no conversion taken place, from (and including) the date on which the conversion and utilisation of the principal amount of the Notes (or part thereof) occurred to (but excluding) the date of reconversion and reinstatement.

For the avoidance of doubt, the "principal amount" of the Notes referred to in this Condition 6(6) and elsewhere in these Terms and Conditions shall be the principal amount of the Notes for the time being taking into account any writing down of the principal amount and any reconversion and reinstatement of any Converted Amount pursuant to Condition 3.

- (7) The Interest Compensation Amount (if any) shall be calculated on the principal amount constituting the Converted Amount in respect of any relevant Interest Period by applying the Rate of Interest to the principal amount constituting the Converted Amount and dividing and rounding as provided in Condition 4. No interest shall accrue, with respect of any period, on the Interest Compensation Amount. For the avoidance of doubt, the Interest Compensation Amount shall in no event be capitalised.
- (8) Save as provided in Condition 9, where any principal and Accrued Interest has been converted into Converted Amounts as described in Condition 3, the Issuer shall not redeem the Notes until all Converted Amounts have been reconverted and reinstated as debt in full.

7. **Taxation**

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders and Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon presented for payment:

- (i) in Iceland;
- (ii) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon;
- (iii) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for

payment on such thirtieth day assuming that day to have been a Presentation Date (as defined in Condition 5(4));

- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive (the "**Directive**") on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting such Note to another Paying Agent in a Member State of the EU.

As used herein:

- (A) "**Tax Jurisdiction**" means Iceland or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes; and
- (B) "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 11.

8. Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless the Global Note is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

Claims against the Issuer in respect of definitive Notes and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

9. Events of Default

- (1) The following events or circumstances (each an "**Event of Default**") shall be an event of default in relation to the Notes:
 - (i) the Issuer shall default in the payment of principal for a period of 3 days in respect of any Note which has become due and payable in accordance with these Terms and Conditions; or
 - (ii) the Issuer shall, to the extent that it is obliged to pay interest under Condition 4(3), default for a period of 7 days in the payment of interest due on any Note in accordance with these Terms and Conditions; or
 - (iii) a court or agency or supervisory authority in Iceland (having jurisdiction in respect of the same) shall have instituted a proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or all or

substantially all of its property and such proceedings, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 14 days; or

- (iv) the Issuer shall file a petition to take advantage of any insolvency statute or shall voluntarily suspend payment of its obligations.
- (2) If any Event of Default shall have occurred and shall be continuing, any Noteholder may give notice to the Issuer that the Note is, and it shall accordingly, subject to this Condition 9, forthwith become, immediately due and repayable whether or not the whole or any part of any Converted Amount has been reconverted and reinstated as debt, as follows:
- (a) at an amount equal to the principal amount (construed as provided above) of the Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make such payment of interest in accordance with Condition 4(3)); plus
 - (b) if a conversion and utilisation of the principal amount of the Notes (or part thereof) has occurred as provided herein, an amount (calculated as provided in Condition 6(7)) equal to the interest that the Issuer would (to the extent that there were, at the relevant times, Available Distributable Funds) have been required to pay in accordance with Condition 4(3), had no conversion taken place, from (and including) the date on which the conversion and utilisation of the principal amount of the Notes (or part thereof) occurred to (but excluding) the date for redemption or, to the extent that the Converted Amount has been reconverted and reinstated as debt prior to the date for redemption, to the date of such reconversion and reinstatement.
- (3) If a Note has been declared due and payable under this Condition 9, the Noteholder may claim payment in respect of the Notes only in the bankruptcy or liquidation of the Issuer and may therefore institute such steps, including the obtaining of a judgment against the Issuer for any amount due in respect of the Notes, as it thinks desirable with a view to having the Issuer declared bankrupt or put into liquidation.
- (4) A Noteholder may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to sub-paragraphs (2) and (3) above, any obligation for the payment of any principal or interest in respect of the Notes) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.
- A provider of any Converted Amount may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under Condition 2 or 3 provided that the Issuer shall not by virtue of the institution of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.
- (5) No remedy against the Issuer, other than as provided in sub-paragraphs (2), (3) and (4) above, or proving or claiming in the liquidation or bankruptcy of the Issuer in Iceland or elsewhere, shall be available to the Noteholders, whether for the recovery of amounts owing in respect of the Notes or in respect of any breach by the Issuer of any of its obligations or undertakings with respect to the Notes.

10. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. Notices

To the Noteholders

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London or, if this is not possible, in another English language daily newspaper with general circulation in Europe. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 11.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the Noteholders on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

To the Issuer

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any Noteholder to the Fiscal Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Fiscal Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

12. Meetings of Noteholders and Modification

- (1) The Agency Agreement contains provisions which are binding on the Issuer for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification of these Terms and Conditions or the provisions of the Agency Agreement although any modification cannot be made without the prior approval of the FME.
- (2) The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Notes for the time being outstanding or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of these Terms and Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding.

- (3) The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to any modification of any of these Terms and Conditions or any of the provisions of the Agency Agreement which is not, in the opinion of the Fiscal Agent, materially prejudicial to the interests of the Noteholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.
- (4) Any modification shall be binding on the Noteholders and the Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 11.

13. Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) so as to form a single series with the Notes.

14. Third Party Rights

Except as provided herein in relation to providers of any Converted Amount, no person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

15. Governing Law and Submission to Jurisdiction

- (1) The Agency Agreement, the Notes and the Coupons are governed by, and will be construed in accordance with, English law except that the provisions of Conditions 2 and 3 shall be governed by the laws of Iceland.
- (2) The Issuer irrevocably agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

The Issuer hereby irrevocably waives any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and hereby further irrevocably agrees that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

Nothing contained in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

- (3) *Appointment of Process Agent*

The Issuer appoints R. Raphael & Sons plc., Walton Street, Aylesbury HP21 7QI as its agent for service of process, and undertakes that, in the event of it ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(4) *Waiver of immunity*

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

USE OF PROCEEDS

The net proceeds amount from the issue of the Notes is ¥4,950,000,000, which will be applied by the Issuer for the purpose of improving the Issuer's capital structure.

CAPITALISATION

The following table sets forth the capitalisation and indebtedness of the Issuer and of the Issuer and its consolidated subsidiaries (the "Group") in each case as at 31st December 2000 (audited) and 31st March, 2001 (unaudited).

	Issuer	Group	Issuer	Group	Issuer	Group
	As at 31 st December 2000		As at 31 st March, 2001		As at 31 st March, 2001 (includes the Notes)	
	<i>(ISK million)</i>		<i>(ISK million)</i>		<i>(ISK million)</i>	
Equity						
Share capital ⁽¹⁾	9,895	9,895	9,895	9,895	9,895	9,895
Other	7,022	7,022	7,334	7,334	7,334	7,334
Borrowings ⁽²⁾						
Issued bonds	128,708	129,014	134,729	135,020	134,729	135,020
Loans from credit institutions	42,065	42,065	40,391	40,391	40,391	40,391
Other borrowings	4,274	4,274	4,225	4,225	4,225	4,225
Amounts owed to credit Institutions...	26,579	26,315	35,466	35,300	35,466	35,300
Deposits.....	67,341	67,243	71,991	72,355	71,991	72,355
Subordinated, hybrid Tier 1.....	891	891	891	891	3,499	3,499
Subordinated, Tier 2.....	6,039	6,039	6,367	6,367	8,105	8,105
Total capitalisation	292,814	292,758	311,289	311,778	315,635	316,124

Notes:

- (1) According to the Issuer's Articles of Association, its total Share Capital amounts to ISK 10,000 million. As at 31st March 2001, own shares amounted to ISK 105 million and Share Capital, according to the Balance Sheet, amounted to ISK 9,895 million.
- (2) None of the Issuer's borrowings were guaranteed or otherwise secured as at 31st March, 2001.
- (3) The Issuer had outstanding contingent liabilities, including guarantees as at 31st December, 2000 of a nature and in the amounts set out in note 41 of the Annual Report as at 31st December, 2000.

The total amount of these contingent liabilities as at 31st December, 2000 was approximately **ISK 153,906** million.
- (4) As at 31st December, 2000, ISK 45,709 million of the Issuer's borrowings were due to mature in one year.
- (5) As at 29th December, 2000, the closing rate of the Euro against the Icelandic krona was 78.8750.
As at 30th March, 2001, the closing rate of Euro against the Icelandic krona was 80.51.
- (6) Save as disclosed herein, there has been no material change in the capitalisation and indebtedness of the Issuer or of the Group since 31st March 2001 and no material change in the contingent liabilities of the Issuer or of the Group since 31st December, 2000.

THE ISSUER

Introduction

Íslandsbanki-FBA hf. (the "Bank") is the largest financial institution in Iceland and the largest company on the Iceland Stock Exchange. It is a universal bank, offering a broad range of financial services to individuals, institutional investors and corporations. From June 11th 2001 the bank operates five business units under one brandname – Íslandsbanki. These operating units are: Private Banking & Asset Management (formerly VÍB), Asset Backed Financing - Glitnir - Leasing, Retail Banking, Corporate Finance and Capital Markets. The Bank operates 31 branches located throughout the country and has 9 wholly-owned subsidiaries, both in the form of holding companies and companies operating in the financial markets. The companies operating in the financial markets are Glitnir Ltd., an asset-based financing company and the biggest leasing company in Iceland and R. Raphael & Sons p.l.c., a private bank operating in the United Kingdom. Other subsidiaries consist of holding companies for investments of the Bank and projects sponsored by the Bank. The Bank also has substantial shareholdings in other financial services companies, including a 36 per cent. interest in Basis A.S. of Denmark, which operates a banking service on the Internet (Basisbank.dk) in Scandinavia, a 35 per cent. shareholding in Europay Iceland, which is the Eurocard/Mastercard credit card franchise in Iceland, and an approximate 19 per cent. shareholding in Greiðslumiðlun Ltd., which is Iceland's Visa licensee.

Background History

Íslandsbanki-FBA hf. was created by the merger of Íslandsbanki hf. and FBA - The Icelandic Investment Bank. The merger was effected on 15th May, 2000 but retroactive to 1st January, 2000. From 11th June 2001, the bank operates under the name of Íslandsbanki, but the legal name will remain Íslandsbanki-FBA hf. until the next general meeting.

Íslandsbanki hf. entered the merger as the second largest commercial bank in Iceland and the only one in private ownership. It was formed on 1st January, 1990 as a result of the merger of four banks. The four merged banks were Alþýðubankinn (established in 1970), Iðnaðarbanki Íslands hf. (established in 1953), Útvegsbanki Íslands hf. (established under the name Íslandsbanki in 1904) and Verzlunarbani Íslands hf. (established in 1961).

Fjárfestingarbanki atvinnulífsins hf. (FBA – The Icelandic Investment Bank) entered the merger as the leading investment bank in Iceland. FBA was established through a merger of four state-owned Investment Credit Funds in Iceland (the "Funds"), which were the main providers of long-term credit to Icelandic industries for most of the twentieth century. The Funds were: The Fisheries Investment Fund (founded in 1905), The Industrial Loan Fund (established in 1935), the Export Credit Fund (established 1970) and The Industrial Development Fund (founded in 1970). FBA took over the commercial lending activities of its predecessors, and broadened the scope of business of the Funds. FBA was incorporated on 30th June, 1997 but commenced operations on 1st January, 1998 as a limited liability company and credit institution fully-owned by the Republic of Iceland. The Government fully privatised FBA in two phases: in November 1998, 49 per cent. of the Government's shares in FBA was offered to the public on a subscription basis in an initial public offering and in November 1999, the Government sold its remaining 51 per cent. share to a group of 26 investors, including pension funds, investment companies and individuals.

Recent Developments

On 4th December, 2000, the Bank announced its intention to acquire a stake in Rietumu Banka ("Rietumu") in Latvia. The acquisition would be a new step in the international expansion of the Bank's operations and also would mark the first direct investment by the Bank in the Baltic region, although the Bank has already been involved in transactions in the area. The due diligence process is currently being conducted and management expects this process to be finished in the first half of 2001.

Rietumu recently acquired another bank in Latvia, Saules Banka. Following this acquisition Rietumu became the fourth largest bank in Latvia, with total assets of approximately US\$450 million. The combined Latvian bank's loan portfolio and investments are of good quality and basic earnings are stable. Net profit in 2000 was US\$11 million. Rietumu, established in 1992, specialises in providing services to companies and affluent individuals in Latvia as well as focusing on international payment intermediation and cash management services for companies working in the Baltic region, Russia, the CIS and Eastern Europe. Furthermore, Rietumu owns a brokerage and asset management company specialising in international securities markets, as well as being involved in other banking services.

As of the date of this Offering Circular, the Bank has not made any decision to proceed or otherwise with the potential acquisition. Any decision by the Bank in respect of the contemplated acquisition will be subject to the results of the due diligence process and also conditional upon the approval of the Board of Directors of the Bank.

Legal Status and Legislative Background

The Bank is a private limited company incorporated in Iceland and operating under Icelandic law. The Bank is registered with the Registrar of Companies in Iceland and its registration number is 550500-3530. The registered office and place of business of the Bank is Kirkjusandur 2, 155 Reykjavík, Iceland.

The operations of the Bank are subject to the provisions of Act no. 2/1995 on Public Limited Companies and Act no. 113/1999 on Commercial Banks and Savings Banks. The Bank is authorised 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.

State Guarantees

Although the obligations of the Bank are not covered by statutory state guarantees, those obligations of the Funds which were guaranteed by the State and which FBA (and now the Bank) has assumed will continue to benefit from state guarantees. These liabilities are however subject to a government guarantee fee.

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, the Bank has registered a number of issues on the Iceland Stock Exchange, including issues of commercial paper, non-indexed notes and indexed bonds.

The table below sets out a breakdown of the Group's sources of funds as at 31st December, 2000.

	As at 31st December, 2000	
	<i>ISK</i> <i>millions</i>	<i>(per</i> <i>cent.)</i>
Equity	16,917	5.8
Subordinated loans	6,930	2.4
Deposits	67,243	22.9
Core funding	91,090	31.1
Market issues and borrowings.....	175,353	59.9
Interbank short-term funding (credit institutions).....	26,315	9.0

Finance in the market	201,668	68.9
Total funds	292,758	100.0

Equity

As of 1st January, 2001 the equity of the Group was ISK 16,917 million.

As of 1st January, 2001, the ten largest shareholders in the Group were:

	Percentage Ownership
FBA Holding SA (holding company).....	15.55
Lífeyrissjóður verslunarmanna (pension fund)	8.55
Lífeyrissjóðurinn Framsýn (pension fund)	6.93
Burðarás (investment company)	3.30
Sjóvá-Almennar tryggingar (insurance company)	2.93
Lífeyrissjóður sjómanna (pension fund).....	1.93
Eignarhaldsfélag Alþýðubankinn (investment company).....	1.85
VVÍB hf, sjóður 6 (mutual fund).....	1.67
Lantis Limited.	1.58
Fjárfar ehf.....	1.54
Total	45.83

Subordinated Loans

The Bank has borrowed funds by issuing bonds on subordinate terms. The bonds have the characteristics of equity in being subordinated to other liabilities of the Bank. In the calculation of the capital ratio, the bonds are included with equity. Total subordinated loans amounted to ISK 6,930 million at the end of the year, comprising ISK 891 million in subordinated loans with no maturity date, which the Bank may not redeem in the next ten years (these loans qualify as Tier I capital in the calculation of the Bank's capital ratio) and subordinated loans amounting to ISK 6,039 million, with dates of maturity over the next 15 years which qualify as Tier II capital in the calculation of the Bank's capital ratio.

Capital Adequacy

Under the Act on Credit Institutions other than Commercial Banks and Savings Banks the capital adequacy ratio may not be lower than 8.0 per cent. In the case of the Group, this ratio as at 1st January, 2001 was 9.7 per cent. and was calculated as follows:

	Book Value (ISK millions)	Weighted Value (ISK millions)
Assets recorded in the balance sheet	296,917	227,346
Assets subtracted from equity		-1,263
Guarantees and other off balance sheet items	151,536	7,151

Risk base, total.....	233,234
Tier I capital.....	17,445
Tier II capital.....	6,039
Investment in credit institutions.....	-900
	<u>22,584</u>
Capital adequacy ratio	9.7 %.

Deposits

On 31st December, 2000, the Bank had approximately 310,000 customer deposit accounts (including current accounts, savings accounts and currency accounts). As at 1st January, 2001, the Bank's total deposits amounted to 23 per cent. 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 as at 31st December, 2000.

	31 st December 2000
	<u>(ISK millions)</u>
Demand deposits.....	25,515
Time deposits.....	41,728
Total	<u>67,243</u>
Time deposits mature as follows:	
Up to 3 months.....	29,251
Over 3 months and up to 1 year.....	4,454
Over 1 year and up to 5 years.....	7,776
Over 5 years.....	247
Total	<u>41,728</u>

Finance in the market

The domestic funding of the Bank consists of deposits from commercial customers as well as the issuance of ISK commercial paper and bonds. The international funding of the Bank is a mixture of bilateral and syndicated loans as well as the issuance of commercial paper and bonds under the Bank's ECP and EMTN Programmes. Also, the Bank has access to money market lines from relationship banks. The international bonds and loans generally have maturities up to 5 years.

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, as at 31st December, 2000.

	31 st December, 2000
	<i>(ISK millions)</i>
Promissory notes in ISK.....	515
Bonds in ISK.....	10,971
Bonds in foreign currency.....	117,528
Credit institutions in ISK.....	13,216
Credit institutions in foreign currency.....	55,164
Other liabilities.....	4,274
Total.....	<u>201,668</u>

Uses of Funds

The major part of the Group's assets comprises loans. The table below sets out a breakdown of the Group's assets as at 31st December, 2000.

	31 st December, 2000
	<i>(ISK millions)</i>
Loans:	
General loans to customers.....	212,453
Leasing contracts.....	13,533
Foreclosed assets.....	690
Total loans.....	<u>226,676</u>
Deposits at the Central Bank/credit institutions.....	26,956
Cash and marketable short-term instruments.....	1,086
Bonds and other fixed-rate securities.....	16,738
Shares in affiliates and other companies.....	14,851
Other assets.....	10,610
Total other assets.....	<u>70,241</u>
Total assets.....	<u>296,917</u>

Loan portfolio

The principal lending activity of the Group consists of loans to corporate customers and private individuals. The Group has endeavoured to diversify its loan portfolio to minimise 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 comprising 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 authorised.

The following table lists the Group's lending (including leasing) by customer categories as a percentage of total lending as at 31st December, 2000.

	31 st December, 2000
	<u>(per cent.)</u>
Agriculture	1.0
Fishing industry	25.7
Commerce.....	11.6
Industry and contractors	13.7
Services	22.8
Total business enterprises	74.8
Individuals	20.3
State owned enterprises	1.2
Municipalities	2.1
Others	1.6
Total loans	100.0

The following table sets out a maturity breakdown by remaining maturity of loans to customers (including leasing contracts) as at 31st December, 2000:

	31 st December, 2000
	<u>(ISK millions)</u>
On demand	4,609
Up to 3 months	50,514
Over 3 months and up to 1 year	36,790
Over 1 year and up to 5 years	83,774
Over 5 years.....	50,299
*Total	225,986

Note:

**Excludes foreclosed assets.*

Provisions and Non-Performing Loans

In evaluating its non-performing loans, the Bank, following directives from the Financial Supervisory Authority (FME), has introduced the EU Directive regarding rules on the annual accounts of commercial banks. Iceland fully complies with such Directive.

The following table provides a breakdown of the Group's non-performing loans and provisions for non-performing loans as at 31st December, 2000. Loans are classified as non-performing whenever a payment is 180 days past due.

	31 st December, 2000
	<i>(ISK millions)</i>
Loans with specific provisions.....	2,779
Specific provision account.....	-1,802
Other non-performing loans.....	362
Non-performing loans total	1,339
Provision account:	
Specific provision.....	2,159
General provisions.....	2,552
Total	4,711

In calculating the necessary provisions to be made for non-performing loans the Group makes both specific provisions and a general provision to meet the general risk of lending operations. A specific provision is made for credits that have been assessed at risk on the day of settlement. The general provision 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.

The following table sets out details of the changes in the Group's provisions for the year ended 31st December, 2000.

	Year ended 31 st December, 2000
	<i>(ISK millions, except where otherwise stated)</i>
Provision at 1st January.....	3,953
Provision for losses over the year.....	1,227
Losses during the year.....	-497
Payments of loans previously written off.....	28
Provision at end of period.....	4,711
Provision for losses on loan portfolio as a percentage of loans and guarantees issued.....	2.0%

Specific provisions are established on an individual facility basis to recognise the expected credit losses on all types of exposure. The branches prepare lists twice a year for suggested specific provisions 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.

General provisions are established to absorb credit losses not met by specific provisions. General provisions are determined by an evaluation of the quality of the loan portfolio. At 31st December 2000, general provisions amounted to 1.08 per cent. of loans and guarantees.

Credit approval policy

Credit evaluation

The Board of Directors decides on loan policies for the Bank. Authority to approve loans is delegated to the risk committee and credit committee, which can approve loans within certain limits. Those limits, set by the Board of Directors, are based on a maximum exposure to individual customers based on their credit rating class.

Risk Committee

The Risk Committee approves the credit rating system, as well as approving maximum exposure limits for individual customers. The Board delegates its authority to the Bank's Risk Committee to determine specific transactions within those limits and authority to approve exposure limits up to certain amounts per credit class. Each member has a veto.

Credit Committee

The Credit Committee has limited authority to approve maximum exposure limits for individual customers and refers any credit decision exceeding those limits to the Risk Committee for its approval. Each member has a veto.

Collateral

For short-term loans to customers within the highest credit rating categories the Bank does not generally require any security if they are within limits. For some short and medium-term loans the Bank demands financial covenants and negative pledges rather than collateral. However, for most medium and long-term loans the Bank requires collateral.

Collateral is valued when loans are granted and when loans have defaulted and/or have been identified as problem loans.

Risk management

Overview

The Board of Directors formally approves the maximum exposure limits per credit rating class. Within these limits, the Risk Committee and the Credit Committee set limits per customer. The main objective of Risk Management is to control the following risk factors with rules, controls and constant monitoring:

- i. the interest rate risk in the trading book
- ii. the equity risk in the trading book

- iii. the Bank's asset and liability management
- iv. the Bank's liquidity risk
- v. the Bank's currency risk both through proprietary trading and the asset and liability management
- vi. the Bank's inflation exposure through proprietary trading and in the asset and liability management
- vii. the Bank's credit and liquidity risks in its short term lending and borrowing activities

The Finance and Credit department is responsible for limit management, monitoring the loan portfolio, the management of problem loans and for advising on provisions for losses.

Credit risk

The Bank addresses credit risk by monitoring closely sector weightings, concentration within the whole portfolio, within particular sectors and among the biggest borrowers.

Market risk

The Bank classifies market risk as interest rate risk (price risk of interest-sensitive assets), currency risk and equity risk.

The Bank sets a number of limits on positions within the trading book, including, for example, the overall duration of the fixed income book and the duration of individual fixed income categories within the book. The trading book consists mainly of domestic securities. Particular emphasis is placed on portfolio management techniques in the trading book.

Net currency exposure is monitored on an inter and intra-day basis and is subject to conservative limits.

Equity risk is measured by the market value of the Bank's holdings, subject to limits with regard to weightings in the trading book.

Liquidity Risk

The Bank's target is to reflect the long-term loan portfolio with long-term funding. Mismatches are monitored, measured and hedged as deemed necessary. The Bank's Funding and Risk Management group is responsible for the asset and liability management activities of the Bank but subject to policies set by, and monitoring of, the Bank's Asset and Liability Management Committee

The Bank is required to comply with the Icelandic Central Bank's Required Reserve and has access to the Central Bank's overnight and repurchase facilities that are aimed at keeping liquidity in the Icelandic monetary system.

The Bank is subject to the liquidity rules of the Central Bank which stipulate that liquid assets and loans maturing within 3 months must exceed debt maturing within the same period. In this respect, assets and loans are given a conservative weighting but maturing debt is given a 100 per cent. weighting.

Operating Risk

The Internal Auditing function and Risk Management are jointly responsible for the Bank's operational risk. The operational risk has been recognised at two levels, the technical level and the organisational level.

Rules concerning employees trading on their own account have been drawn up which every employee is required to comply with.

Inflation Risk

Index-linking financial obligations has been a tradition in the Icelandic financial market since 1980. To protect the lender from inflation, the loan rate works as a real yield and interest rate plus loan balance are adjusted for changes in the Consumer Price Index. Due to possible mismatching of index-linked assets and liabilities, the Bank can be exposed to inflation risk.

Competition

The principal competitors to the Bank are Landsbanki, Búnadarbanki, the Saving Banks and Kaupthing (an investment bank largely owned by the savings banks). The Bank monitors market developments closely and intends to continue to take advantage of any potential opportunities as and when they arise. Both domestic and foreign competitors provide financial services which have affected the Banks net interest margin and require the Bank to be internationally competitive.

Subsidiaries operating in the financial market

Glitnir hf. An asset based financing company specialising in financing the purchase of cars, trucks, equipment and real estate through leasing and loans to businesses and municipalities and car financing to private persons. Financing to private persons was 52 per cent. of the portfolio at the end of 2000 and financing to businesses and municipalities was 48 per cent. The assets financed by loans are collateralised in favour of Glitnir. In the year 2000 Glitnir made a profit of ISK 392 million. The managing director of the company is Kristján Óskarsson.

R. Raphael & Sons p.l.c. is a private bank based in Aylesbury, England which provides banking services to affluent individuals. The Bank acquired R. Raphael & Sons in May 2000. The managing director of Raphael is Svanbjörn Thoroddsen.

Board of Directors

The Annual Shareholders' Meeting elects the Board of Directors which consists of 7 members and 7 deputies. The Board of Directors appoints the Bank's chief executive officers ("CEOs") and internal auditor. The CEOs appoint the managing directors.

The Board of Directors is as follows:

Kristján Ragnarsson (Chairman of the Board of Directors)

Mr Ragnarsson is also the President of the Federation of Icelandic Fishing Vessel Owners.

Helgi Magnússon

Mr Magnússon is the Managing Director of Harpa hf (a paint manufacturer) and also a member of the Board of Directors of the Federation of Icelandic Industries and Framsýn pension fund.

Eyjólfur Sveinsson

Mr Sveinsson is the Managing Director of and a member of the Board of Directors of Frjáls Fjölmiðlun hf. (a media company).

Jón Ásgeir Jóhannesson

Mr Jóhannesson is the CEO of Baugur (retail chain).

Jón Olafsson

Mr Olafsson is Chairman of Norðurljós (media company).

Einar Sveinsson

Mr Sveinsson is the Managing director of Sjóvá-Almennar hf. (an insurance company).

Víglundur Þorsteinsson

Mr. Þorsteinsson is CEO of BM Vallá (concrete manufacturer) and Chairman of the Board of Directors of Lífeyrissjóður Verslunarmanna (pension fund)

The business address of these directors is Íslandsbanki -FBA, Kirkjusandur, 155 Reykjavik, Iceland.

Senior Management

The Executive Board of the Issuer consists of the following 16 members:

Bjarni Ármannsson — Chief Executive Officer. Prior to his appointment as CEO of the Bank, Mr. Ármannsson was the CEO of FBA from its inception in 1997. He was the CEO of Kaupthing, an investment bank in Iceland (1996-1997). Prior to this he was the Deputy Managing Director of Kaupthing (1994-1996). In 1992, Mr. Ármannsson led the asset management group and was responsible for setting up an asset management firm and listed funds on the Luxembourg Stock Exchange at Kaupthing. Mr. Ármannsson holds a BSc degree in Computer Science from the University of Iceland and an MBA degree from IMD in Switzerland.

Valur Valsson - Chief Executive Officer. Prior to his appointment as CEO of the Bank, Mr. Valsson was Group Chief Executive of Íslandsbanki from 1990, and a Managing Director of Iðnaðarbanki Íslands hf. from 1982. Prior to this he was the Managing Director of the Federation of Icelandic Industries. Mr. Valsson holds a degree in Business Administration from the University of Iceland.

Björn Björnsson - Managing Director, Credit Control. Prior to his appointment to the Executive Board of the Bank, Mr. Björnsson was Managing Director of Íslandsbanki hf. from 1990 and Managing Director of Alþýðubankinn hf. from March 1988. He was the Chief Economist of the Icelandic Federation of Labour from 1981 to 1987 and subsequently was the personal assistant to the Minister of Finance. Mr. Björnsson holds a degree in Business Administration from the University of Iceland.

Aðalsteinn Jónasson – Managing Director, Legal Department. Chief Legal Counsel of FBA and then Íslandsbanki-FBA from 1999. Before joining the bank he was Partner with Lex Law Offices. Mr. Jónasson holds a Cand.juris degree from the University of Iceland and an LL.M (Master of Laws) degree with emphasis on international finance from Harvard Law School.

Tómas Kristjánsson - Managing Director, Treasury and Risk Management. Prior to his appointment to the Executive Board of the Bank, Mr. Kristjánsson was Managing Director, Risk Management and Funding at FBA from 1997 and Director of Credit Control at the Industrial Loan Fund

from 1992 to 1996, responsible for credit control, real estate supervision and the legal department. Prior to that (from 1990), he was responsible for the management of problem loans at the ILF. Mr. Kristjánsson holds an MBA degree from the University of Edinburgh and a degree in Business Administration from the University of Iceland.

Erlendur Magnússon — Managing Director, Corporate Finance. Before his appointment to the Executive Board of the Bank, Mr. Magnússon was Managing Director, Corporate Banking at FBA from 1997. Senior Relationship Manager for the Nordic and Baltic Area at Nomura Bank International, London, from 1994-1997. Credit Manager at Nomura (1991-1994). In 1989-1990 he worked at Scandinavian Bank, London. Prior to entering banking, he worked for five years with Eimskip (Iceland's second largest listed company by market capitalisation) in Reykjavik and Rotterdam. Mr. Magnússon holds an MSc (Econ) degree in International Relations from the London School of Economics and a BA degree in International Relations from Hamline University, Minnesota.

Borgils Óttar Mathiesen – Managing Director, Accounting and Back-Office. General Manager Accounting at Íslandsbanki and later Íslandsbanki-FBA from 1993 and General Manager Administration at Íslandsbanki from 1991-1993. Mr. Mathiesen holds a degree in Business Administration from the University of Iceland.

Haukur Oddsson - Managing Director, Information Technology. Managing Director, IT at Íslandsbanki from 1998 and General Manager Information Systems in Iðnaðarbanki Íslands from 1988 and in Íslandsbanki from 1990 to 1998. Mr. Oddsson holds a bachelor degree in Electrical Engineering and Computer Science from the University of Iceland and a masters degree in Computer Engineering from the Technical University of Denmark in Copenhagen.

Kristján Óskarsson- Managing Director, Asset-backed Financing - Glitnir hf. Financial Manager of Hampidjan hf., an Icelandic manufacturing company 1984-1987. Degree in Business Administration from the University of Iceland and an MBA from the University of Texas at Austin.

Ásmundur Stefánsson - Managing Director, Personnel & Administration. Prior to his appointment to the Executive Board of the Bank, Mr. Stefánsson was Managing Director of Íslandsbanki from April 1993. He was President of the Icelandic Federation of Labour from 1980 to 1992, Administrative Director of the Federation from 1979 and the Economist of the same Organisation from 1974 to 1978. Mr. Stefánsson holds a degree in Economics from the University of Copenhagen.

Finnur Reyf Stefánsson – Managing Director, Capital Markets. Prior to his appointment to the Executive Board of the Bank, Mr. Stefánsson was Deputy Managing Director of Wealth Management of Íslandsbanki-FBA from January 2000 and Deputy Managing Director of Risk Management and Funding at FBA from 1997. Prior to that (from 1994) he was director and fund manager at Landsbanki Securities. Mr. Stefánsson holds an MBA (Finance) degree from Virginia Tech University, Virginia, and a B.Sc. degree in Economics from the University of Iceland.

Sigurður B. Stefánsson - Managing Director, Private Banking & Asset Management. Managing Director VÍB (Íslandsbanki Securities) from 1986. Chief Economist at Kaupþing, a securities house, and Editor of Vísinding, a weekly newspaper on business and economics 1983-1986. Economist at the National Economic Institute of Iceland 1973-1983. Mr. Stefánsson holds a Ph.D. in Economics from the University of Essex, M.Sc. in Mathematical Economics and Econometrics from the London School of Economics and B.Sc. Hons. in Engineering from Edinburgh University.

Hulda Dóra Styrnisdóttir – Managing Director, Marketing & Communications. Prior to her appointment to the Executive Board of the Bank, Mrs. Styrnisdóttir was Assistant to CEO of Íslandsbanki-FBA hf., Assistant to CEO and Marketing Director at FBA from 1998, Marketing Consultant at Hugtök Marketing Consultancy from 1995, Human Resource Manager, Hotel Saga 1994–1995 and a News

Reporter 1990-1994. Mrs. Styrnisdóttir holds a BA in Economics from Brandeis University, Massachusetts and an MBA from INSEAD.

Svanbjörn Thoroddsen - Managing Director London Rep. Office and Managing Director of R. Raphael & Sons plc. Prior to his appointment to the Executive Board of the Bank, Mr. Thoroddsen was the Managing Director of Capital Markets at FBA from 1997-2000, and the Managing Director for VSÓ Management Consulting/Ernst & Young Management Consulting, Iceland from 1993-1997. Prior to this he was Head of Corporate Finance & Institutional Investors at Íslandsbanki Securities. Mr. Thoroddsen holds a BS degree in Economics from Leeds University.

Guðmundur Tómasson - Managing Director, Strategy & Development. Prior to his appointment, Mr. Tómasson was Director Strategic Planning and Managing Director Capital Markets. Prior to that Mr. Tómasson was General Manager Group Development and Assistant to the CEO at Íslandsbanki. Before joining the bank as General Manager Corporate Services in 1998, Mr. Tómasson was Deputy Managing Director of the Industrial Development Fund from 1980 to 1990 and Vice President of the Nordic Investment Bank in Helsinki from 1990 to 1998. Mr. Tómasson holds a degree in Business Administration from the University of Iceland.

Jón Þórisson - Managing Director, Retail Banking. Prior to his appointment to the Executive Board of the Bank, Mr. Þórisson was Managing Director, Retail Banking in Íslandsbanki from 1998. Before that, Mr. Þórisson was General Manager responsible for sales and distribution channels in retail banking from 1996 to 1998 and a Branch Manager in Íslandsbanki from 1993 to 1996. Mr. Þórisson holds a degree in Business Administration from the University of Iceland.

THE REPUBLIC OF 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 the third largest in the Atlantic Ocean with 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 about 282,000. 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.

Modern economic history spans about one century. In the early years of industrialisation 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. Hence, the Icelandic economy has taken the shape of a modern industrial state.

With GDP (gross domestic product) of approximately U.S.\$8.5 billion in 2000, the size of the economy is relatively small. However, the per capita GDP is very high by international standards, being approximately U.S.\$30,131 in 2000. The economy relies on foreign trade and services in maintaining the high standard of living.

Iceland is endowed with rich fishing grounds in the 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 energy resources. Hot water from geothermal sources and natural steam are extensively used for residential heating. Only a small fraction of the country's vast hydro and geothermal resources has been exploited so far. Hence, the potential for large-scale development of power-intensive industry is substantial.

Industrial expansion in Iceland is to a considerable extent based on the abundant energy resources and their attractiveness for power-intensive industries, aided by tariff-free access to the European market. Among the largest manufacturing enterprises in Iceland are two aluminum smelters, a ferro-silicon plant and a diatomic plant. Currently, further power-intensive projects are being considered. 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.

Iceland is a member of the United Nations and its affiliates, the International Monetary Fund (IMF) and the World Bank. Iceland is also a member of the Organisation for Economic Co-operation and Development (OECD) and a number of other multinational organisations, 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 (EEA), a 19-nation free-trade zone of the European Union (EU) and EFTA countries. Iceland is a contracting party to the General Agreement on Tariffs and Trade (GATT) and ratified the agreement establishing the World Trade Organisation (WTO) in December 1994, thus becoming a founding member of the WTO.

The following table shows certain economic indicators relating to Iceland:

	2001 (forecast)	2000 (provision)	1999	1998	1997	1996
Volume changes on Previous year, per cent						
Real GDP	2.0	3.6	4.1	4.5	5.3	5.6
Real exports of goods and services	3.4	5.1	4.4	2.2	5.7	10.0
Real imports of goods and services	0.9	9.3	5.7	23.3	8.5	16.6
Percentage changes on previous year						
Consumer price index (Y/Y change)	4.3	5.0	3.4	1.7	1.8	2.3
Real disposable income per capita	2.0	1.9	4.2	8.5	5.0	4.9
Effective price of foreign currency	8.0	-0.7	-0.2	-1.8	-1.3	0.1
Real exchange rate	-5.9	3.1	1.9	1.6	0.9	0.3
Unemployment rate	1.3	1.5	1.9	2.9	3.7	4.3
Percentage of GDP						
Current account balance	-10.1	-10.3	-7.0	-6.	-1.7	-1.7
Treasury revenue balance	2.6	3.1	2.2	1.4	0.5	(1.5)
Net external debt position	-72.0	-63.2	-50.5	-49.0	-46.5	-47.7

Sources: National Economic Institute, Ministry of Finance, Central Bank of Iceland, Íslandsbanki-FBA.

FINANCIAL MARKETS IN ICELAND

The Icelandic financial system has been substantially reformed over the last decade. In particular, as a result of Iceland's membership of the EEA, legislation and regulations regarding credit institutions and other financial institutions have been conformed to the various regulations and directives of the European Union.

The Icelandic banking system consists of the Bank, two other commercial banks, three funds with investment banking licenses, and twenty-seven savings banks. The Bank is privately owned but the other two commercial banks (Landsbanki and Búnaðarbanki) are majority state-owned. In addition, the savings banks own Icebank, which operates as their clearing institution. The state-owned banks were transformed into limited companies as of the beginning of 1998. In the second half of 1998, new shares amounting to 15 per cent. of total equity were publicly offered in each bank, and in the second half of 1999 another 15 per cent. of the remaining state-owned equity was publicly offered. The commercial and savings banks' funding is chiefly based on retail deposits and domestic bond issues although they are also frequent borrowers in international markets. While the investment credit funds that merged into FBA in 1997/98 provided long-term funds to industries, the commercial and savings banks have traditionally been the main source of short and medium term credit in Iceland. The total assets of the banking system amounted to approximately ISK 665 billion at the end of 2000, which almost amounts to the estimated total GDP in that year.

In January 1998, four state-owned investment funds merged into two separate entities, FBA – The Icelandic Investment Bank and the New Business Venture Fund, as a state owned provider of soft loans and venture capital. FBA recently merged with Íslandsbanki, creating the largest bank in Iceland and the largest company listed on the Icelandic Stock Exchange by market capitalisation. A new State Housing Fund was established at the beginning of 1999. The new fund is the result of legislation approved by Parliament in June 1998, which aims to rationalise the existing state housing fund system.

A new State Housing Fund was established at the beginning of 1999 which aims to rationalise the existing state housing fund system. The bulk of housing loans to individuals in Iceland is lent by the Fund rather than the commercial banks.

Seven domestic securities houses are currently operating in Iceland. Four of them operate mutual funds, of various kinds, including funds which invest partly or solely in foreign securities. Three of them now have investment banking licences, and one of them, Kaupthing, also provides foreign exchange and money market services in addition to securities dealing and funds management. Three leasing companies operate in Iceland.

There are three main players on the Icelandic insurance market. Insurance companies are becoming active in the financial markets through their investment activities and increasingly through their lending operations.

Pension funds represent the largest part of the financial system in Iceland. The pension fund system is fully funded and at the end of 2000 the total assets amounted to 85 per cent. of GDP in that year. The pension funds receive payments from employers and employees and are the single most important source of longterm 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. They invest mainly in domestic bond issues, equity capital and foreign securities.

In the beginning of 1999, the Bank Inspectorate of the Central Bank of Iceland and the Insurance Supervisory Authority were merged into a new separate entity, the Financial Supervisory Authority (the "FME"). The FME now supervises the whole range of financial institutions, insurance companies and pension funds in Iceland.

The Central Bank 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 amounting to 1.5 to 4.0 per cent. of total disposable funds, depending on maturity.

The Iceland Stock Exchange operates under new legislation adopted in 1998, which required the exchange to be converted into a limited liability company and abolished its monopoly on exchange activities but at the same time gave it increased room to grow and offer new services. Currently there are 27 members of the exchange. The stocks of around 70 companies, government securities and various bond issues, primarily made by credit institutions, are listed on the exchange.

The Iceland Stock Exchange operates under legislation adopted in 1998. Currently, there are 27 members of the Exchange. The stocks of around 70 companies, government securities and various bond issues, primarily made by credit institutions, are listed on the Exchange. The Iceland Stock Exchange signed a formal agreement to join the NOREX Alliance in June 2000. The SAXESS trading system, which has been in operation since March 2000 in Sweden and since June 2000 in Denmark, became operational on the Icelandic market on 30th October, 2000.

ICELANDIC TAXATION

Taxation of Notes

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of the Notes and/or Coupons. They may not apply to certain classes of person such as dealers. 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.

1. 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 or interest on the Notes by a holder who is not a resident of Iceland, or in respect of any amount payable under the Subscription Agreement or the Fiscal Agency Agreement.
2. There are no estate or inheritance taxes, succession duties, gift taxes or capital gains taxes imposed 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 resident of Iceland.
3. The Issuer is not required by the current laws of Iceland to make any deductions or withholding from any payment of principal or interest due or to become due under the Notes or from any amount payable under the Subscription Agreement or the Fiscal Agency Agreement, if the recipient is not a resident of Iceland.

RIGHTS OF PROVIDERS OF CONDITIONAL CAPITAL CONTRIBUTIONS ON A LIQUIDATION

The following is a summary of advice received by the Issuer from its Icelandic legal advisers. It should be noted, however, that there is no established Icelandic law on certain matters relating to the ranking of claims of providers of conditional capital contributions on a liquidation of the Issuer. The following summary therefore does not purport to be definitive and is qualified in its entirety by the Terms and Conditions of the Notes.

There is no Icelandic law relating to the ranking of claims of providers of conditional capital contributions in the event of the liquidation or bankruptcy of the Issuer. Therefore, the rights of providers of conditional capital contributions will be determined on a contractual basis as set out in the Terms and Conditions of the Notes.

Where any Accrued Interest (as defined in the Terms and Conditions of the Notes) or the whole or any part of the principal amount of the Notes has been converted into conditional capital contributions as described in the Terms and Conditions of the Notes (and such conditional capital contributions have not been reconverted and reinstated in accordance with the Terms and Conditions of the Notes), the rights of such providers of conditional contributions on a voluntary or involuntary liquidation or bankruptcy of the Issuer will rank as provided in Condition 2(b) of the Notes.

Providers of conditional capital contributions are neither creditors nor shareholders of the Issuer and any conditional capital contribution will appear in the financial statements of the Issuer as a special own funds item. They are providers of conditional capital contributions who, on an insolvency or bankruptcy of the Issuer, may only be repaid all or a portion of an amount equal to their conditional capital contributions if there are sufficient funds available following the payment of all amounts owing to any creditors of the Issuer ranking prior to such providers and the Noteholders and Couponholders, but will be repaid before any payments are made to holders of all classes of ordinary share capital, preferred share capital and other share capital of the Issuer and any obligation which ranks junior to the Notes and such conditional capital contributions. Apart from payments on the insolvency or bankruptcy of the Issuer, conditional capital contributions can only, under Icelandic law and pursuant to the Terms and Conditions of the Notes, be repaid or converted and reinstated out of unappropriated earnings of the Issuer according to its current adopted balance sheet and subject to a resolution of the Board of Directors of the Issuer.

SUBSCRIPTION AND SALE

Under a Subscription Agreement (the "**Subscription Agreement**") dated 22 June, 2001 Merrill Lynch International (the "**Manager**") has agreed to subscribe for the Notes at 100 per cent. of their principal amount less a combined management and underwriting commission or 1.0 per cent. of such principal amount. The Manager is entitled to terminate the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

The United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are in bearer form and subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meaning given to them by the United States Internal Revenue Code and regulations thereunder.

The Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered and sold, and will not offer, sell or deliver the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering of such Securities) may violate the registration requirements of the Securities Act.

The United Kingdom

The Manager has represented and agreed that:

- (i) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date will not offer or sell any Notes to persons in the United Kingdom except to such persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

Iceland

The Manager has agreed that it will not offer the Notes to the public in Iceland, except in compliance with the Icelandic Securities Transaction Law and any applicable laws or regulations of Iceland.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "**Securities and Exchange Law**") and are subject to the Special Taxation Measures Law of Japan (Law No. 26 of 1957) (as amended) (the "**Special Taxation Measures Law**"). The Manager will represent and agree that (i) it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell, the Notes in Japan or to any person resident in Japan for Japanese securities law purposes (including any corporation or other entity organised under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan; and (ii) it has not, directly or indirectly, offered or sold and will not (a) as part of its distribution at any time, and (b) otherwise until forty days after the closing date, directly or indirectly, offer or sell the Notes to any person other than a Gross Recipient. A "**Gross Recipient**" for this purpose is (i) a beneficial owner that is not an individual resident of Japan or a Japanese corporation for Japanese tax purposes or (ii) a Japanese financial institution, designated in Article 3-2 paragraph (19) of the Cabinet Order of 17th December 1997, (the "**Cabinet Order**") relating to the Special Taxation Measures Law that will hold the Notes for its own proprietary account.

General

The Manager has agreed with the Issuer that it will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required for the offer, purchase or sale by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases or sales and that it will, to the best of its knowledge and belief, comply with all such laws and regulations.

GENERAL INFORMATION

1. The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer dated 29th May, 2001.
2. Since 31st December, 2000, there has been no change nor any development or event involving a prospective change which is materially adverse to the condition (financial or otherwise), prospects, results of operations or general affairs of the Issuer or the Issuer and its subsidiaries as a whole (the "Group").
3. There are no pending actions, suits or proceedings against or affecting the Issuer or any other member of the Group which, if determined adversely, would individually or in the aggregate have a material adverse effect on the condition (financial or otherwise), prospects, results of operations or general affairs of the Issuer or the Group or which are material in the context of the issue of the Notes and, to the best of the knowledge of the Issuer, no such actions, suits or proceedings are threatened or contemplated.
4. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems with a Common Code of 013156549. The ISIN is XS0131565490.
5. So long as any Note remains outstanding, copies of the Fiscal Agency Agreement and the certificate referred to in Condition 3(a) will be available for inspection at the specified offices of the Paying Agents.
6. All consents and authorisations required by Icelandic law have been given for the issue of the Notes and for the Issuer to perform its obligations thereunder, under the Subscription Agreement and under the Fiscal Agency Agreement.
7. The auditors of the Issuer are KPMG Endurskodun hf., State Authorised Public Accountants, who have audited the financial statements of the Issuer for the years ended 31st December, 1999 and 2000, without qualification, in accordance with generally accepted auditing standards in Iceland.

THE ISSUER

Islandsbanki-FBA hf.
Armuli 13A108 Reykjavik
Iceland

FISCAL AGENT

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB

PAYING AGENT

Deutsche Bank Luxembourg S.A.
2 Boulevard Konrad Adenauer
L-1115 Luxembourg

LEGAL ADVISERS

To the Issuer as to Icelandic law

Lex
Sundagardar 2
104 Reykjavik
Iceland

To the Manager as to English law

Allen & Overy
One New Change
London EC4M 9QQ

AUDITORS

KPMG Endurskodun hf.
Vegmúli 3
108 Reykjavik
Iceland