GLITNIR BANKI HF.

(incorporated in Iceland as a public limited company)

U.S.$250,000,000
7.451% Non-Cumulative Undated Capital Notes

Issue Price: 100%

We are offering U.S.$250,000,000 aggregate principal amount of our 7.451% Non-Cumulative Undated Capital Notes.

We will pay a fixed interest amount on the notes semi-annually in arrear on March 14 and September 14 of each year (each, a "Fixed Interest Payment Date") beginning on March 14, 2007, up to and including September 14, 2016 (the "First Call Date"). We will pay interest on each Fixed Interest Payment Date at a rate of 7.451% per annum. Thereafter, we will pay interest on the notes quarterly in arrear on March 14, June 14, September 14 and December 14 of each year, subject to adjustment as described herein (each a "Floating Interest Payment Date") beginning on December 14, 2016 at a floating rate equal to three-month LIBOR plus a spread of 3.117%.

We may, subject to the prior approval of the Financial Supervisory Authority of Iceland (the "FSA"), redeem all (but not some) of the notes on the First Call Date or any Floating Interest Payment Date thereafter at their principal amount together with accrued interest. We also may redeem all (but not some), of the notes at any time prior to the First Call Date upon the occurrence of certain tax and regulatory events.

The notes will be offered and sold in minimum principal amounts of U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof.

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the notes. Investors should be aware of the following special risks:

- the notes are unsecured and deeply subordinated;
- the notes are perpetual securities with no fixed final redemption date;
- the principal amount of the notes may be converted into conditional capital contributions under certain conditions;
- conditional capital contributions may be reconverted and reinstated only under certain conditions;
- we cannot pay accrued interest in certain circumstances;
- unpaid accrued interest will be cancelled in certain circumstances;
- we can redeem the notes at our option, in whole, but not in part, as described in the offering circular; and
- there is no public market for the notes.

Investing in the notes involves risks. See "Risk Factors" beginning on page 12 of this offering circular.

There is currently no public market for the notes, the notes are not listed on any stock exchange and we do not intend to apply for any listing of the notes on any securities exchange.

The notes are being offered in the United States to qualified institutional buyers in reliance on Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act") who are qualified purchasers within the meaning of Section 2(a)(51)(A) of the United States Investment Company Act of 1940, as amended (the "Investment Company Act") and the rules and regulations thereunder. In addition, the managers are offering the notes outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act.

The notes have not been registered under the Securities Act. We have not registered and do not intend to register as an investment company under the Investment Company Act, in reliance on an exclusion from the definition of "investment company" pursuant to Section 3(c)(7) of the Investment Company Act. The notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A who are qualified purchasers within the meaning of Section 2(a)(51)(A) of the Investment Company Act and the rules and regulations thereunder, and in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "Notice to Investors" on page 79.

It is expected that the notes will be delivered in registered book-entry form only through the facilities of The Depository Trust Company ("DTC") and to direct and indirect participants of DTC, including Euroclear (as defined herein) and Clearstream (as defined herein) on or about September 14, 2006.

Joint Bookrunning Managers

Credit Suisse **UBS Investment Bank**

Barclays Capital **Deutsche Bank Securities** **Wachovia Securities**

The date of this offering circular is September 11, 2006

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

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

This offering circular is to be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference").

No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the managers as to the accuracy or completeness of the information contained or incorporated by reference in this offering circular. The managers do not accept any liability in relation to the information contained or incorporated by reference in this offering circular.

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

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

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

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

notes in the United States, the European Economic Area (including the United Kingdom and Iceland) and Japan, see "Subscription and Sale".

All references in this document to "U.S. dollars", "U.S.$" and "$" refer to the currency of the United States of America, to "ISK", "krona" or "krónur" refer to the currency of Iceland, to "Japanese Yen" and "Yen" refer to the currency of Japan, to "Swiss francs" refer to the currency of Switzerland, to "Sterling" and "£" refer to the currency of the United Kingdom and to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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

CIRCULAR 230 NOTICE

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of notes that are "restricted securities" within the meaning of the Securities Act, we have undertaken in a purchase agreement dated September 11, 2006 (the "Purchase Agreement") to furnish, upon the request of a holder of such notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, we are neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published and have been approved by the FSA or filed with it shall be incorporated in, and form part of, this offering circular:

(i) the Annual Report 2004 of Íslandsbanki (now Glitnir), which includes the auditors report and audited consolidated annual financial statements for each of the fiscal years ended December 31, 2003 and 2004;

(ii) the Annual Report 2005 of Íslandsbanki (now Glitnir), which includes the auditors report and audited consolidated annual financial statements for each of the fiscal years ended December 31, 2004 and 2005;

(iii) the press release of Íslandsbanki (now Glitnir) dated January 31, 2006;

(iv) the interim consolidated financial statements of Glitnir for the six months ended June 30, 2006; and

(v) the press releases of Glitnir banki dated August 1, 2006;

save that any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this offering circular to the extent that a statement contained in either (1) any document of a later date which is also incorporated by reference herein or (2) this offering circular modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this offering circular.

Copies of documents incorporated by reference in this offering circular can be obtained from Glitnir banki hf. at Kirkjusandur 2, 155 Reykjavík, Iceland.

FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements generally are identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions. Forward-looking statements are based on current plans, estimates and projections, and, therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update any forward-looking statement in light of new information or future events. Forward-looking

statements involve inherent risks, and uncertainties, most of which are difficult to predict and generally are beyond our control. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors:

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

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

ENFORCEMENT OF CIVIL LIABILITIES

We are an Icelandic company, and a majority of our assets are located outside the United States. As a result, investors may not be able to serve process outside Iceland or Norway upon these persons, or to enforce judgments obtained against us or these persons in foreign courts predicated solely upon the civil liability provisions of the securities laws of jurisdictions other than Iceland.

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

OFFERING CIRCULAR SUMMARY

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

The following summary contains basic information about this offering. It may not contain all the information that is important to you. You should read carefully the entire offering circular, and the documents incorporated by reference, for more information about this offering and Glitnir banki hf. The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere or incorporated by reference in this offering circular. Financial information in the following summary is presented for the year ended December 31, 2005 in accordance with International Financial Reporting Standards ("IFRS") and the audited information presented for the six months ended June 30, 2006 is presented in accordance with IFRS. All financial information contained herein should be read together with Glitnir banki hf.'s audited consolidated financial statements, which are available from Glitnir banki hf.'s website. Capitalized terms used in this Offering Circular Summary but not otherwise defined herein shall have the meanings ascribed to them in the "Terms and Conditions".

GLITNIR BANKI

Introduction

The Glitnir Group is a leading financial group in Iceland and we are the second largest company listed on the Iceland Stock Exchange by market capitalization. We provide universal banking services in our home markets of Iceland and Norway, offering a broad range of financial services to individuals, institutional investors and corporations. In addition, we provide specialized financial services outside of our home markets. We operate through five principal business lines:

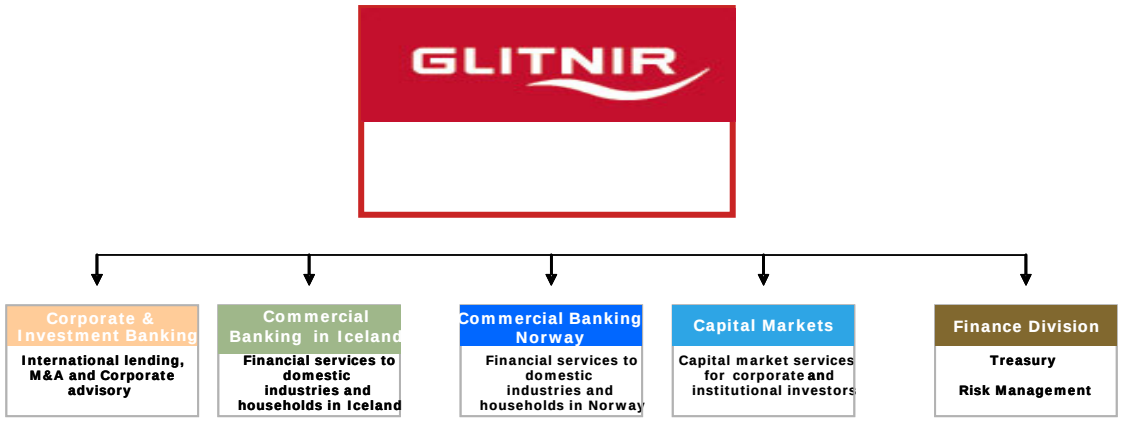
- Commercial Banking - Iceland,
- Commercial Banking - Norway,
- Corporate and Investment Banking,
- Capital Markets, and
- Finance Division.

We operate 24 branches in Iceland, along with branches in London and Copenhagen. We currently have eight wholly-owned subsidiaries, including Glitnir Bank (formerly Kredittbanken ASA) and Bolig- og Næringsbanken ASA ("BNbank") in Norway, Fischer Partners Fondkommission AB ("Fischer Partners") in Sweden and Glitnir Luxembourg SA. Other subsidiaries consist of holding companies for investments of Glitnir banki hf., a real estate management company, and projects we sponsor. In addition, we have substantial shareholdings in other investment and financial services companies. As of December 31, 2005, the Group's total assets were ISK 1,472 billion and its profit for the year was ISK 19.1 billion. As of June 30, 2006, the Group's total assets were ISK 2,023 billion and its profit for the quarter ended on that date was ISK 11.0 billion.

The shares of Glitnir banki hf. are listed on the Iceland Stock Exchange under the symbol "GLB".

Organizational Structure

The following chart illustrates our organizational structure as of June 30, 2006:



Commercial Banking - Iceland

Our commercial banking operations in Iceland cover a broad range of activities, including retail banking, business banking, asset management, private banking and asset-based financing. They also include ancillary functions, such as sales and marketing and information technology. In 2005, commercial banking in Iceland generated 45% of revenues and 31% of the pre-tax profit of the group and we had 512 employees at year end.

We operate through 24 branches in Iceland. Our retail banking clients are typically individuals and small to medium sized businesses. We offer a traditional range of retail bank products, including checking and savings accounts, mortgages, personal loans and credit cards. We also offer internet and telephone banking services to our retail customers, which allow them to check their balances, monitor their investment portfolios and pay bills. Through Glitnir Asset Management, we offer investors a broad selection of funds, including Icelandic bond and equity funds and international mutual funds. For high net worth individuals, we provide private banking services, including portfolio management, financial planning and custody services.

We also provide banking services to a broad range of corporate clients and municipalities, including lending to finance acquisitions, capital expenditures, provision of working capital and other corporate activities. We have particular industry expertise in the fishery and fish processing industry and provide financial services to many of the world's leading seafood companies.

Our asset management group offers investment management services to both individuals and institutional investors. We offer a wide variety of mutual and investment funds, as well as brokerage services for individuals. We also provide private banking services to high net worth individuals.

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

Commercial Banking - Norway

In Norway, we operate through our two subsidiaries, BNbank and Glitnir Bank (formerly KredittBanken ASA). In 2005, commercial banking in Norway generated 14% of revenues and 15% of the pre-tax profit of the group.

BNbank, which we acquired in the first quarter of 2005, is Norway's fourth largest commercial bank. Its core focus is on commercial and personal banking and its lending activities focus on mortgage loans. At December 31, 2005, BNbank had 90 employees.

Glitnir Bank is a regional bank based in northwestern Norway, with a focus on small and medium-sized corporate clients, particularly in the fishing, offshore supply vessel and shipyard industries. Glitnir Factoring (previously FactoNor), providing cash flow financing for its business clients, is a subsidiary of Glitnir Bank. At December 31, 2005, Glitnir Bank had 54 employees.

We announced in November 2005 that we had entered into an agreement to acquire all the shares in the securities firm Norse Securities. The transaction was completed on February 28, 2006 and the name of the company has been changed to reflect the new ownership. Glitnir Securities had 47 employees at December 31, 2005 and generated total revenue of NOK 150 million in 2005.

Corporate and Investment Banking

Corporate and Investment Banking ("CIB") leads our international expansion with the London branch, the Copenhagen office and the bank in Luxembourg as a part of its operations. CIB's functions entail Corporate Advisory, Private Banking in Luxembourg, Equity Investment, debt financing, including International Corporate Credit, Leveraged Finance, Property Finance in Luxembourg and Property Finance.

Late in 2005 we announced that we plan to open representative offices in Halifax, Canada and in Shanghai, China, in 2006. The Halifax office opened on July 9, 2006 and Glitnir Shanghai is scheduled to open in autumn 2006. These new offices are intended to enhance our existing business relationships in the respective countries and to support clients looking to enter or expand their operations in these markets, with a particular focus on the food sector, sustainable energy and shipping.

In 2005, corporate and investment banking generated 17% of revenues and 16% of pre-tax profit of the group and had 94 employees at year end.

Capital Markets

Capital markets provides brokerage and funding for institutional investors and corporate clients in debt and equity securities, foreign exchange and derivatives. In 2005, capital markets generated 10% of revenues and 13% of pre-tax profit of the group and had 26 employees at year end.

Finance Division

The Finance Division is responsible for our funding, asset and liability management and proprietary trading activities in currencies and debt and equity securities. In 2005, treasury and finance generated 8% of revenues and 12% of pre-tax profit of the group and had 10 employees at year end.

Competition

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

Litigation

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

Recent Developments

At our Annual General Meeting on February 21, 2006, our shareholders elected PricewaterhouseCoopers hf. as our independent certified accountants, replacing KPMG Iceland.

On July 4, 2006, we announced our acquisition of the securities brokerage firm Fischer Partners in Sweden. Fischer Partners had 75 employees on December 31, 2005 and generated total revenue of SEK 220.8 million in 2005.

On August 18, 2006, BNbank, one of our wholly-owned subsidiaries, entered into an agreement to acquire 45 percent of the shares in Norsk Privatøkonomi ASA. Norsk Privatøkonomi ASA is an independent financial advisory company with 12 branches in key areas of Norway. In the first six months of 2006, Norsk Privatøkonomi ASA arranged loans with a total value of NOK 2.8 billion and sold savings products with a value of NOK 1.1 billion. The acquisition strengthens BNbank's and our presence in Norway.

THE OFFERING

Issue:	U.S.$250,000,000 aggregate principal amount of 7.451% non-cumulative undated capital notes
Issue Price:	100% of principal amount
First Call Date:	September 14, 2016
Maturity:	The notes are perpetual and have no fixed maturity date. We may redeem the notes only under certain circumstances.
Interest:	We will pay a fixed interest amount on the notes semi-annually in arrear on March 14 and September 14 of each year (each, a "Fixed Interest Payment Date") beginning on March 14, 2007 up to and including September 14, 2016 (the "First Call Date"). We will pay interest on each Fixed Interest Payment Date at a rate of 7.451%. Thereafter, we will pay interest on the notes quarterly in arrear on March 14, June 14, September 14 and December 14 of each year, subject to adjustment as described herein (each, a "Floating Interest Payment Date" and, together with the Fixed Interest Payment Dates, "Interest Payment Dates") beginning on December 14, 2016. We will pay interest on the notes on each Floating Interest Payment Date at a floating rate equal to three-month LIBOR plus a spread of 3.117%.
Available Distributable Funds:	"Available Distributable Funds" means, in respect of each fiscal year of the Bank, the aggregate amount, as calculated as at the end of the immediately preceding fiscal year in the individual financial statements of the Bank, of accumulated retained earnings and any other reserves and surpluses capable under Icelandic law of being available for distribution to holders of Bank Share Capital, but before deduction of the amount of any dividend or other distribution declared in respect of such prior fiscal year on Bank Share Capital.
Interest Deferral:	If, and to that extent that, Available Distributable Funds are insufficient to pay all accrued but unpaid interest on the notes, other Capital Securities ranking *pari passu* with the notes, Other Tier 1 Securities and Tier 1 Guarantees, we will make partial payment of such accrued but unpaid interest on the notes, Other Tier 1 Securities and Tier 1 Guarantees *pro rata* to the extent of such Available Distributable Funds. If Available Distributable Funds are insufficient or non-existent, and we make partial payment of, or do not pay, accrued but unpaid interest, the right of noteholders to receive accrued but unpaid interest for such Interest Period will be deferred until the Deferral End Date at which time we will, subject to Condition 9, make full or partial payment of all deferred but unpaid interest on the notes, Other Tier 1 Securities and Tier 1 Guarantees *pro rata* to the extent we have accrued any Unallocated Distributable Profits, as determined by our Board of Directors, in such fiscal year. If, and to the extent that, any deferred payments remain unpaid after the applicable Deferral End Date, the right of the noteholders to receive such deferred payments will be lost.
Redemption:	We may redeem all (but not some) of the notes on (a) the First Call Date, (b) on any Interest Payment Date thereafter, (c) upon the occurrence of a Special Event on or prior to the First Call Date, or (d) for withholding tax reasons as described herein. Any redemption will be at a price equal to 100% of the original principal amount, together with any interest accrued

	to the date of redemption, and is subject to the prior approval of the Financial Supervisory Authority of Iceland (*Fjármálaeftirlitid*) (the "FSA").
Special Event:	A Special Event means a Capital Event or a Tax Event, each as defined under "Terms and Conditions."
Subordination:	The notes are our unsecured subordinated obligations. In the event of a voluntary or involuntary liquidation of the Bank, the rights of the noteholders to principal payments and any other amounts due in respect of the notes, and the rights of providers of conditional capital contributions where the whole or any part of the principal amount of the notes converted as described in Condition 3 into capital contributions (and not reconverted and reinstated as described below) as described below, will rank: (i) *pari passu* without any preference among the noteholders and providers of conditional capital contributions; (ii) at least *pari passu* with the rights of the holders of the Existing Tier 1 Securities and any other outstanding Capital Securities from time to time, whether or not such Existing Tier 1 Securities or Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of, or persons otherwise entitled to the benefit of, any other obligations of the Bank constituting or eligible ("eligible" to be construed, *mutatis mutandis*, as provided in the definition of Capital Event) as constituting Tier 1 Capital of the Bank, in each case in relation to their rights as such holders and to payments in respect thereof and at least *pari passu* with the rights of the beneficiaries of any Tier 1 Guarantee; (iii) in priority to the rights of the holders of all classes of Junior Securities; and (iv) junior in right of payment to the payment of any present or future claims of (1) depositors, (2) other unsubordinated creditors, and (3) subordinated creditors in respect of Subordinated Indebtedness.
Conversion to Capital Contribution:	To the extent that at any time it may be required to avoid our (a) not meeting the requirements with respect to Minimum Own Funds as set out in the Act on Financial Undertaking (161/2002), as amended or (b) being obliged to enter into liquidation, our Board of Directors, by resolution passed at a board meeting, may decide that the principal amount (or part thereof) of the notes, will be utilized by writing down the principal amount, (or part thereof), by the amount required, taking into account compliance with Condition 3(2), to maintain compliance by us with the required Minimum Own Funds, and converting such amount (the "Converted Amount") into a conditional capital contribution. The rights of the noteholders in respect of the Converted Amount will thereupon be converted into rights of providers of capital contributions as set out below.
Form and Denomination:	The notes will be offered and sold in minimum principal amounts of U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof and will be transferable in principal amounts of U.S.$100,000 and in integral

	multiples of U.S.$1,000 in excess thereof. Notes which initially are offered and sold in reliance on Regulation S will be evidenced by one or more Regulation S Global Notes in fully registered form. Notes which initially are offered and sold in reliance on Rule 144A will be evidenced by one or more Rule 144A Global Notes in fully registered form. The Global Notes will be deposited upon issuance with the Fiscal Agent as custodian for DTC and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, DTC and its direct and indirect participants, including Clearstream (as defined herein) and Euroclear (as defined herein). Except as described herein, certificates for notes will not be issued in exchange for beneficial interests in the Global Notes.
Use of Proceeds:	We intend to use the gross proceeds from the sale of the notes (after deducting expenses from the gross proceeds of the offering) for general funding purposes.
Fiscal Agent:	JPMorgan Chase Bank, N.A.
Calculation Agent:	JPMorgan Chase Bank, N.A.
Governing Law:	The notes will be governed by, and construed in accordance with, New York law, except with respect to the provisions related to subordination, utilization, conversion, reinstatement after conversion and interest deferral, which will be governed by, and construed in accordance with, the laws of the Republic of Iceland.
Taxation:	All payments in respect of the notes will be made without withholding or deduction for or on account of Icelandic withholding taxes, unless required by law. If such withholdings or deductions are required, we will pay certain additional amounts as described under "Terms and Conditions—Taxation."
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the notes in the United States, the European Economic Area (including the United Kingdom and Iceland), Japan, and such other restrictions as may be required in connection with the offering and sale of the notes, see "Subscription and Sale".
Listing:	We do not intend to apply for any listing of the notes on any securities exchange.

RISK FACTORS

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

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

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

Risks relating to the notes

The notes are deeply subordinated obligations

The notes are our unsecured, deeply subordinated obligations and are currently the most junior debt instruments of the Bank, ranking behind claims of our depositors, other unsubordinated creditors and subordinated creditors and subordinated creditors of the Bank in respect of Subordinated Indebtedness, *pari passu* with the rights of the holders of any Existing Tier 1 Securities and any other present or future outstanding Capital Securities and in priority only to all classes of our ordinary share capital, preferred share capital and other share capital. Consequently, if our financial condition were to deteriorate, noteholders could suffer direct and materially adverse consequences, including suspension of interest payments on a non-cumulative basis and conversion of such interest or principal into conditional capital contributions. If we were to liquidate (whether voluntarily or involuntarily), you could lose your entire investment.

Under Icelandic law, there are no established rules on certain matters relating to the ranking of claims of providers of conditional capital contributions in a liquidation or bankruptcy of the Bank of such securities. The ranking of the claims of providers of conditional capital contributions is subject to the terms and conditions of the securities. There are no statutes or precedents under Icelandic law concerning priority among subordinated obligations.

The notes are perpetual with no maturity date

The notes have no maturity date and investors have no rights to call for the redemption of the notes. Although we may redeem the notes in certain circumstances (including at our option on the First Call Date or any Interest Payment Date thereafter or following the occurrence of certain tax or regulatory changes affecting the Bank), there are limitations on our ability to do so. Investors should be aware that they may be required to bear the financial risks of an investment in the notes for an indefinite period of time.

Restrictions on interest payments

Payments of interest with respect to the notes, other Capital Securities ranking *pari passu* with the notes, Other Tier 1 Securities and Tier 1 Guarantees by us in any fiscal year are limited to the amount of, and may not exceed, our accumulated Available Distributable Funds. Where Available Distributable Funds are insufficient to pay all accrued but unpaid interest on the notes, other Capital Securities ranking *pari passu* with the notes, Other Tier 1 Securities and Tier 1 Guarantees, we will make partial payment of such accrued but unpaid interest on the notes, Other Tier 1 Securities and Tier 1 Guarantees *pro rata* to the extent of such Available Distributable Funds. Where Available Distributable Funds are insufficient or non-existent, and we make partial payment of, or do not pay, accrued but unpaid interest, the right of

noteholders to receive accrued but unpaid interest for such Interest Period will be deferred until the Deferral End Date (as defined herein) at which time we will, subject to Condition 9, make full or partial payment of all deferred but unpaid interest on the on the notes, Other Tier 1 Securities and Tier 1 Guarantees *pro rata* only to the extent we have accrued any Unallocated Distributable Profits, as determined by our Board of Directors, in such fiscal year.

We are not required to make any payment of interest otherwise due (including on the First Call Date) if we do not, or to the extent we would, following payment of such interest, no longer meet the requirements with respect to Minimum Own Funds applicable to us, in which case the right of noteholders to receive to such extent such payment of interest will be lost.

Conversion into conditional capital contributions; write-down of principal.

To the extent that it is required to avoid our (a) not meeting the requirements with respect to Minimum Own Funds as set out in the Act on Financial Undertaking (161/2002), as amended, or (b) being obliged to enter into liquidation, our Board of Directors, by resolution passed at a board meeting may decide that the principal amount of the notes will be utilized by writing down the principal amount by the amount required, taking into account compliance with Condition 3(2), to maintain compliance by us with Minimum Own Funds and converting that amount (the "Converted Amount") into a conditional capital contribution. Utilization of the Converted Amount for the purpose of maintaining compliance with the required Minimum Own Funds will be made prior to the utilization for the same purpose of undated subordinated debt issued by the Bank (other than other Capital Securities) and will be made following the utilization for the same purpose of the aggregate principal amount of Capital Securities and any other securities ranking junior to the notes outstanding at the time of such utilization and *pro rata* to the principal amount Capital Securities ranking *pari passu* with the notes and outstanding at the time of such utilization.

Redemption upon occurrence of a Special Event or in relation to withholding tax

We will have the right, upon the occurrence of a Special Event (as defined herein) or for withholding tax reasons, to redeem the outstanding notes at a redemption amount equal to their original principal amount, together with interest (if any) on the original principal amount accrued to but excluding the date of redemption subject to the provisions set out in "Terms and Conditions–Redemption and Purchase". There can be no assurance that noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same rate of return as their investment in the notes.

Because the characterization of the notes for U.S. federal income tax purposes is uncertain, the U.S. federal income tax consequences of an investment in the notes is uncertain.

Due to the absence of legal authorities that directly address instruments that are similar to the notes, significant aspects of the U.S. federal income tax consequences of an investment in the notes are not certain. We intend to treat the notes as equity for U.S. federal income tax purposes. We do not plan to request a ruling from the Internal Revenue Service ("IRS") regarding the tax treatment of the notes and the IRS or a court may not agree with the tax treatment described in this offering circular. It is possible that the IRS could successfully assert that the notes should be treated as indebtedness for U.S. federal income tax purposes, in which case the timing and character of income, gain and loss on the notes that are recognized by a U.S. investor could be significantly affected. Please read carefully the section of this offering circular called "United States Federal Income Taxation".

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

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

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

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

In particular, our business, financial condition and results of operations are affected directly by economic and political conditions in Iceland. Although the Icelandic economy has experienced high growth rates in recent years, there can be no assurance that these growth rates will continue or that there will not be a downturn in the Icelandic economy. Recently, interest rates and the rate of inflation in Iceland have been rising. The Central Bank of Iceland's policy interest rate has increased from 8.25% at December 31, 2004 to 10.5% at December 31, 2005, to 12.25% at May 22, 2006, to 13.0% at July 11, 2006 and to 13.5% August 16, 2006. Inflation has increased from 2.1% in 2003 to 3.2% in 2004 and 4.0% in 2005. In addition, Iceland's current account deficit at December 31, 2005 was about 16% gross domestic product for 2005, adversely affecting the value of the Icelandic krona, which has fallen in value against the U.S. dollar. At March 24, 2006 the krona had declined 17.1% against the U.S. dollar to ISK 73.47 to $1.00 from its high of ISK 60.89 to $1.00 at January 12, 2006. These developments and others may have a material adverse effect on our business, financial condition and results of operations.

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

Our investment banking, securities trading, asset management and private banking services, as well as our investments in, and sales of products linked to, financial assets, will be impacted by several factors such as the liquidity of the global financial markets, the level and volatility of equity prices and interest rates, investor sentiment, inflation and the availability and cost of credit which are related to the economic cycle.

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

For a discussion of how credit and market risk is managed see "Credit approval policy" and "Risk Management" under "The Bank".

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

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

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

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

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

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

Regulatory changes or enforcement initiatives could adversely affect our business

We are subject to banking and financial services laws and government regulation in each of the jurisdictions in which we conduct business. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, record keeping, and marketing and selling practices. Banking and financial services laws, regulations and policies currently governing us and our subsidiaries may change at any time in ways which have an adverse effect on our business. Furthermore, we cannot predict the timing or form of any future regulatory initiatives. Changes in existing banking and financial services laws and regulations may materially affect the way in which we conduct business, the products or services we may offer and the value of our assets. If we fail to address, or appear to fail to address, appropriately these changes or initiatives, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties. Regulatory agencies have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition.

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

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

For a discussion of how operational risk is managed see "Risk Management" under "The Bank".

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

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

Systemic risk could adversely affect our business

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

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

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

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

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties,

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

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

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

A final classification of the notes by the National Association of Insurance Commissioners ("NAIC") would affect U.S. insurance investors and may affect the value of the notes.

The Securities Valuation Office (the "SVO") of the NAIC may from time to time classify securities in the U.S. insurers' portfolios as debt, preferred equity or common equity instruments. Under the written guidelines outlined by the SVO, it is not always clear which securities will be classified as debt, preferred equity or common equity or which features are specifically relevant in making this determination. The NAIC has a procedure to provide classifications of securities, but the Bank has no current intention to submit an application to the NAIC under this procedure. The SVO currently is reviewing a number of securities for classification, including securities with similar features to the notes. We have observed that, currently, the SVO is likely to classify a security with structural features similar to the notes as common equity. For this reason, there is a risk that the notes may be classified as common equity. A classification of the notes as common equity will affect U.S. insurance company investors because such a classification determines the amount of risk-based capital required for an investment by insurance company investors, but it is not determinative in any way in respect of any other tax, accounting or legal considerations for investors generally. If the NAIC were to classify the notes definitely as common equity, the willingness of U.S. insurance investors to hold the notes could be reduced, which in turn may reduce the price of the notes in any available after-market.

Furthermore, the NAIC is currently debating how to classify "hybrid securities" such as these notes. This may lead to a different outcome than under the current observed practice, and a subsequent impact on the amount of risk-based capital required for an investment by insurance company investors in the notes which may impact the willingness of such investors to hold the notes. This may have a positive or negative impact on the price of the notes depending on the outcome of this debate.

Market risks associated with the notes

The notes may not be a suitable investment for all investors

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

(1) have sufficient knowledge and experience to make a meaningful evaluation of the notes, the merits and risks of investing in the notes and the information contained or incorporated by reference in this offering circular;

(2) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the notes and the impact the notes will have on its overall investment portfolio;

(3) have sufficient financial resources and liquidity to bear all of the risks of an investment in the notes, including where the currency for principal or interest payments is different from the potential Investor's Currency (as defined below);

(4) understand thoroughly the terms of the notes and be familiar with the behavior of any relevant indices and financial markets; and

(5) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Risks related to the notes generally

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

Modification and Waivers

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

EU Savings Directive

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

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither we nor any Paying Agent (as defined herein) nor any other person would be obliged to pay additional amounts with respect to any note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following

implementation of this Directive, we will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Change of law

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

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Legal investment considerations may restrict certain investments

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

USE OF PROCEEDS

The gross proceeds from the sale of the notes amount to $250,000,000. We intend to use the net proceeds from the sale of the notes (after deducting expenses from the gross proceeds of the offering) for general funding purposes.

CAPITALIZATION

The following table sets forth, in accordance with IFRS, Glitnir banki's consolidated capitalization (including short-term debt) as of June 30, 2006. To the best of Glitnir banki's knowledge, there has been no material change in the short-term debt and capitalization of Glitnir banki since June 30, 2006. This information should be read together with Glitnir banki's audited interim consolidated financial statements for the six months ended June 30, 2006, which are available from Glitnir banki's website.

	As at June 30, 2006 (ISK millions)
Authorized capital	
Ordinary shares (of ISK 1 each)	14,265

	As at June 30, 2006 (ISK millions)
Issued Capital	
Share capital (Ordinary shares of ISK 1 each)	14,048
Share premium	49,282
Other reserves	8,177
Retained earnings	53,719
Minority interest	538
Total capital resources	**125,764**
Other Borrowings	
Deposits	451,305
Subordinated loans	94,789
Other liabilities	1,351,328
Total Indebtedness	**1,897,422**
Total Capitalization and Indebtedness	**2,023,186**

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratios of earnings to fixed charges calculated for the years ended December 31, 2004 and 2005 and for the six months ended June 30, 2006 are as follows:

Year ended December 31,		Six months ended June 30,
2004	**2005**	**2006**
47.7%	37.9%	35.0%

EXCHANGE RATES

The following table sets forth, for the periods indicated, certain information concerning the exchange rate for Icelandic krona based on the mid rate quoted by the Central Bank of Iceland expressed in Icelandic krona per $1.00. No representation is made that amounts in Icelandic krona have been, could have been, or could be converted into U.S. dollars at the mid rate or at any other rate. At August 31, 2006, the mid rate was ISK 69.00 per $1.00.

	High	Low	Average[(1)]	Period End
		(krona per dollar)		
Recent Monthly Exchange Rate Data				
First quarter ended March 31, 2006	73.47	60.89	65.26	70.87
Second quarter ended June 30, 2006	77.92	69.78	73.58	76.60
July 2006	75.72	71.94	74.38	72.75
August 2006	72.52	69.00	70.40	69.00
Historical Annual Exchange Rate Data				
2005	66.77	58.45	62.86	63.13
2004	74.51	61.19	70.12	61.19
2003	82.78	71.16	76.76	71.16
2002	103.71	80.77	91.46	80.77
2001	110.39	83.87	97.76	103.20

(1) The average rate is the average of the mid rates on the last business day of each month during the relevant period.

Source: Central Bank of Iceland

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial data for Glitnir banki as of the dates or for the periods indicated and is qualified in its entirety by, and should be read in connection with, Glitnir banki's "Management's Discussion and Analysis of Results of Operations" and Glitnir banki's audited consolidated financial statements and related notes incorporated by reference in this offering circular and made available on our website. The selected consolidated income statement data for the years ended December 31, 2004 and 2005 and the selected consolidated balance sheet data as of December 31, 2004 and 2005 have been derived from our audited consolidated financial statements prepared in accordance with IFRS. The selected consolidated income statement data for the six months ended June 30, 2005 and 2006 and the selected consolidated balance sheet data as of June 30, 2006 have been prepared in accordance with IFRS and should be read together with Glitnir banki's consolidated interim financial statements and related notes for those periods, which are available from Glitnir banki's website. Glitnir banki's interim financial information for the six months ended June 30, 2006 is not necessarily indicative of the results that Glitnir banki will achieve for the 2006 fiscal year.

	Year ended December 31,		Six months ended June 30,	
	2004	2005	2005	2006
	(In millions ISK)			
Income statement data under IFRS				
Net interest income	12,776	23,390	9721	19,399
Net insurance premium	886	229	229	—
Net fee and commission income	6,610	8,773	3858	11,542
Dividend income	242	414	397	516
Realized gains on financial assets available-for-sale	—	181	181	(2)
Net gains on financial assets and financial liabilities held for trading	7,372	3,585	2985	2,887
Net losses on financial assets designated at fair value through profit and loss	—	(554)	312	1,317
Fair value adjustments in hedge accounting	—	(59)	(44)	(91)
Net foreign exchange gains (losses)	114	(179)	(290)	64
Other net operating income	525	631	514	219
Net operating income	28,525	36,411	17,863	35,851
Salaries and salary-related expenses	(8,553)	(8,848)	(4,540)	(6,949)
Depreciation of fixed assets	(571)	(481)	(248)	(294)
Other operating expenses	(5,233)	(6,402)	(3,174)	(5,304)
Impairment losses	(3,137)	(1,900)	(1,066)	(2,778)
Share of profit of associates	146	1,262	191	1,326
Net gains on non-current assets held for sale	2,916	3,323	3,300	2,444
Earning before income tax	14,093	23,365	12,326	24,296
Income tax	(2,135)	(4,266)	(1,769)	(4,184)
Net earnings	11,958	19,099	10,557	20,112

	At December 31,		At June 30,
	2004	2005	2006
		(In millions ISK)	
Balance sheet data under IFRS			
Cash and cash balances with central bank	6,242	20,861	10,252
Loans and receivables	524,020	1,174,733	1,603,598
Financial assets held for trading	109,046	151,897	217,908
Financial assets designated at fair value through profit and loss	3,632	96,438	160,337
Financial assets available-for-sale	11,065	3,611	3,647
Derivatives used for hedging	1,793	2,352	2,877
Investment in associates	2,605	8,081	4,250
Investment property	1,560	—	—
Property and equipment	2,617	1,987	2,307
Intangible assets	11,866	10,824	16,803
Tax assets	456	268	287
Non-current assets and disposal groups classified as held for sale	593	551	312
Reinsurers' share in insurance fund	1,308	—	—
Other assets	513	647	608
Total assets	677,316	1,472,250	2,023,186
Deposits from credit institutions and central banks	22,676	30,656	64,069
Other deposits	155,602	304,136	387,236
Borrowings	382,020	937,794	1,248,382
Subordinated loans	19,366	47,464	94,789
Insurance liabilities	19,454	—	—
Trading financial liabilities	12,546	28,791	53,195
Derivatives used for hedging	3,677	7,233	18,647
Post-employment obligations	2,607	418	520
Tax liabilities	3,563	5,178	7,927
Other liabilities	7,331	25,830	22,657
Equity	48,474	84,750	125,764
Minority interest	—	—	538
Total liabilities and equity	677,316	1,472,250	2,023,186

Other Results

Off-balance sheet items:			
Assets under management	254,163	344,975	399,509
Guarantees	9,471	19,788	20,968
Derivatives against bond assets	64,793	57,681	64,436
Derivatives against equity assets	14,329	60,401	58,451

SELECTED CONSOLIDATED FINANCIAL DATA UNDER ICELANDIC GAAP

The following table presents selected consolidated financial data for Glitnir banki that is qualified in its entirety by, and should be read in connection with, Glitnir banki's "Management's Discussion and Analysis of Results of Operations" and Glitnir banki's audited consolidated financial statements and related notes. The table presents selected consolidated financial data for Glitnir banki derived from Glitnir banki's audited consolidated financial statements prepared in accordance with generally accepted accounting principles in Iceland for the years ended December 31, 2001, 2002, 2003 and 2004. The audited consolidated financial statements are available from Glitnir banki's website.

	Year ended December 31,			
	2001	2002	2003	2004
	(In millions ISK)			
Income statement data under Icelandic GAAP				
Interest income	32,388	24,481	24,144	33,293
Interest expense	22,339	14,773	13,105	18,854
Net interest income	10,049	9,708	11,039	14,439
Insurance premiums net of reinsurances and bonuses	—	—	1,906	7,708
Dividends from shares and other holdings	(204)	196	770	148
Fees and commissions	4,481	4,299	4,672	6,359
Service expenses	(890)	(819)	(920)	(1,412)
Tradings, net	(706)	65	2,905	7,726
Sundry operating income	191	625	229	3,492
Other operating income	2,872	4,366	9,562	24,021
Net operating income	12,921	14,074	20,601	38,460
Salaries and salary related expenses	3,752	4,302	5,422	8,299
Other operating costs	2,875	2,879	3,651	5,304
Depreciation of fixed assets	474	542	696	1,209
Other operating expenses	7,101	7,723	9,769	14,812
Claims, net of reinsurance	—	—	(1,540)	(6,822)
Provision for loan losses	(2,113)	(2,184)	(2,864)	(3,137)
Earnings before income tax	3,707	4,167	6,428	13,689
Income tax	(567)	(760)	(593)	(2,244)
Net earnings during the period	3,140	3,407	5,835	11,445

	At December 31,			
	2001	2002	2003	2004
	(In millions ISK)			
Balance sheet data under Icelandic GAAP				
Assets:				
Cash, treasury bills and amounts due from credit institutions	47,130	33,484	44,367	63,912
Loans	260,026	252,996	315,166	470,497
Market securities and shares in other companies	32,264	20,883	58,651	111,197
Other receivables and assets	8,791	5,004	25,759	29,727
Total assets	348,211	312,367	443,943	675,333
Liabilities and Equity:				
Borrowings	200,318	164,077	231,944	334,205
Other liabilities	114,544	116,227	166,867	270,854
Subordinated loans	13,062	11,099	15,709	19,961
Liabilities	327,924	291,403	414,520	625,020
Equity	20,287	20,964	29,423	50,313
Total liabilities and equity	348,211	312,367	443,943	675,333

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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

As a result of the difference in accounting presentation, the comparative discussion presented below provides useful analysis regarding the results of operations during the referenced periods; however, Glitnir banki has not assessed whether there would be any significant difference in the referenced periods between Icelandic GAAP and IFRS. For information regarding the transition to IFRS, see notes 87-92 to our 2005 audited consolidated financial statements.

Introduction

The Glitnir Group comprises a leading financial group in Iceland and we are the second largest company listed on the Iceland Stock Exchange by market capitalization. We provide universal banking services in our home markets of Iceland and Norway, offering a broad range of financial services to individuals, institutional investors and corporations. In addition, we provide specialized financial services outside of our home markets. We operate through five business units: Commercial Banking ─ Iceland, Commercial Banking ─ Norway, Corporate & Investment Banking, Capital Markets and Finance Division.

We operate 24 branches in Iceland along with branches in London and Copenhagen. We currently have eight wholly-owned subsidiaries, including Glitnir Bank (formerly KredittBanken ASA), BNbank, Fischer Partners and Glitnir Luxembourg SA. Other subsidiaries consist of holding companies for investments of Glitnir banki, a real estate management company, and projects we sponsor.

During the period under review, we have grown substantially as a result of acquisitions. In 2003, we acquired Sjóvá, we subsequently sold a 66.6% interest in April 2005 and we sold our remaining 33.4% interest in May 2006. In late 2004, we acquired KredittBanken ASA. We acquired BNbank in the first quarter of 2005 and established ISB Luxembourg on the basis of the Luxembourg branch in April 2005. In 2005, BNbank contributed ISK 4,214 million of net operating income, or 11.6% of group net operating income, and total assets of BNBank at December 31, 2005 were ISK 437 billion or 29.7% of group total assets. In 2005, KredittBanken ASA contributed ISK 1,076 million of net operating income, or 3.0% of group net operating income, and total assets of KredittBanken ASA at December 31, 2005 were ISK 43 billion, or 2.9% of group total assets. On May 2, 2006, we acquired a 15.6% interest in Máttur ehf. in connection with the sale of our remaining interest in Sjóvá, bringing our total interest to 50.0%. On July 4, 2006, we announced the acquisition of Fischer Partners.

Results of Operations

Comparison of the Six Months Ended June 30, 2005 (IFRS) and 2006 (IFRS)

Revenue

Our pre-tax earnings were ISK 24.3 billion for the six months ended June 30, 2006, an increase of 97.1% from ISK 12.3 billion for the six months ended June 30, 2005. Earnings after taxes were ISK 20.1 billion, increasing 90.5% between the six month periods. Earnings per share were ISK 1.42 for the six months ended June 30, 2006, an increase of 71.0% from the second quarter in 2005.

Interest income. Net interest income was ISK 19.4 billion for the six months ended June 30, 2006, an increase of 99.56% from ISK 9.7 billion for the six months ended June 30, 2005. The increase in net

interest income during the six months ended June 30, 2006 reflects the increase in the size of our balance sheet as well as higher interest rates. For the six months ended June 30, 2006, 18% of our net interest income was generated by our commercial banking operations in Norway, and 39% was generated by our commercial banking operations in Iceland. Net interest income increased by 45% in the three months ended June 30, 2006, as compared to the three months ended March 31, 2006. The net interest margin in the six months ended June 30, 2006 was 2.3%, compared to 2.0% in the six months ended June 30, 2005.

Insurance premiums, net of reinsurance. Accounted premium income in insurance business and premiums from reinsurance was zero for the six months ended June 30, 2006, a decrease from ISK 229 million for the six months ended June 30, 2005. This decrease is due to the sale of a majority stake in Sjóvá during 2005 and the remaining shares in 2006 and the subsequent removal of Sjóvá from our consolidated accounts.

Dividends from shares and other holdings. Earnings from shares and holdings in other companies amounted to ISK 516 million for the six months ended June 30, 2006, as compared to ISK 397 million for the six month period ended June, 2005, an increase of 30%. The increase is primarily attributable to dividend income on mutual funds held as part of our liquidity portfolio.

Fees and commissions. Net fees and commissions income increased by 199% between the six month periods, amounting to ISK 11.5 billion for the six months ended June 30, 2006, compared to ISK 3.9 billion for the six months ended June 30, 2005, driven principally by increases in securities brokerage and advisory fees, foreign commissions and brokerage commissions.

Trading. Trading gains on trading book equities were ISK 1.5 billion for the six months ended June 30, 2006, while trading in bonds generated losses of ISK 438 million. Trading derivatives generated profit of ISK 1.8 billion. Total trading gains for the six months ended June 30, 2006 were ISK 2.9 billion, down from ISK 3.0 billion for the six months ended June 30, 2005, representing a decrease of 3.3%. This decrease reflects conditions in the securities markets generally.

Exchange-rate differences. Exchange-rate losses on foreign denominated assets and liabilities amounted to ISK 64 million for the six months ended June 30, 2006, which generally is in line with our aim to keep the balance between foreign assets and liabilities close to zero, excluding those assets on which currency exchange differences are recognized directly in equity.

Expenses

Salaries and related expenses. Salaries and salary-related expenses over the six months ended June 30, 2006 were ISK 6.9 billion, increasing 53.1% from ISK 4.5 billion for the six months ended June 30, 2005 as a result of general wage increases and of bonus payments made to employees. The average number of positions was 1,292 for the six months ended June 30, 2006, compared to 1,259 for the six months ended June 30, 2005.

Other operating expenses. Other operating expenses were ISK 5.3 billion for the six months ended June 30, 2006, increasing 67.1% from ISK 3.2 billion for the six months ended June 30, 2005.

Depreciation. Depreciation of fixed assets was ISK 294 million for the six months ended June 30, 2006, compared to ISK 248 million for the six months ended June 30, 2005.

Comparison of the Year Ended December 31, 2004 (IFRS) and 2005 (IFRS)

Revenue

Our pre-tax earnings were ISK 23.4 billion in 2005, an increase of 66% from ISK 14.1 billion in 2004. Earnings after taxes came to ISK 19.1 billion, increasing by 60% between years. Our earnings for the three months ended December 31, 2005 amounted to ISK 3.7 billion, as compared to ISK 949 million

for the three months ended December 31, 2004. Earnings per share came to ISK 1.48 in 2005, an increase of 25% between years.

Interest income. Net interest income was ISK 23,390 million in 2005, increasing by 83% from ISK 12,776 million in 2004. The increase in net interest income during 2005 reflects the increased size of our loan portfolio, driven principally by our acquisition of BNbank. In 2005, 23.3% of our net interest income was generated by our commercial banking operations in Norway, and 52.5% was generated by our commercial banking operations in Iceland. Net interest income decreased by 1% in the three months ended December 31, 2005 in comparison with the three months ended September 30, 2005. The interest rate margin over the year was 2%, as compared to 2.4% in the preceding year. The net interest margin in the three months ended December 31, 2005 was 1.9%, compared to 2.0% in the three months ended September 30, 2005.

Insurance premiums, net of reinsurance. Accounted premium income in insurance business and premiums from reinsurance amounted to ISK 229 million in 2005, a 74% decrease from ISK 886 million in 2004.

Dividends from shares and other holdings. Earnings from shares and holdings in other companies amounted to ISK 414 million, up by ISK 172 million or 71% from the preceding year.

Fees and commissions. Income from service charges and commissions increased by 24% between years, amounting to ISK 9,928 million in 2005, compared to ISK 8,023 million in 2004, driven principally by increases in securities brokerage and advisory fees, foreign commissions and brokerage commissions. Service revenues net of service expenses amounted to ISK 8,773 million, up from ISK 6,610 million in 2004, which represents an increase of 33%, reflecting a ISK 258 million decrease in commission expense.

Trading. Trading gains on trading book equities amounted to ISK 2,774 million in 2005, while trading in bonds generated losses of ISK 463 million. Exchange-rate losses on foreign-denominated assets and liabilities amounted to ISK 179 million. Total trading gains for 2005 were ISK 3,585 million, down from ISK 7,372 million in 2004, representing a decrease of 51%.

Expenses

Salaries and related expenses. Salaries and salary-related expenses over the year amounted to ISK 8,848 million, increasing by 3% from ISK 8,553 million in 2004. The average number of positions was 1,216 in 2005, as compared to 1,126 in 2004.

Other operating expenses. Other operating expenses amounted to ISK 6,402 million in 2005, increasing by 22% from ISK 5,233 million in 2004.

Depreciation. Depreciation of fixed assets amounted to ISK 481 million in 2005.

Comparison of the Years Ended December 31, 2003 (Icelandic GAAP) and 2004 (Icelandic GAAP)

Revenue

Our pre-tax earnings were ISK 13,689 million in 2004, an increase of 113% from ISK 6,428 million in 2003. Earnings after taxes came to ISK 11,445 million, increasing by 96.1% between years. Our earnings for the three months ended December 31, 2004 amounted to ISK 1,312 million, compared to ISK 1,732 million for the three months ended December 31, 2003. Earnings per share came to ISK 1.13 in 2004, an increase of 79.4% between years. Earnings per share for the three months ended December 31, 2004 came to ISK 0.12.

Interest income. Net interest income was ISK 14,439 million in 2004, increasing by 30.8% between years. Net interest income increased by 34% in the three months ended December 31, 2004

compared to the three months ended September 30, 2004. The interest rate margin over the year was 2.7%, compared to 3% in the preceding year, narrowing by 10% between years. The net interest margin in the three months ended December 31, 2004 was 2.9%, compared to 2.5% in the three months ended September 30, 2004. We believe that the new housing loans will improve the quality of our asset portfolio, but at the same time they result in a narrower interest margin.

Insurance premiums, net of reinsurance. Accounted premium income in insurance business and premiums from reinsurance amounted to ISK 7,708 million in 2004, a 304% increase from ISK 1,906 million in 2003.

Dividends from shares and other holdings. Earnings from shares and holdings in other companies amounted to ISK 148 million, down by ISK 622 million or 81% from the preceding year, largely as a result of the sale of our interest in Straumur, an Icelandic investment bank in which we held an investment interest.

Fees and commissions. Income from service charges and commissions increased by 36.1% between years, amounting to ISK 6,359 million in 2004, compared with ISK 4,672 million in 2003. Service revenues net of service expenses amounted to ISK 4,947 million, up from ISK 3,752 million in 2003, which represents an increase of 31.8%.

Trading. Trading gains on trading book equities amounted to ISK 6,385 million in 2004, while trading in bonds generated profits of ISK 1,227 million. Exchange-rate gains on foreign-denominated assets and liabilities amounted to ISK 114 million. Total trading gains for 2004 were ISK 7,726 million, up from ISK 2,905 million in 2003, representing an increase of 166%. Including trading gains on shares in Straumur and other investment equities, which are partly included among sundry operating income, the trading gains on equities over the year amounted to ISK 9.6 billion. Our net equity holdings have increased by 45%, to ISK 19.3 billion at year end 2004. Of this amount, our share in BNbank amounted to ISK 3.1 billion. Without BNbank's share, our holdings increased by 21.8% over the year.

Sundry operating income. Sundry operating income amounted to ISK 3,492 million in 2004, compared with ISK 229 million in 2003, representing a 1,425% increase, largely as a result of gains on investment equities of just over ISK 3 billion and ISK 180 million resulting from the difference in the acquisition price and book equity of KredittBanken ASA.

Expenses

Salaries and related expenses. Salaries and salary-related expenses amounted to ISK 2,242 million in the three months ended December 31, 2004, increasing by 7.5% from ISK 2,086 million in the three months ended September 30, 2004, as KredittBanken ASA entered our accounts in December with 26 banking positions. Payroll expenses over the year amounted to ISK 8,299 million, increasing by 53.1% from ISK 5,422 million in 2003. The increase between years is the result of four factors. First, the number of staff grew with the inclusion of Sjova-Almennar in Glitnir banki. The average number of positions was 1,126 in 2004, as compared to 948 in 2003. Second, the price gains on equities held by us resulted in an increase in employee stock options. Third, the high return had an impact on performance-related salaries. Fourth, a provision for pension liabilities resulted in an increase in this cost item.

Other operating expenses. Other operating expenses in the three months ended December 31, 2004 amounted to ISK 1,574 million, increasing by ISK 416 million from the three months ended September 30, 2004, representing an increase of 36%. Other operating costs amounted to ISK 5,304 million in 2004, increasing by 45.3% from ISK 3,651 million in 2003.

Depreciation. Depreciation expense amounted to ISK 1,209 million in 2004, increasing by 74% from ISK 696 million in 2003. Of this figure, depreciated goodwill resulting from the acquisition of shares in subsidiaries and depreciation of fixed assets amounted to ISK 610 million and 599 million,

respectively. The disposal of goodwill in our accounts is set to be reviewed with the introduction of a new international accounting standard next year.

Liquidity and Capital Resources

The financial results for the years ended December 31, 2004 and 2005 have been prepared in accordance with IFRS while results for the year ended December 31, 2003 have been prepared in accordance with Icelandic GAAP.

For an analysis of our assets and liabilities by maturity as at December 31, 2005, see note 33 to our 2005 financial statements.

Historical cash flows

The table below summarizes our cash flows for the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006.

	Year ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
	(Icelandic GAAP) (ISK millions)	(IFRS) (ISK millions)	(IFRS) (ISK millions)	(IFRS) (ISK millions)
Consolidated statement of cash flows				
Net cash from (used in) operating activities	7,668	(10,784)	(57)	15,910
Net cash (used in) from investing activities	(87,396)	5,099	(13,585)	5,644
Net cash from financing activities	91,571	12,839	38,800	41,456
Net increase in cash and cash equivalents	11,843	7,154	25,158	63,100
Cash and cash equivalents at the beginning of the year	7,554	19,397	26,551	95,134
Cash and cash equivalents at the end of the period	19,397	26,551	51,709	158,234

Net cash from operating activities

Our net cash from operating activities amounted to ISK 15,910 million for the six months ended June 30, 2006, compared to net cash used in operating activities of ISK 32,268 million for the six months ended June 30, 2005. Our net cash used in operating activities amounted to ISK 57 million for the year ended December 31, 2005, compared to ISK 10,784 million for the year ended December 31, 2004. For the year ended December 31, 2003, our net cash provided by operating activities amounted to ISK 7,668 million.

Net cash used in investing activities

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

Our net cash from (used in) investing activities amounted to ISK 5,644 million for the six months ended June 30, 2006, compared to ISK (316,547) million for the six months ended June 30, 2005. Our net cash used in investing activities amounted to ISK 13,585 million for the year ended December 31, 2005, compared to ISK 5,099 million net cash from investing activities for the year ended December 31, 2004.

Net cash from financing activities

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

Our net cash provided by financing activities amounted to ISK 41,546 million for the six months ended June 30, 2006, compared to ISK 332,827 million for the six months ended June 30, 2005. Our net cash provided by financing activities amounted to ISK 38,800 million for the year ended December 31, 2005, compared to ISK 12,839 million for the year ended December 31, 2004.

Indebtedness

As of the six months ended June 30, 2006, we had a total of ISK 1,343,171 million in principal and accrued interest outstanding on our outstanding indebtedness, including ISK 94,789 million of subordinated indebtedness. For the six months ended June 30, 2005, these figures were ISK 985,258 million and ISK 47,464 million, respectively. As of the year ended December 31, 2005, we had a total of ISK 985,258 million in principal and accrued interest outstanding on our outstanding indebtedness, including ISK 47,464 million of subordinated indebtedness. For the year ended December 31, 2004, these figures were ISK 401 billion and ISK 19 billion, respectively.

Under our revolving credit facilities, we have the right to borrow up to a maximum of EUR 575 million (equivalent of ISK 55,994 million, calculated at the exchange rate on June 30, 2006). There were no outstanding borrowings under the revolving credit facilities as of June 30, 2006.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with IFRS and Icelandic GAAP as indicated. During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to allowance for loan losses and impairment of loans and advances, fair value of derivatives and other financial instruments, stock based compensation, bad debts, long-lived assets and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements. Our critical accounting policies have been discussed with our board of directors.

Off-Balance Sheet Arrangements

At December 31, 2003, 2004 and 2005 and June 30, 2006, we did not have any relationships with unconsolidated entities or financial partnerships which would have been established for the purposes of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

THE BANK

Introduction

The Group comprises a leading financial group in Iceland and the Bank is the second largest company listed on the Iceland Stock Exchange by market capitalization. The Bank provides universal banking services in its home market (Iceland and Norway), offering a broad range of financial services to individuals, institutional investors and corporations. In addition, the Bank provides specialized financial services outside the home market. The Bank operates five business units: Commercial Banking – Iceland, Commercial Banking – Norway, Corporate & Investment Banking, Capital Markets and Finance Division. The Bank operates 24 branches in Iceland along with branches in London and Copenhagen. The Bank currently has eight wholly-owned subsidiaries, including Glitnir Bank (formerly KredittBanken ASA), Bolig- og Næringsbanken ASA ("BNbank"), Fischer Partners and Glitnir Luxembourg SA. Other subsidiaries consist of holding companies for investments of the Bank, a real estate management company, and projects sponsored by the Bank. In addition, the Bank also has substantial shareholdings in other financial services companies, including a 51.0 percent shareholding in Europay Iceland (reported in the June 30, 2006 financials as 35.0% and increased by 16.0% in July 2006), which is the Mastercard franchise in Iceland, and a 50.0 percent shareholding in the investment company Máttur ehf. See "Management's Discussion and Analysis of Results of Operations—Introduction" on page 26.

Background History

The Bank can trace its history back to 1904 when the first privately owned bank in Iceland, Ìslandsbanki hf., was established. Since then, the Bank has gone through a number of mergers and acquisitions of banks and investment credit funds. Many of the Bank's predecessors played a key role in the economic progress that Iceland achieved in the 20th century.

In May 2000, Íslandsbanki and FBA - The Icelandic Investment Bank merged to create a leading financial group in Iceland. Íslandsbanki entered the merger as the second largest commercial bank in Iceland and the only one in private ownership. It was formed in January 1990 as a result of the merger of four commercial banks. FBA entered the merger as the leading investment bank in Iceland, established in 1998 through a merger of four state-owned investment credit funds which were the main providers of long-term credit to Icelandic industries for most of the twentieth century.

Since the merger in 2000, the Bank has grown and expanded its activities considerably. In 2003, the Bank acquired Sjóvá. KredittBanken ASA was acquired in late 2004, BNbank in the first quarter of 2005, and ISB Luxembourg SA was established on the basis of the Luxembourg branch in April 2005. On May 2, 2006, the Bank sold its interest in Sjóvá and concurrently acquired a 15.6% interest in Máttur ehf, bringing our total interest to 50.0%.

Name Change

On March 11, 2006, the Bank announced a change in its brand name from Íslandsbanki to Glitnir, at the same time adopting a new logo. The Bank's subsidiaries and offices in five countries will also operate under the Glitnir brand. The legal name was changed to Glitnir banki hf. by a shareholder's meeting on March 28, 2006. The new name comes from Norse mythology: Glitnir was the home of Forseti, son of the divine pair Baldur and Nanna.

Legal Status and Legislative Background

The Bank is a public limited company incorporated in Iceland and operating under Icelandic law. The Bank was incorporated on May 15, 2000 for an unlimited duration. The Bank is registered with the Registrar of Companies in Iceland and its registration number is 550500-3530. The registered office and place of business of Glitnir banki hf. is Kirkjusandur 2, IS-155 Reykjavík, Iceland and its telephone number is +354 440 4000.

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

Financial Information

The financial information set out in the tables on pages 22 to 25 inclusive of this offering circular for the twelve months ended December 31, 2004 and for the twelve months ended December 31, 2005 has been extracted from the audited consolidated financial statements of the Group. With effect from January 1, 2005, the Bank has reported its financial statements in accordance with IFRS. The results for 2005 are therefore presented in accordance with IFRS and the figures for 2004 have been restated in accordance with the new standard.

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 of debt securities on the Iceland Stock Exchange, including issues of commercial paper, non-indexed notes and indexed bonds.

The table below sets out a breakdown of the Group's sources of funds as at December 31, 2004, 2005 and as at June 30, 2006:

	As at December 31,				As at June 30,	
	2004		2005		2006	
	(ISK millions)	(percent)	(ISK millions)	(percent)	(ISK millions)	(percent)
Equity	48,474	7.7	84,750	6.0	125,764	6.6
Subordinated loans	19,366	3.1	47,464	3.4	94,789	4.9
Deposits	155,602	24.8	304,136	21.6	387,236	20.2
Core funding	223,442	35.6	436,350	31.1	607,789	31.7
Market issues and borrowings	382,020	60.8	937,794	66.7	1,248,382	65.0
Interbank short-term funding (credit institutions)	22,676	3.6	30,656	2.2	64,069	3.3
Finance in the market	404,696	64.4	968,450	68.9	1,312,451	68.3
Total funds	628,138	100.0	1,404,800	100.0	1,920,240	100.0

Equity

As of December 31, 2004 the equity of the Group was ISK 48,474 million, as of December 31, 2005, the equity of the Group was ISK 84,750 million, and as of June 30, 2006 the equity of the Group was ISK 125,764 million.

As of August 22, 2006, the ten largest shareholders in the Group were:

	Percentage Ownership
FL Group hf. (investment company)	19.9
Milestone ehf. (investment company)	14.7
Arion safnreikningur (Arion nominee account)	5.4
Straumur – Burðarás Fjárfestingarbanki hf. (investment bank)	3.7
SJ1 ehf (investment company)	3.2
RedSquare Invest ehf. (investment company)	2.8
Hrómundur ehf. (investment company)	2.6
LÍ(an entity owned by Landsbanki Íslands hf.)	2.1
Hafsilfur ehf. (investment company)	1.6
Citibank	1.4
Total	57.4

Subordinated Loans

The Bank has borrowed funds by issuing subordinated bonds. The bonds have one characteristic of equity in that they are subordinated to other liabilities of the Bank. In the calculation of capital ratios, the bonds are included with equity. Total subordinated loans amounted to ISK 19,366 million at the end of 2004. The figure was ISK 47,464 million at December 31, 2005, and ISK 94,789 million at June 30, 2006, comprising ISK 20,074 million at December 31, 2005 and 23,495 at June 30, 2006 in subordinated loans with no maturity date, which the Bank may not repay until 2010 having received the approval of the FSA (these loans qualify as Tier 1 capital in the calculation of the Bank's capital ratio) and subordinated loans amounting to ISK 27,390 million at December 31, 2005, with dates of maturity until 2021 which qualify as Tier II capital in the calculation of the Bank's capital ratio.

Capital Adequacy

Under the Act on Financial Undertakings, No. 161/2002, as amended, the capital adequacy ratio may not be less than 8.0 percent. For the Group, this ratio was 12.4 percent at December 31, 2004, 12.6 percent at December 31, 2005 and 13.7 percent at June 30, 2006. The ratio was calculated as follows:

(All figures in ISK millions)	December 31, 2005		June 30, 2006	
	Book Value	Weighted Value	Book Value	Weighted Value
Assets recorded in the balance sheet	1,472,250	929,880	2,023,186	1,400,918
Assets subtracted from equity		(12,140)		(17,481)
Guarantees and other off balance sheet items		28,688		60,524
Risk base, total		946,428		1,443,961
Tier 1 Capital		93,503		131,918
Tier 1I Capital		26,139		65,281
		119,642		197,199
Capital adequacy ratio		12.6%		13.7%

Deposits

On December 31, 2005, the Bank had approximately 406,000 customer deposit accounts (including current accounts, savings accounts and currency accounts). On December 31, 2005 the Bank's total deposits amounted to 22 percent of the total deposits in all of Iceland's commercial banks and savings banks.

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

The following table sets out a breakdown of the Group's deposits at December 31, 2004 and 2005:

	December 31,	
	2004	2005
	(ISK millions)	(ISK millions)
Demand deposits	71,558	195,805
Time deposits	84,044	108,331
Total	155,602	304,136
Time deposits mature as follows:		
Up to 3 months	49,597	69,221
Over 3 months and up to 1 year	9,289	9,780
Over 1 year and up to 5 years	21,014	24,027
Over 5 years	4,144	5,303
Total	84,044	108,331

Finance in the Market

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

The following table sets out a breakdown of the Group's borrowings from bonds and notes issued, as well as borrowings from other credit institutions at December 31, 2004, 2005 and June 30, 2006:

	December 31,		June 30,
	2004	2005	2006
	(ISK millions)	(ISK millions)	(ISK millions)
Issued bonds	329,421	858,504	1,124,822
Loans from credit institutions	49,697	75,202	123,560
Other borrowings	2,902	4,088	—
Total	382,020	937,794	1,248,382

Use of Funds

The major part of the Group's assets comprises loans. The table below sets out a breakdown of the Group's assets at December 31, 2004, 2005 and June 30, 2006:

	December 31,		June 30,
	2004	2005	2006
		(ISK millions)	
Loans and receivables	524,020	1,174,733	1,603,598
Cash and cash balances with Central Banks	6,242	20,861	10,252
Investments in associates	2,605	8,081	4,250
Financial assets held for trading	109,046	151,897	217,908
Financial assets designated at fair value through profit or loss	3,632	96,438	160,337
Financial assets available-for-sale	11,065	3,611	3,647
Other assets	20,706	16,629	23,194
Total assets	677,316	1,472,250	2,023,186

Loan Portfolio

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

The following table lists the Group's lending (including leasing) by customer categories as a percentage of total lending at December 31, 2005:

	December 31, 2005
	(percent)
Agriculture	0.2
Fishing industry	10.4
Commerce	4.8
Industry and contractors	7.6
Real Estate	27.2
Services	21.5
Total business enterprises	71.7
Individuals	27.3
State owned enterprises	0.2
Municipalities	0.8
Total assets	100.0

For a breakdown of geographical sector risk concentrations within our customer loan portfolio, see note 38 to our 2005 financial statements.

The following table sets out a maturity breakdown by remaining maturity of loans to customers (including leasing contracts) as at December 31, 2005:

	December 31, 2005
	(ISK millions)
Up to 1 month	26,245
Over 1 month and up to 3 months	148,396
Over 3 months and up to 1 year	103,190
Over 1 year and up to 5 years	322,820
Over 5 years	574,082
Total	1,174,733

Allowance for Losses on Loans and Receivables

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

The following table provides a breakdown of the Group's non-performing loans and provisions for non-performing loans at December 31, 2005 and June 30, 2006. Loans are classified as non-performing whenever a payment is 90 days past due.

	December 31, 2005	June 30, 2006
	(ISK millions)	(ISK millions)
Balance at the beginning of the period	9,643	8,886
Transferred into the Group	526	—
Transferred out of the Group	(917)	(50)
Provision for loan impairment	1,820	2,778
Loans written off during the period as uncollectible	(2,174)	(846)
Amounts recovered during the period	97	19
Translation difference	(109)	349
Total at period end	8,886	11,136

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.

Specific provisions are established on an individual facility basis to recognize the expected credit losses on all types of exposure. The branches prepare lists twice a year for suggested specific 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 that are not met by specific provisions. General provisions are determined by an evaluation of the quality of the loan portfolio. At December 31, 2005, general provisions amounted to 0.5 percent of loans and guarantees as at that date.

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 specified 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 asset and liability management;

(vi) The Bank's inflation exposure through proprietary trading and asset and liability management; and

(vii) The Bank's credit and liquidity risks in its short term lending and borrowing activities.

The Credit Control 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 through monitoring closely sector weightings and 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.

Net currency exposure is monitored on an interday 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 ("ALCO").

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 three 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 percent weighting.

Operating Risk

The internal audit function and Risk Management are jointly responsible for the Bank's operational risk. The operational risk has been recognized at two levels, the technical level and the organizational 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 Íslands hf., Kaupþing banki hf. and the savings banks. The Bank monitors market developments closely and continues to take advantage of any potential opportunities as and when they arise. Both domestic and foreign competitors provide financial services that have affected the Banks net interest margin and require the Bank to be internationally competitive.

Board of Directors

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

Members of the Board of Directors are as follows:

Einar Sveinsson (Chairman)
Mr. Sveinsson is Chairman of Hrómundur ehf. (investment company).

Karl Wernersson (Vice Chairman)
Mr. Wernersson is Chairman of Milestone ehf. (investment company).

Guðmundur Ólason
Mr. Ólason is CEO of Milestone ehf. (investment company).

Jón Sigurdsson
Mr. Sigurdsson is Managing Director of Private Equity of FL Group hf.

Jón Snorrason
Mr. Snorrason is Chairman of Taxus ehf. (investment company).

Skarphédinn Berg Steinarsson
Mr. Steinarsson is chairman of FL Group hf. (investment company).

Edward Allen Holmes
Mr. Holmes is CEO Retail Financial Services of The International Investor.

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

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

Senior Management

The Executive Board consists of the following six members:

Bjarni Ármannsson – Chief Executive Officer. Prior to his appointment as CEO of the Bank, Mr. Ármannsson was the CEO of FBA – The Icelandic Investment Bank 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). Mr. Ármannsson holds a BSc degree in Computer Science from the University of Iceland and an MBA degree from IMD in Switzerland.

Jón Diðrik Jónsson – Managing Director, Investment Banking. Prior to his appointment to the Executive Board of the Bank, Mr. Jónsson was CEO of Egils from 2001-2004 (a beverage business in

Iceland), General Manager of CCHBC Slovenia 2000-2001, Commercial Director/Marketing Director CCHB Poland 1997-2000, Marketing Manager Coca-Cola Singapore/Malaysia 1995-1997, TCCC Nordic Region Business Development Manager 1994-1995, Operational Marketing Manager for Nordic & Northern European Division of TCCC 1992-1993. Mr. Jónsson holds an MIM (Management) degree from Thunderbird, Arizona and a BSc degree in Management from the Florida Institute of Technology.

Tómas Kristjánsson – Managing Director, Finance Division. 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 Industrial Loan Fund. Mr. Kristjánsson holds an MBA degree from the University of Edinburgh and a degree in Business Administration from the University of Iceland.

Haukur Oddsson – Managing Director, Commercial Banking and IT. Prior to his appointment to the Executive Board of the Bank, Mr. Oddsson was Managing Director, IT at Islandsbanki 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.

Frank O. Reite – Managing Director, Glitnir Markets. Mr. Reite has been the CEO of Glitnir Bank (formerly Kredittbanken ASA) since April 2004. He served on the Executive Management Group of Aker from 2000 to 2004 and represented that company on the boards of directors of numerous enterprises, including Norway Seafoods and Aker Yards. He held various managerial positions for Norway Seafoods in 1996-2000 and in 1995 he was involved in the structuring of RGI's seafoods activities in Seattle and Oslo. Prior to that, he worked as a credit analyst for CBK in Seattle from 1993 to 1994. He completed a degree in business at the Oslo Business School in 1993.

Finnur Reyr Stefánsson – Managing Director, Shared Services. Prior to his appointment to the Executive Board of the Bank, Mr. Stefánsson was Deputy Managing Director of Wealth Management of Íslandsbanki 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 BSc degree in Economics from the University of Iceland.

TERMS AND CONDITIONS

The following are (other than the paragraphs in italics) 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 U.S.$250,000,000 aggregate principal amount 7.451% non-cumulative undated capital notes (the "notes", which expression includes any additional non-cumulative capital contribution securities issued as described under Condition 2(4) below and forming a single series therewith) of Glitnir banki (the "Bank") are the subject of a fiscal agency agreement, dated as of September 14, 2006 (as amended or supplemented from time to time, the "Fiscal Agency Agreement") between the Bank and JPMorgan Chase Bank, N.A., as fiscal agent (the "Fiscal Agent", which includes any successor fiscal agent appointed from time to time in connection with the Securities), and a calculation agency agreement, dated as of September 14, 2006 (as amended and supplemented from time to time, the "Calculation Agency Agreement") between the Bank and JPMorgan Chase Bank, N.A., as calculation agent (the "Calculation Agent", which includes any successor calculation agent appointed from time to time in connection with the notes). Certain terms and conditions described below are summaries of the Fiscal Agency Agreement and Calculation Agency Agreement and subject to their detailed provisions. The holders of the notes (the "noteholders") are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement and the Calculation Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement and Calculation Agency Agreement are available for inspection by noteholders during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Fiscal Agent. Unless the context otherwise requires, capitalized terms used in these Terms and Conditions shall have the respective meanings ascribed thereto in Condition 16.

1. Form, Denomination and Title

(1) Form

The notes will be offered and sold in minimum denominations of U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof and will be transferable in denominations of U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof.

Notes which initially are offered and sold in reliance on Regulation S will be evidenced by one or more Regulation S Global Notes in fully registered form. Notes which initially are offered and sold in reliance on Rule 144A will be evidenced by one or more Rule 144A Global Notes in fully registered form. The Global Notes will be deposited upon issuance with the Fiscal Agent as custodian for DTC and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC.

(2) Principal Amount

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.

2. Status and Subordination

(1) Status

For corporate and commercial law purposes, the notes constitute and will constitute unsecured, subordinated debt obligations of the Bank.

(2) Subordination

In the event of the voluntary or involuntary liquidation or bankruptcy of the Bank, the rights of:

(a) the noteholders to payments of the principal amount of the notes and any other amounts including interest due in respect of the notes; and

(b) where the whole or any part of the principal amount of the notes has been converted into conditional capital contributions as described in Condition 3 below and such conditional capital contributions have not been reconverted and reinstated as provided in Condition 3 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 and such providers;

(ii) at least *pari passu* with the rights of the holders of the Existing Tier 1 Securities and any other outstanding Capital Securities from time to time, whether or not such Existing Tier 1 Securities or Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of, or persons otherwise entitled to the benefit of, any other obligations of the Bank constituting or eligible ("eligible" to be construed, *mutatis mutandis*, as provided in the definition of Capital Event) as constituting Tier 1 Capital of the Bank, in each case in relation to their rights as such holders and to payments in respect thereof and at least *pari passu* with the rights of the beneficiaries of any Tier 1 Guarantee;

(iii) in priority to the rights of holders of all classes of Junior Securities; and

(iv) junior in right of payment to the present or future claims of (a) depositors, (b) other unsubordinated creditors and (c) subordinated creditors in respect of Subordinated Indebtedness.

(3) No Set-Off

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

(4) Further Issues

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

3. Utilization and Conversion

(1) Conversion

To the extent that at any time either (a) the Bank is not meeting the requirements with respect to minimum own funds ("Minimum Own Funds") applicable to it as set out in the Act on Financial Undertaking (161/2002), as amended (the "Act") or (b) it is required to avoid the Bank no longer meeting such requirements, the Board of Directors of the Bank, by resolution passed at a board meeting, may decide that the principal amount (or part thereof, as the case may be) of each note will be utilized by writing down the principal amount of such note outstanding at such time by an amount up to that which is required, after taking into account compliance with Condition 3(2), to achieve or maintain compliance by the Bank with the required Minimum Own Funds and converting such aggregate amount (the "Converted Amount") into a

conditional capital contribution. The rights of the noteholders in respect of the Converted Amount will thereupon be converted into rights of providers of conditional capital contributions as set out herein.

(2) Utilization

Upon utilization of the Converted Amount as provided above, the Bank shall give notice thereof to the noteholders in accordance with Condition 11, which notice shall specify the relevant Converted Amount and the relevant Conversion Date. Utilization of the Converted Amount for the purpose of achieving or maintaining compliance with the required Minimum Own Funds applicable to the Bank shall be made prior to the utilization for the same purpose of outstanding perpetual/undated subordinated debt issued by the Bank (other than other Capital Securities) and shall be made following the utilization for the same purpose of the aggregate principal amount of Capital Securities and any other securities ranking junior to the notes and outstanding at the time of such utilization and *pro rata* to the principal amount of Capital Securities ranking *pari passu* with the notes and outstanding at the time of such utilization. Utilization as described above of some or all of the principal amount of the notes shall not constitute an Event of Default under Condition 9. For the purposes hereof, the date of any conversion and utilization shall be deemed to be the date upon which the Conditions set out in Condition 3(4) are first satisfied (the "Conversion Date").

(3) Writing Down in Part

Where, pursuant to this Condition 3, writing down and conversion applies to part only of the principal amount of the notes, the part of the principal amount of each note to be subject to such writing down and conversion shall bear the same proportion to the total amount of the principal amount in respect of such note as the aggregate amount of the principal amount of all the notes to be subject to such writing down and conversion bears to the aggregate outstanding principal amount of all the notes respectively. Any reconversion and reinstatement as provided below will be made on the same basis. For the avoidance of doubt, the principal amount of the notes may be subject to conversion, utilization, reconversion and reinstatement in whole or in part in accordance with this Condition 3 on either one or more occasions.

(4) Conditions to Utilization

Utilization of the Converted Amount as aforesaid may only be made provided that the Fiscal Agent has received prior to such utilization a certificate signed by two Directors of the Bank confirming that a resolution of the Board of Directors of the Bank of the type referred to in Condition 3(1) approving such conversion and utilization has been duly passed and that, following such conversion to a Converted Amount, (i) 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) and (ii) such amount will be a conditional capital contribution and will be accounted for as such in the balance sheet of the Bank.

(5) Junior Payments

The Bank covenants that until an amount equal to the aggregate Converted Amount in respect of all notes outstanding has been reinstated as an obligation evidenced by the notes (as opposed to a conditional capital contribution) in full in the balance sheet of the Bank, or such amount has been redeemed (such redemption having been approved by the FSA):

(i) the Board of Directors of the Bank shall not propose to its general meeting of shareholders to declare, pay or distribute, a dividend or any other amount on, or in respect of, any of its ordinary share capital;

(ii) it shall not declare, pay or distribute interest, a dividend or any other amount on, or in respect of, any of 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);

(iii) 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 or obligation (however named or designated) benefiting from a Tier 1 Guarantee (save where those shares, securities or obligations being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares, securities or obligations of the same aggregate principal amount and the same ranking in a voluntary or involuntary liquidation or bankruptcy of the Bank to those shares, securities or obligations being redeemed, purchased or acquired); and

(iv) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security or obligation (however named or designated) benefiting from a Tier 1 Guarantee.

Condition 3(5)(i) prohibits, in certain specified circumstances, the Board of Directors of the Bank from proposing to its general meeting of shareholders the declaration, payment or distribution of a dividend or any other amount on, or in respect of, any of its ordinary share capital. However, under Icelandic company laws, shareholders may in certain circumstances require the payment of a dividend on such shares. Condition 3(5)(i) does not in any way limit or circumvent such powers of shareholders under Icelandic company laws.

(6) Reinstatement

If at any time the Bank's own funds exceed the Minimum Own Funds required at such time allowing for reconversion and reinstatement (in whole or in part) as an obligation evidenced by the notes (as opposed to a conditional capital contribution) 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 Bank shall subsequently decide that such reconversion and reinstatement shall be made with due observance taken to the ranking prescribed in Condition 3(2) between the relevant instruments to the extent such replenishment does not result in the Bank's own funds falling below the required Minimum Own Funds. Accordingly, reconversion and reinstatement shall first be made in respect of perpetual/undated subordinated debt (other than Capital Securities) issued by the Bank that may have been converted into conditional capital contributions.

Reconversion and reinstatement as an obligation evidenced by the notes (as opposed to a conditional capital contribution) of the Converted Amount shall be made *pro rata* with any amounts converted in respect of other Capital Securities of the Bank 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 an obligation evidenced by the notes (as opposed to a conditional capital contribution) only after the Converted Amount (and any other amounts converted in respect of other Capital Securities of the Bank expressed to rank *pari passu* with the notes) has (or have) been so reconverted and reinstated. If and to the extent that any Converted Amount has been reconverted and reinstated as an obligation evidenced by the notes (as opposed to a conditional capital contribution) in the balance sheet of the Bank, such amount shall be reinstated as principal 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, being the date referred to as such in the notice referred to below (the "Reinstatement Date").

Reconversion and reinstatement (in whole or in part) as debt of the Converted Amount may only be made out of Unallocated Distributable Profits of the Bank and subject to a resolution of the Board of Directors of the Bank. Upon reconversion and reinstatement as debt of the Converted Amount as described above the Bank shall give notice thereof to noteholders in accordance with Condition 11 which notice shall specify the amount so reinstated and the relevant Reinstatement Date.

4. Interest

(1) Interest Rate

The notes will bear interest from and including the Issue Date in accordance with the provisions of this Condition 4. Subject as provided in these Terms and Conditions, interest shall be payable semi-annually in arrear on March 14 and September 14 of each year (each, a "Fixed Interest Payment Date") commencing March 14, 2007, up to and including the First Call Date, to the person in whose name the note (or any predecessor note) is registered at the close of business on the last day of the calendar month immediately preceding the relevant Floating Interest Payment Date. Thereafter, the notes will bear interest payable quarterly in arrear on March 14, June 14, September 14 and December 14 in each year, subject to adjustment as described herein (each, a "Floating Interest Payment Date" and, together with the Fixed Interest Payment Date, each an "Interest Payment Date") beginning on December 14, 2016 to the person in whose name the note (or any predecessor note) is registered at the close of business on the last day of the calendar month immediately preceding the relevant Floating Interest Payment Date. The period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date preceding the First Call Date is called a "Fixed Interest Period". The period beginning on (and including) the First Call Date and ending on (but excluding) the first Interest Payment Date thereafter and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called a "Floating Interest Period". Each Fixed Interest Period and each Floating Interest Period are referred to as an "Interest Period".

(2) Interest Accrual

The notes will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 unless, upon due presentation, payment and performance of all amounts and obligations due in respect of the notes is not properly and duly made, in which event interest shall continue to accrue, and shall be payable, as provided in these Terms and Conditions up to (but excluding) the Relevant Date. The amount of interest payable on a note in respect of an Interest Period shall be calculated by reference to the principal amount of such note (after taking into account any adjustment in respect of any Converted Amount attributable to such note and taking into account any adjustment to such amount during such Interest Period, in each case by reference to the relevant Conversion Date and Reinstatement Date).

Prior to (and including) the First Call Date, if any Interest Payment Date would otherwise fall on a date which is not a Business Day, the required payment of interest shall be made on the next succeeding Business Day, with the same force and effect as if made on such Interest Payment Date, and no further interest shall accrue as a result of the delay. Following the First Call Date, if any Interest Payment Date 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 and the amount of interest payable shall be adjusted accordingly. Interest on the notes to be calculated in respect of a period less than a full Fixed Interest Period will be calculated on the basis of a 360-day year of twelve 30-day months. From (and including) the First Call Date, the interest on the notes will be calculated on the basis of the actual number of days in the Fixed Interest Period or a Floating Interest Period, as the case may be, concerned divided by 360.

During any period(s) in which part of the principal amount of the notes (together with Accrued Interest has been utilized and converted as aforesaid, interest shall accrue on the remaining balance of the original principal amount of then outstanding notes at the appropriate rate of interest but no interest shall accrue in respect of the part of the principal amount so utilized and converted.

(3) Fixed Interest Rate

For each Fixed Rate Interest Period, the notes will bear interest at the rate of 7.451% per annum (the "Fixed Interest Rate").

(4) Floating Interest Rate

From (and including) the First Call Date, the notes will bear interest at a floating rate of interest (the "Floating Interest Rate"). The Floating Interest Rate in respect of each Floating Interest Period will be determined by the Calculation Agent on the relevant Interest Determination Date and shall be equal to three-month LIBOR plus the Margin.

(5) Determination of Floating Interest Rate and Calculation of Floating Interest Amounts

The rate of interest payable in respect of each Floating Interest Period (the "Rate of Interest") will be determined by the Calculation Agent in accordance with the following provisions, on each Interest Determination Date:

(i) The Calculation Agent will ascertain the offered rate for three-month U.S. dollar deposits in the London interbank market which appears on LIBOR Moneyline Telerate (as defined below) as of 11:00 a.m. (London time) on each Interest Determination Date. The Rate of Interest for the relevant Floating Interest Period shall be the rate per annum equal to the sum of the rate so determined by the Calculation Agent and the Margin;

(ii) If for any reason such offered rate does not appear on LIBOR Moneyline Telerate, or if the LIBOR Moneyline Telerate is unavailable, the Calculation Agent will request the principal London office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a rate per annum) for three-month U.S. dollar deposits to leading banks in the London interbank market at approximately 11:00 a.m. (London time) on the relevant Interest Determination Date and in an amount that is representative for a single transaction in such market at such time. The Rate of Interest for such Floating Interest Period shall be the rate per annum equal to the sum of (x) the arithmetic mean (rounded to four decimal places with 0.00005 being rounded upwards if necessary) of such offered quotations, as determined by the Calculation Agent, and (y) the Margin;

(iii) If on any Interest Determination Date two or more but not all of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for the relevant Floating Interest Period shall be determined in accordance with sub-paragraph (2) above on the basis of the quotations of those Reference Banks providing such quotations; and

(iv) If on any Interest Determination Date one only or none of the Reference Banks provides the Calculation Agent with such offered quotations, the Rate of Interest for the relevant Floating Interest Period shall be the rate per annum which the Calculation Agent determines to be the sum of the arithmetic mean (rounded to four decimal places with 0.00005 being rounded upwards if necessary) of the rates quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m. (New York time) on the first day of the relevant Floating Interest Period for loans in U.S. dollars to leading European banks for a period of three months and in an amount that is representative for a single transaction in such market at such time.

If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Interest Determination Date or, if none, 7.451% per annum.

(6) Publication of Floating Interest Rate and Floating Interest Amounts

The Bank shall cause notice of the Floating Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period and of the Floating Interest Amounts and the relevant Interest Payment Date to be given to the Fiscal Agent, the other Paying Agents and, in accordance with Condition 11, the noteholders, in each case as soon as practicable after their determination but in any event not later than the fourth Business Day thereafter.

(7) Calculation Agent

So long as any notes remain outstanding, the Bank will maintain a Calculation Agent. The name of the initial Calculation Agent is set out at the end of these Terms and Conditions. The Bank may from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank in New York. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails duly to determine the Floating Interest Rate in respect of any Interest Period as provided in Condition 4(4), the Bank shall forthwith appoint another leading investment, merchant or commercial bank in New York to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(8) Determinations of Calculation Agent Binding

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Calculation Agent, shall (in the absence of willful default, bad faith or manifest or proven error) be binding on the Bank, the Calculation Agent, the Paying Agents and all noteholders and (in the absence as aforesaid) no liability to the noteholder or the Bank shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions in relation to the notes or the Fiscal Agency Agreement.

(9) Sufficiency of Available Distributable Funds

(i) Payments of interest on any Interest Payment Date may not, when aggregated with all payments previously made in that fiscal year in respect of the notes, other Capital Securities ranking *pari passu* with the notes, Other Tier 1 Securities and Tier 1 Guarantees, exceed the Available Distributable Funds. Accordingly, to the extent that, on any Interest Payment Date, Available Distributable Funds (taking into account all payments previously made in that fiscal year as aforesaid) are insufficient to pay, or provide for payment in full of, all accrued but unpaid interest under the notes, other Capital Securities ranking *pari passu* with the notes, Other Tier 1 Securities and Tier 1 Guarantees (in each case falling due on that Interest Payment Date), the Bank will make partial payment of all accrued but unpaid interest under the notes, such other Capital Securities ranking *pari passu* with the notes, Other Tier 1 Securities and Tier 1 Guarantees *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 Bank 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 deferred until the Deferral End Date. At the Deferral End Date, the Bank will, subject as provided in the next paragraph, make full or partial payment of all deferred but unpaid interest under the notes, such other Capital Securities, Other Tier 1 Securities and Tier 1 Guarantees *pro rata* to the extent the Bank has accrued any Unallocated Distributable Profits, as determined by the Board of Directors of the Bank after consultation with the Bank's auditors, in such fiscal year. If, and to the extent that, any deferred payments remain unpaid after the applicable Deferral End Date, the right of the noteholders to receive such deferred payments will be lost. The Bank will have no obligation to make such payments of unpaid deferred interest or to pay interest thereon, whether or not payments of interest in respect of subsequent Interest Periods are made, and such unpaid deferred interest will not be deemed to have "accrued" or been earned for any purpose.

(ii) Notwithstanding anything to the contrary herein, the Bank will not make any payments of interest otherwise due (including on a Deferral End Date in accordance with these Terms and Conditions) if the Bank does not, or to the extent that the Bank, following payment of such interest, would no longer, meet the requirements with respect to Minimum Own Funds applicable to it, in which case the right of the noteholders to receive to such extent such payment of interest will be lost. The Bank 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.

(iii) The Bank covenants that, so long as any note is outstanding, if the most recent scheduled payments on the notes have not been made in full:

(a) the Board of Directors of the Bank shall not propose to its general meeting of shareholders to declare, pay or distribute, a dividend or any other amount on, or in respect of, any of its ordinary share capital;

(b) it shall not declare, pay or distribute interest, a dividend or any other amount on, or in respect of, any of 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);

(c) it shall not redeem, purchase or otherwise acquire any of its ordinary shares (except in connection with transactions effected by or for the account of customers of the Bank or in connection with the distribution, trading or market-making in respect of such shares), its preference shares, any Other Tier 1 Securities or Junior Securities or purchase or otherwise acquire any security or obligation (however named or designated) benefiting from a Tier 1 Guarantee (save where those shares, securities or obligations being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares, securities or obligations of the same aggregate principal amount and the same ranking in a voluntary or involuntary liquidation or bankruptcy of the Bank to those shares, securities or obligations being redeemed, purchased or acquired); and

(d) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security or obligation (however named or designated) benefiting from a Tier 1 Guarantee,

in each case until, if all such scheduled payments are paid on the Deferral End Date applicable to such payment, such Deferral End Date or otherwise for a period of 12 months following the applicable Interest Payment Date.

Condition 4(9)(ii)(a) prohibits, in certain specified circumstances, the Board of Directors of the Bank from proposing to its general meeting of shareholders the declaration, payment or distribution of a dividend or any other amount on, or in respect of, any of its ordinary share capital. However, under Icelandic company laws, shareholders may in certain circumstances require the payment of a dividend on such shares. Condition 4(9)(ii)(a) does not in any way limit or circumvent such powers of shareholders under Icelandic company laws.

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

Distributable Profits. The Bank is responsible for determining whether it has Available Distributable Funds or Unallocated Distributable Profits and, on any occasion when it determines it has insufficient Available Distributable Funds to pay accrued interest on the next Interest Payment Date or Unallocated Distributable Profits to make a full or partial payment of accrued interest on any deferred Interest Payment Date prior to the Deferral End 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.

5. Payments

(1) Method of payment

Payments of the principal of, and interest on, each Global Note will be to or to the order of DTC's nominee as the registered owner of such Global Note. The Bank expects that DTC or its nominee, as the case may be, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of DTC or the nominee. The Bank also expects that payments by DTC participants to owners of beneficial interests in such Global Note held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. None of the Bank, the Fiscal Agent or any of their agents will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such ownership interests.

(2) Payments subject to Fiscal Laws

Without prejudice to the terms of Condition 7, all payments made in accordance with these Terms and Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the noteholders in respect of such payments.

(3) Payments on Business Days

If the date for payment of any amount in respect of any note, or any later date on which any note is presented for payment, is not a Business Day, then the holder thereof shall not be entitled to payment at the place of payment of the amount payable until the next following business day at that place of payment and shall not be entitled to any further interest or other payment in respect of any such delay.

(4) Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(i) there will at all times be a Fiscal Agent; and

(ii) so long as the notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority).

6. Redemption and Purchase

(1) Bank Call Option

Subject to Condition 6(6) below, on the First Call Date or on any Interest Payment Date thereafter the Bank may, subject to prior approval of the FSA 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 an amount equal to the principal amount thereof together with any interest accrued to the date of redemption.

(2) Redemption due to Tax Event

Subject to Condition 6(6) below, if:

(i) 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 September 14, 2006, on the occasion of the next payment due in respect of the notes the Bank would be required to pay additional amounts as provided or referred to in Condition 7; and

(ii) the requirement cannot be avoided by the Bank taking reasonable measures available to it, the Bank may, subject to the prior approval of the FSA (provided that such approval is at such time required to be given in accordance with applicable rules, regulations and policies of the FSA), 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 an amount equal to the principal amount thereof together with any interest accrued to the date of redemption, such redemption to occur at any time prior to the First Call Date or, thereafter, only on an Interest Payment Date, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Bank 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 Bank shall deliver to the Fiscal Agent a certificate signed by two Directors of the Bank 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 Bank taking reasonable measures available to it and (b) an opinion of an independent Icelandic law firm of recognized standing to the effect that the Bank has or will become obliged to pay such additional amounts as a result of the change or amendment.

(3) Redemption due to Capital Event

Subject as provided in Condition 6(6) below, upon the occurrence of a Capital Event, the Bank may, subject to the prior approval of the FSA (provided that such approval is at such time required to be given in accordance with applicable rules, regulations and policies of the FSA), 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 the First Call Date or, thereafter, only on any Interest Payment Date at an amount equal to the principal amount thereof together with any interest accrued to the date of redemption.

(4) Purchases

The Bank or any of its Subsidiaries may (subject to the prior approval of the FSA) at any time purchase notes in any manner and at any price. Notes purchased by the Bank or any of its Subsidiaries shall be cancelled.

(5) Cancellation

All notes which are redeemed will forthwith be cancelled and accordingly may not be reissued or resold.

(6) No Redemption until Reconversion of Converted Amounts

Save as provided in Condition 9, where any principal amount has been converted into a conditional capital contribution as described in Condition 3, the Bank shall not redeem the notes until (a) all Converted Amounts have been reconverted and reinstated as debt in full in accordance with Condition 3(6) and (b) after the Reinstatement Date.

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, assessments or government charges 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 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, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any note:

(i) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such note by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note;

(ii) presented for payment more than 30 days after the Relevant Date 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;

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant note to another Paying Agent in a Member State of the European Union.

8. Prescription

Claims against the Bank in respect of notes will become void unless presented for payment within a period of ten years (in the case of principal) and four years (in the case of interest) after the Relevant Date therefor.

9. Events of Default

(1) Events of Default

The following events or circumstances (each an "Event of Default") shall be an event of default in relation to the notes:

(i) the Bank shall default in the payment of principal for a period of three days in respect of any note which has become due and payable in accordance with these Terms and Conditions; or

(ii) the Bank shall, to the extent that it is obliged to pay interest under Condition 4(9), default for a period of seven 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 Bank 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 20 days; or

(iv) the Bank shall file a petition to take advantage of any insolvency statute or shall voluntarily suspend payment of its obligations.

(2) Notes Due and Payable

If any Event of Default shall have occurred and shall be continuing, any noteholder may give notice to the Bank 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 an obligation evidenced by the notes (as opposed to a conditional capital contribution), at an amount equal to the principal amount (construed as aforesaid) of the notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Bank is obliged to make such payment of interest in accordance with Condition 4(9) or would be so obliged were the due date for repayment an Interest Payment Date).

(3) Remedies

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 Bank and may therefore institute such steps, including the obtaining of a judgment against the Bank for any amount due in respect of the notes, as it thinks desirable with a view to having the Bank declared bankrupt or put into liquidation.

(4) Other Remedies

A noteholder may institute such proceedings against the Bank as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Bank under the notes (other than, without prejudice to Conditions 9(2) and (3) above, any obligation for the payment of any principal or interest in respect of the notes) provided that the Bank 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.

(5) Providers of Converted Amounts

A provider of any Converted Amount may institute such proceedings against the Bank as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Bank under Condition 2 or 3 provided that the Bank 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 under these Conditions.

(6) Remedies Limited

No remedy against the Bank, other than as provided in sub-paragraphs (2), (3), (4) and (5) above, or proving or claiming in the liquidation or bankruptcy of the Bank 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 Bank of any of its obligations or undertakings with respect to the notes.

10. Replacement of Notes

Should any note be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent upon payment by the claimant of such costs and expenses as may be incurred in

connection therewith and on such terms as to evidence and indemnity as the Bank may reasonably require. Mutilated or defaced notes must be surrendered before replacements will be issued.

11. Notices

(1) Notices given by the Bank

All notices will be delivered by us in writing to the holders of the notes. Any notices pursuant to, or communications with respect to, the notes, shall be deemed to have been given when delivered in person or when deposited in the mail by first class registered or certified airmail, postage prepaid to the holder of such notes at its address as indicated in the register of securities maintained by the Fiscal Agent pursuant to the Fiscal Agency Agreement. While any Global Note is held on behalf of DTC, notices to holders of notes represented by a beneficial interest in a Global Note may be given by delivery of the relevant notice to DTC and shall be deemed to have been given three days after delivery to DTC.

(2) Notices given by Noteholders

Notices to be given by any noteholder shall be in writing and given by lodging the same, together with the relative note or notes, with the Fiscal Agent.

12. Meetings of Noteholders and Modification

(1) Procedure

The Fiscal Agency Agreement contains provisions for convening meetings of the noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the notes or any of the provisions of the Fiscal Agency Agreement although any modification cannot be made without the prior approval of the FSA. Such a meeting may be convened by the Bank and shall be convened by the Bank if required in writing by noteholders holding not less than 5% in principal amount of the notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50% in principal amount of the notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing noteholders whatever the principal amount of the notes so held or represented, except that at any meeting the business of which includes the modifications of certain provisions of the notes (including modifying the ranking of the notes or modifying any date for payment of interest on the notes, reducing or canceling the amount of principal or the rate of interest payable in respect of the notes or altering the currency of payment of the notes), the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the noteholders shall be binding on all the noteholders, whether or not they are present at the meeting.

(2) Modifications

The Fiscal Agent and the Bank may agree, without the consent of the noteholders but with the prior approval of the FSA, to:

(i) any modification (except as mentioned in the parenthesis in Condition 12(1)) of the notes or the Fiscal Agency Agreement which could not reasonably be expected to be prejudicial to the interests of the noteholders; or

(ii) any modification of the notes or the Fiscal Agency Agreement for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained therein

or which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the noteholders and any such modification shall be notified to the noteholders in accordance with Condition 11 as soon as practicable thereafter.

13. Further Issues

The Bank shall be at liberty from time to time without the consent of the noteholders to create and issue further notes having terms and conditions the same as the notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding notes.

14. Governing Law and Submission to Jurisdiction

(1) Governing Law

The Fiscal Agency Agreement, the notes and all matters arising from or connected with the notes are governed by, and shall be construed in accordance with, the laws of the State of New York applicable to agreements made and performed in said State, except that the provisions of Conditions 2, 3, 4(9) and 9(5) shall be governed by, and shall be construed in accordance with, the laws of the Republic of Iceland.

(2) Jurisdiction

For the benefit of the noteholders, the Bank shall irrevocably agree that the Federal and State courts located in the Borough of Manhattan, The City of New York, are to have jurisdiction to hear and determine any suit, action or proceeding (together, "Proceedings") and to settle any disputes that may arise out of or in connection with the notes and that accordingly any Proceedings so arising may be brought in such courts. The Bank shall irrevocably waive any objection that it may now or in the future have to the laying of the venue of any Proceedings in such courts and any claim that such Proceedings have been brought in any inconvenient forum and further shall irrevocably agree that a judgment in any Proceedings brought in such courts shall be conclusive and binding upon the Bank and may be enforced in the courts of any other jurisdiction to the extent permitted by applicable law. Nothing contained in the Fiscal Agency Agreement shall limit the right of the noteholders to take Proceedings 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.

To the extent that the Bank may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Bank or its assets or revenues, the Bank agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

(3) Appointment of Process Agent

The Bank shall agree that the process by which any Proceedings in The City of New York are begun may be served on the Bank by being delivered to CT Corporation System.

(4) Fiscal Agency Agreement

The Bank has in the Fiscal Agency Agreement submitted to the jurisdiction of New York courts, appointed an agent for service of process in terms substantially similar to those set out above.

15. Rights of Providers of Conditional Capital Contributions in a Bankruptcy or Liquidation

The following is a summary of advice received by the Bank from its legal advisers. It should be noted, however, that there is no established Icelandic law on certain matters relating to the ranking of claims of holders of conditional capital contributions in a bankruptcy or liquidation. The following summary therefore does not purport to be definitive and is qualified in its entirety by the terms and conditions of the notes.

"Under Icelandic law, there are no established rules on certain matters relating to the ranking of claims by the noteholders or providers of conditional capital contributions in a bankruptcy or liquidation. In the absence of such rules, the ranking of claims by the noteholders or the providers of conditional capital contributions is governed by the terms and conditions of the notes. Providers of conditional capital contributions are neither creditors nor shareholders of the Bank. They are conditional capital contributors who may be repaid if there are distributable funds available for such purposes in connection with the bankruptcy or liquidation of the Bank. In any such bankruptcy or liquidation, the rights of the providers of conditional capital contributions will be as set out in the terms of the notes. In the event of bankruptcy or liquidation, the providers of conditional capital contributions will be paid amounts represented by their conditional capital contributions ahead of ordinary shareholders, as the Bank, may neither distribute dividends "nor otherwise make payments" to its shareholders unless the converted amounts have been "reconverted and reinstated in full as principal of the notes in the balance sheet of the Bank or such amounts have been repaid".

16. Definitions

For the purposes of these Terms and Conditions:

"Act" means the Icelandic Act on Financial Undertakings No. 161/2002, as amended from time to time.

"Available Distributable Funds" means, in respect of each fiscal year of the Bank, the aggregate amount, as calculated as at the end of the immediately preceding fiscal year in the individual financial statements of the Bank, of accumulated retained earnings and any other reserves and surpluses capable under Icelandic law of being available for distribution to holders of Bank Share Capital, but before deduction of the amount of any dividend or other distribution declared in respect of such prior fiscal year on Bank Share Capital.

"Bank Share Capital" means the ordinary shares of the Bank, together with all other securities of the Bank, ranking *pari passu* with the ordinary shares of the Bank as to participation in a liquidation surplus.

"Business Day" means a day upon which banks and foreign exchange markets are open for general business in London, Reykjavik and New York, New York.

"Calculation Agent" means JPMorgan Chase Bank, N.A. or any successor appointed under the Fiscal Agency Agreement.

"Capital Event" means the determination by the Bank (such determination to be evidenced by a certificate signed by two Directors of the Bank 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 FSA, that the notes are no longer eligible for inclusion in Tier 1 Capital (*Eiginfjárþáttur A*) of the Bank 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.

"Capital Securities" means any subordinated and undated debt instruments of the Bank including Existing Tier 1 Securities which are recognized as "*Eiginfjártháttur A*" from time to time by the FSA and including, where the context so requires, the notes.

"Conversion Date" has the meaning given in Condition 3(2).

"Converted Amount" has the meaning given in Condition 3(1).

"Deferral End Date" means, in respect of an interest payment, the earlier of (i) the date on which the Bank accrues enough Unallocated Distributable Profits during the fiscal year of the Bank in which such interest payment was otherwise due, as determined by the Board of Directors of the Bank after consultation with the Bank's auditors, to pay the entire deferred payment due under the notes and under other Capital Securities ranking *pari passu* with the notes and Other Tier 1 Securities, and makes such payments or (ii) December 31 of the fiscal year of the Bank in which such interest payment was otherwise due.

"Existing Tier 1 Securities" means the Bank's €150,000,000 Non-cumulative Undated Subordinated Capital Notes, issued June 13, 2005, ¥5,000,000,000 Non-cumulative Undated Step-up Capital Notes, issued June 25, 2001 and ISK 1,000,000,000 Non-cumulative Undated Step-up Capital Notes, issued in December 2000.

"First Call Date" means September 14, 2016.

"Fiscal Agent" means JPMorgan Chase Bank, N.A. or any successor appointed under the Fiscal Agency Agreement.

"Fixed Interest Rate" has the meaning given in Condition 4(3).

"Fixed Rate Interest Period" means the period from (and including) the Issue Date to and including the First Call Date.

"Floating Interest Amounts" means the amount of interest payable in respect of a note on an Interest Payment Date for the relevant Interest Period.

"Floating Interest Rate" has the meaning given in Condition 4(4).

"FSA" means Financial Supervisory Authority of Iceland (*Fjármálaeftirlitid*) or any successor.

"Issue Date" means September 14, 2006.

"Interest Determination Date" means the second London Banking Day prior to the commencement of each Floating Interest Period.

"Junior Securities" means (i) Bank Share Capital, (ii) each class of preference shares of the Bank ranking junior to the notes, if any, and any other instrument of the Bank ranking junior to the notes, and (iii) preference shares or any other instrument of any Subsidiary of the Bank subject to any guarantee or support agreement of the Bank ranking junior to the obligations of the Bank under the notes.

"LIBOR Moneyline Telerate" means the display designated as page 3750 of Moneyline Telerate (or a replacement or successor page on that service or a successor service for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

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

"Margin" means 3.117% per annum.

"Minimum Own Funds" has the meaning given in Condition 3(1).

"Other Tier 1 Securities" means any securities or obligations (however named or designated) which are eligible (as such term is construed in the definition of "Capital Event" above) to count as Tier 1 Capital of the Bank and which rank on a voluntary or involuntary liquidation or bankruptcy of the Bank *pari passu* with the notes and which will thus currently include the Existing Tier 1 Securities.

"Paying Agent" means JPMorgan Chase Bank, N.A. and J.P. Morgan Bank Luxembourg S.A. or any successor appointed under the Fiscal Agency Agreement.

"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 and London; and

(b) is a Business Day.

"Reference Banks" means each of four major banks in the London interbank market selected by the Calculation Agent.

"Reinstatement Date" has the meaning given in Condition 3(6).

"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.

"Special Event" means a Capital Event or a Tax Event.

"Subordinated Indebtedness" means any obligation, whether dated or undated, of the Bank which by its terms is, or is expressed to be, subordinated in the event of liquidation or bankruptcy of the Bank to the claims of depositors and all other unsubordinated creditors of the Bank other than obligations which rank *pari passu* with the notes, the Existing Tier 1 Securities and Other Tier 1 Securities and, for the avoidance of doubt, shall include obligations of the Bank which are subordinated in accordance with, and for the purposes of, Chapter X; Liquid Assets and Own Funds; Article 84 of the Act (or any other legislative provisions which modifies or replaces those positions.

"Subsidiary" means, in relation to the Bank, any company (i) in which the Bank holds a majority of the voting rights or (ii) of which the Bank is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Bank is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Bank.

"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 Bank becomes subject in respect of payments made by it of principal and/or interest on the notes.

"Tier 1 Capital" means capital which is eligible (construed as aforesaid) to be treated as issued Tier 1 capital by the FSA either on a solo or on a consolidated basis.

"Tier 1 Guarantee" means any guarantee, indemnity or other contractual support arrangement entered into by the Bank in respect of securities or obligations (however named or designated) issued by a Subsidiary which constitutes Tier 1 Capital of the Bank.

"Unallocated Distributable Profits" means, in respect of each fiscal year of the Bank, the aggregate amount, as calculated during the course of such fiscal year in the individual financial statements of the Bank, of accumulated retained earnings and any other reserves, surpluses, including current operating profits, capable under Icelandic law of being available for distribution as cash dividends to holders of Bank Share Capital in the following fiscal year.

Reference in these Terms and Conditions to statutory or other legislative or regulatory provisions, shall be to such provisions as amended or replaced from time to time.

THE REPUBLIC OF ICELAND

About Iceland

Iceland is one of the Nordic countries, located in the North Atlantic between Norway, Scotland and Greenland. Iceland is the second largest island in Europe and the third largest in the Atlantic Ocean with a land area of some 103,000 square kilometres and an exclusive 200 nautical mile economic zone of 758,000 square kilometres 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 300,000. Iceland was first settled late in the 9th century. The majority of the settlers were undoubtedly of Norse origin, but it is generally assumed that a certain element of the early settlers were of Celtic origin. In 930, a general legislative and judicial assembly, the Althing, was established, and a uniform code of laws for the country was adopted. In 1262, Iceland entered a treaty, which established a union with the Norwegian monarchy. When Norway came under the rule of Denmark in 1380, Iceland became a Danish dominion. Iceland was granted limited home rule in 1874, which was extended in 1904. With the Act of Union in 1918, Iceland became an autonomous state in monarchical union with Denmark. In 1944 Iceland terminated its union with Denmark and became an independent republic.

Iceland 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 Organization for Economic Co-operation and Development ("OECD") and a number of other multinational organizations, including the Nordic Council and the Council of Europe. Iceland joined the European Free Trade Association ("EFTA") in 1970 and is a member of the European Economic Area ("EEA"), a 28-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 Organization ("WTO") in December 1994, thus becoming a founding member of the WTO.

Economy

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

With gross domestic product ("GDP") of approximately US $16 billion in 2005, the size of the economy is relatively small. However, the per capita GDP is very high by international standards, being approximately US $35,700 in 2005. The economy relies on foreign trade and services in maintaining the high standard of living.

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

Iceland is also richly endowed with energy resources consisting of hydro and geothermal energy. Almost all of the electricity consumed in Iceland is produced from indigenous 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, and is aided by tariff-free access to the European market. Among the largest manufacturing enterprises in Iceland are two aluminum smelters and a ferro-silicon plant. Large projects in power-intensive industries are planned for the future including the construction of a new aluminum smelter and the possible enlargement of existing plants. Smaller-scale manufacturing is also important and growing. This includes production of high technology and heavy equipment for fishing and fish processing, largely for exports. With the development of the economy, the share of services in GDP has grown rapidly. The tourism sector has been one of the fastest growing industries in recent years due to a rapid increase in the number of foreign visitors to Iceland.

The following table shows certain economic indicators relating to Iceland in the years 1999-2005:

	2005 (provisional)	2004	2003	2002	2001	2000	1999
Volume changes on previous year, percent							
Real GDP	5.5	8.2	3.1	(1.0)	3.8	4.1	4.3
Real exports of goods and services	3.5	8.4	1.6	3.8	7.4	4.3	3.9
Real imports of goods and services	28.4	14.4	10.8	(2.6)	(9.1)	8.6	4.4
Percentage changes on previous year							
Consumer price index (Y/Y) change	4.0	3.2	2.1	4.8	6.7	5.0	3.4
Effective price of foreign currency	(10.2)	(1.9)	(6.0)	(3.0)	20.1	0.1	(0.2)
Real exchange rate	10.1	3.2	6.3	5.7	(13.0)	2.9	1.9
Unemployment rate	2.1	3.1	3.3	2.5	1.4	1.3	1.9
Percentage of GDP							
Current account balance	(16.5)	(9.3)	(5.0)	1.6	(4.4)	(10.2)	(6.8)
Treasury revenue balance	3.8	1.0	(1.7)	(0.4)	0.6	2.5	2.5

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

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 in 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 and 24 savings banks. In addition, the savings banks mutually run a clearing bank ("Icebank"). The commercial and savings banks' funding is, to a large extent, based on retail deposits and domestic bond issues. The commercial banks are also frequent borrowers in international markets. The total loans and market securities of the banking system amounted to around ISK 1,654 billion at the end of 2004.

The State Housing Fund was established at the beginning of 1999 with the aim of rationalizing the existing state housing fund system. The bulk of mortgage lending to households was historically provided by the State Housing Fund, but the market share of banks has sharply risen since the last quarter of 2004 to about 50 percent.

There are three main players in the Icelandic insurance market. Insurance companies are active in the financial market, mainly through their investment activities.

Pension funds represent the largest part of the financial system in Iceland. The pension fund system is fully funded and at the end of 2004 the total assets amounted to 106 percent of GDP for that year. The pension funds receive payments from employers and employees and are the single most important source of long term finance in the country. Membership in a pension fund is obligatory for wage earners and the self-employed. The pension funds are independent, non-governmental entities. They invest mainly in domestic bond issues, equity capital and foreign securities.

The FSA 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 2 percent of total disposable funds with maturity less than two years.

The Iceland Stock Exchange ("ICEX") operates under legislation adopted in 1998, which converted ICEX into a limited liability company. At the same time, its monopoly on exchange activities was abolished. Currently there are 20 members of ICEX. Shares of 22 companies are listed on ICEX, as well as government securities and corporate bonds.

The ICEX joined the NOREX Alliance of Nordic exchanges in 2000, which included the adoption of the SAXESS trading system.

ICELANDIC TAXATION

The comments below are of a general nature based on the Bank'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. 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 Purchase 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 Bank is required by the current laws of Iceland to withhold a 10 percent tax on any payment of interest paid to a noteholder that is a tax resident of Iceland. If the noteholder is a non-resident the Bank is not according to current Icelandic tax practice obligated to withhold any tax on the payment of interest. It is the responsibility of the Bank to provide to the relevant Icelandic tax authorities proof that the payments under the notes are to persons who are non-residents of Iceland and to obtain from the Icelandic tax authorities any exemptions with respect to any withholding requirements.

UNITED STATES FEDERAL INCOME TAXATION

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

This summary describes the principal U.S. federal income tax consequences of the ownership and disposition of the notes, but does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of notes. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), existing, temporary and proposed regulations promulgated thereunder, judicial decisions and administrative pronouncements, as all in effect on the date of this offering circular and which are subject to change (possibly on a retroactive basis) and to differing interpretations. This summary applies only to holders that acquire notes at original issuance and that hold notes as capital assets and does not address classes of holders that are subject to special treatment under the Code, such as dealers in securities or currencies, financial institutions, tax-exempt entities, regulated investment companies, insurance companies, securities traders that elect mark to market tax accounting, persons subject to the alternative minimum tax, certain U.S. expatriates, persons holding notes as part of a hedging, constructive ownership or conversion transaction or a straddle, holders whose functional currency is not the U.S. dollar, or a holder that owns 10% or more (directly, indirectly or constructively) of the voting shares of the Bank. This discussion does not consider the tax treatment of persons or partnerships that hold notes through a partnership or other pass-through entity or the possible application of U.S. federal gift or estate tax or alternative minimum tax. Moreover, the effect of any applicable state or local tax law is not discussed.

As used herein, a "U.S. Holder" refers to a beneficial holder of notes that is, for U.S. federal income tax purposes, (1) an individual citizen or resident of the United States, (2) a corporation, or an entity treated as a corporation, organized or created in or under the laws of the U.S. or any political subdivision thereof, (3) an estate the income of which is subject to U.S. federal income taxation without regard to the source of its income, or (4) a trust, if both (A) a court within the United States is able to exercise primary supervision over the administration of the trust and (B) one or more U.S. persons (as defined in the Code) have the authority to control all substantial decisions of the trust, or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust.

The Bank intends to treat the notes as equity for U.S. federal income tax purposes. However, due to the absence of authorities that directly address instruments that are similar to the notes, significant aspects of the U.S. federal income tax consequences of an investment in the notes are not certain, and no assurance can be given that the U.S. Internal Revenue Service (the "IRS") or the courts will agree with the characterization of the notes described herein. It is possible that the IRS could successfully assert that the notes should be treated as indebtedness of the Bank for U.S. federal income tax purposes. If the notes were treated as indebtedness of the Bank for U.S. federal income tax purposes, the timing and character of income, gain and loss recognized by a U.S. Holder could be significantly affected, and the value of the notes could be adversely affected. For example, amounts paid to a U.S. Holder as interest would be included by a U.S. Holder as ordinary income at the time they accrue or are received in accordance with the U.S. Holder's method of tax accounting and would not be eligible for the lower rate of taxation applicable to dividend income received by individuals that qualifies as "qualified dividend income" as described below under "Taxation of Interest Payments". See "—Potential Characterization of the Notes as Indebtedness" below for a discussion of the possible effects of a characterization of the notes as indebtedness of the Bank. **Potential purchasers of notes are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of an investment in the notes and with respect to**

any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Unless otherwise noted, the remainder of this discussion assumes that the notes will be treated as equity for U.S. federal income tax purposes.

Taxation of Interest Payments

Subject to the discussion below under "—Passive Foreign Investment Company Status", the gross amount of any payment under the notes that is referred to thereunder as "interest", before reduction for any Icelandic taxes withheld therefrom and together with any additional amounts paid by the Bank with respect to such withholding taxes, to the extent paid out of current or accumulated earnings and profits of the Bank as determined under U.S. federal income tax principles ("earnings and profits"), will be includable in income of a U.S. Holder as ordinary dividend income in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. To the extent that a payment exceeds the Bank's earnings and profits, such payment will be treated, first, as a nontaxable return of capital to the extent of the U.S. Holder's tax basis in the notes and will reduce the U.S. Holder's tax basis in such notes, and thereafter as a capital gain from the sale or disposition of notes. See "—Taxation of Sale or Other Disposition of Notes." The Bank does not maintain calculations of its earnings and profits under U.S. federal income tax principles, and U.S. Holders should therefore expect to treat all such distributions as dividends for such purposes.

Payments made with respect to notes out of earnings and profits generally will be treated as dividend income from sources outside the United States. U.S. Holders that are corporations will not be entitled to the "dividends received deduction" under Section 243 of the Code with respect to such dividends. Dividends received by a U.S. Holder may be eligible for a 15% tax rate if such dividends are "qualified dividend income" received by an individual U.S. Holder. Qualified dividend income includes dividends received during the taxable year from a foreign corporation that is eligible for the benefits of a "comprehensive income tax treaty", such as the income tax treaty between the United States and the Government of the Republic of Iceland. Dividends paid by a foreign corporation treated as a passive foreign investment company will be denied the benefit of the lower rate, as will any dividends (i) on any share of stock which is held by the taxpayer for 60 days or less during the 121 day period beginning on the date which is 60 days before the date on which such share becomes ex-dividend with respect to such dividend, or (ii) to the extent the taxpayer is under an obligation (whether pursuant to a short sale or otherwise) to make a related payment with respect to positions in substantially similar or related property. The 15% maximum individual tax rate on "qualified dividend income" is scheduled to expire on December 31, 2010.

Subject to certain conditions and limitations, Icelandic tax withheld from payments on the notes to a U.S. Holder, if any, will be treated as a foreign income tax eligible for deduction from taxable income or as a credit against a U.S. Holder's U.S. federal income tax liability. The limitation of foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, for tax years beginning on or before December 31, 2006, payments of interest made with respect to notes generally will be treated as "passive" income or, in the case of certain U.S. Holders, "financial services income," for purposes of computing a U.S. Holder's U.S. foreign tax credit. For tax years beginning after December 31, 2006, payments of interest made with respect to notes generally will be treated as "passive category income" or "general category income", as defined in the Code.

Currently, less than 25 percent of the Bank's gross income is effectively connected with the conduct of a trade or business in the United States, and the Bank expects this to remain true in the future. If this remains the case, a holder of a note that is not a U.S. Holder (a "non-U.S. Holder") generally will not be subject to U.S. federal income tax or withholding tax on payments received on notes that are treated as dividend income for U.S. federal income tax purposes. Special rules may apply in the case of non-U.S. Holders that are (1) engaged in a trade or business within the United States, (2) former citizens or long-term residents of the United States, "controlled foreign corporations," corporations that accumulate earnings to avoid U.S. federal income tax, and certain foreign charitable organizations, each within the meaning of the Code, or (3) certain non-resident alien individuals who are present in the United States for 183 days or

more during a taxable year. Such persons should consult their own tax advisors as to the U.S. federal income or other tax consequences of the ownership and disposition of notes.

Taxation of Sale or Other Disposition of Notes

Gain or loss realized by a U.S. Holder on the sale or other disposition of a note will be subject to U.S. federal income tax as capital gain or loss in an amount equal to the difference between the U.S. Holder's tax basis in the note and the amount realized on the disposition. Such gain or loss will be treated as long-term capital gain or loss if the note is held by the U.S. Holder for more than one year at the time of the sale or other disposition. Otherwise, the gain or loss will be treated as a short-term capital gain or loss. Income realized by a U.S. Holder on the sale or other disposition of a note generally will be treated as U.S. source income for U.S. foreign tax credit purposes, unless the income is attributable to an office or fixed place of business maintained by the U.S. Holder outside the United States or is recognized by an individual whose tax home is outside the United States, and certain other conditions are met. For U.S. federal income tax purposes, capital losses are subject to limitations on deductibility. As a general rule, a corporate U.S. Holder can use capital losses for a taxable year only to offset capital gains in that year, and may be entitled to carry back unused capital losses to the three preceding tax years and to carry over losses to the five following tax years. In the case of a non-corporate U.S. Holder, capital losses in a taxable year are deductible to the extent of any capital gains plus ordinary income of up to $3,000, and unused capital losses may be carried over indefinitely.

A non-U.S. Holder of notes will generally not be subject to U.S. federal income tax or withholding tax on gain realized on the sale or other disposition of notes. Special rules may apply in the case of non-U.S. Holders (1) that are engaged in a trade or business within the United States, (2) that are former citizens or long-term residents of the United States, "controlled foreign corporations," corporations which accumulate earnings to avoid U.S. federal income tax, and certain foreign charitable organizations, each within the meaning of the Code, or (3) certain non-resident alien individuals who are present in the United States for 183 days or more during a taxable year. Such persons should consult their own tax advisors as to the United States or other tax consequences of the purchase, ownership and disposition of the notes.

Potential Characterization of the Notes as Indebtedness

Due to the absence of authorities that directly address the proper characterization of the notes, no assurance can be given that the IRS will accept, or that a court will uphold, the characterization and tax treatment described above. It is possible that the IRS could assert that the note should be treated as indebtedness of the Bank for U.S. federal income tax purposes. If the notes were treated as indebtedness, a U.S. Holder would include periodic payments of interest on the notes in income as they accrue or are received in accordance with such U.S. Holder's method of tax accounting. Such payments would be taxable as ordinary income and would not be eligible for the favorable rates of tax applicable to dividends paid to non-corporate U.S. Holders as described above under "Taxation of Interest Payments". In addition, if the notes were treated as indebtedness, the notes may be treated as issued with "original issue discount" ("OID") for U.S. federal income tax purposes as a result of the possibility that the Bank may not make interest payments as they become due because of insufficient Available Distributable Funds. See "Terms and Conditions—Interest". In general, a debt instrument is considered to be issued with OID to the extent the "stated redemption price at maturity" of such debt instrument is greater than its "issue price". The stated redemption price at maturity of a note generally would be equal to all payments due under such note at any time, other than payments of "qualified stated interest" that is, interest payments calculated on the basis of a single fixed rate (or certain variable rates) of interest that are unconditionally payable at least annually over the entire term of the notes. The issue price of a note generally would be equal to the initial offering price to the public (excluding bond houses and brokers) at which price a substantial amount of the notes will be sold. Under the Treasury Regulations governing the treatment of debt instruments with OID (the "OID Regulations"), it is assumed that the issuer of a debt instrument will exercise an option to redeem such instrument if such exercise would lower the yield to maturity of such debt instrument. It is assumed that an exercise by the Bank of its option to redeem the notes on any Interest Payment Date on or after the First Call Date at their principal amount plus accrued interest would lower the yield to maturity of the notes, and that the stated redemption price at maturity would be calculated accordingly.

If the notes were treated as indebtedness, it is also possible that the notes could be treated as "contingent payment debt instruments" for U.S. federal income tax purposes as a result of the Bank's ability, under certain circumstances, to write down all or a portion of the principal amount of the notes (together with accrued interest) and convert such amount into a conditional capital contribution to meet losses of the Bank. See "Description of the Securities—Utilization and Conversion". In such case, a U.S. Holder would be required to report income in respect of notes in accordance with certain Treasury Regulations governing such instruments (the "Contingent Payment Debt Regulations"). Under the Contingent Payment Debt Regulations, each U.S. Holder would be required to include OID in income as it accrues for each accrual period in an amount equal to the product of the adjusted issue price of the notes at the beginning of such accrual period and the projected yield to maturity of such notes, calculated based upon the "comparable yield" for the notes (the yield at which the Bank could issue a fixed rate debt instrument with terms and conditions similar to those of the notes.) Under the Contingent Payment Debt Regulations, a U.S. Holder generally would include in income (as additional interest income) the amount of any actual interest payments received in excess of the projected amount of contingent interest payments with respect to the notes, or subject to certain limitations, deduct as ordinary loss the amount by which such projected contingent interest payments exceed actual interest payments received. In addition under the Contingent Payment Debt Regulations, a U.S. Holder may be required to treat all or a portion of any gain from the sale, exchange, redemption or other taxable disposition of a note as ordinary interest income, and may be permitted to treat any losses from the sale, exchange, redemption or other taxable disposition of the notes as ordinary losses, to the extent such losses do not exceed the amount of previously accrued interest income from the notes.

However, under the OID Regulations, certain "remote" contingencies that stated interest will not be timely paid will be ignored in determining whether a debt instrument would be considered (i) issued with OID or (ii) a contingent payment debt instrument. The Bank believes that the likelihood of it not making interest payments as they become due because of insufficient Available Distributable Funds is remote. Additionally, the Bank believes that the likelihood of it writing down the principal amount of the notes (together with accrued interest) and converting such amount into a conditional capital contribution as described above is remote. Based on the foregoing, the Bank believes that, if the notes are treated as indebtedness for U.S. federal income tax purposes, they will not be considered to be issued with OID at the time of their original issuance and will not be considered to be contingent payment debt instruments. Assuming that such is the case, to the extent the notes are treated as indebtedness, under the OID Regulations, if the Bank does not make interest payments as they become due because of insufficient Available Distributable Funds, the notes would at that time be treated as issued with OID, and all stated interest on the notes would thereafter be treated as OID as long as the notes remained outstanding. In such event, all of a U.S. Holder's taxable interest income with respect to the notes would be accounted for as OID on a constant yield basis regardless of such U.S. Holder's method of accounting, and actual payments of stated interest would not be reported as taxable income. Consequently, a U.S. Holder would be required to include OID as gross income as it accrues regardless of whether the Bank makes any actual corresponding cash payments. There is no guidance on how the OID rules would be applied to perpetual indebtedness such as the notes. Prospective purchasers of notes should consult their own tax advisors concerning the proper tax treatment of interest on the notes.

Passive Foreign Investment Company Status

Under the Code, certain rules apply to an entity classified as a "passive foreign investment company" ("PFIC"). A PFIC is defined as any foreign (i.e., non-U.S.) corporation if in any taxable year, after applying certain look-through rules, either (1) 75% or more of its gross income for the taxable year is passive income (generally including, among other types of income, dividends, interest, royalties, rents and gains from the sale of stock and securities) or (2) 50% or more of the value of its assets, determined on the basis of a quarterly average, is attributable to assets that produce or are held for the production of passive income. The Code provides an exception for foreign institutions in the active conduct of a banking business, provided the institution is licensed to do business in the United States. Under Proposed Treasury Regulations and a published notice issued by the IRS, this exception is extended to a foreign corporation that is not licensed to do business as a bank in the United States so long as such foreign corporation is an "active foreign bank." Based on its current and intended method of operations as described herein, the

Bank believes that it is not a PFIC under current U.S. federal income tax law because it is eligible for the exception available to active foreign banks.

The Bank intends to continue to operate in a manner that will entitle the Bank to rely upon that exception to avoid classification as a PFIC. The Bank has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC, but there can be no assurance that the Bank will not be considered a PFIC for any taxable year. If the Bank were to become a PFIC, gain realized on the sale or other disposition of the notes by a U.S. Holder would in general not be treated as capital gain. Instead, a U.S. Holder would be treated as if the U.S. Holder had realized such gain and certain "excess distributions" ratably over the U.S. Holder's holding period for the notes and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. In addition, payments on the notes would not be eligible for the favorable rates accorded qualified dividend income as discussed above under "—Taxation of Interest Payments".

Additionally, a U.S. Holder that beneficially owns notes during any year in which the Bank is a PFIC must make an annual return on Internal Revenue Service Form 8621 for that year, which describes the income received from the Bank and any gain realized on the disposition of the notes. Certain elections may be available to U.S. persons that may mitigate some of the adverse consequences resulting from PFIC status.

Information Reporting and Backup Withholding

Each U.S. payor making payments in respect of the notes will generally be required to provide the Internal Revenue Service (the "IRS") with certain information, including the name, address and taxpayer identification number of the beneficial owner of notes, and the aggregate amount of payments made on the notes to such beneficial owner during the calendar year. Under the backup withholding rules, a holder may be subject to backup withholding, currently at a rate of 28%, with respect to proceeds received on the sale or exchange of notes within the United States and with respect to amounts paid as interest payments on the notes, unless such holder (1) is a corporation or comes within certain other exempt categories (including securities broker-dealers, other financial institutions, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts), and, when required, demonstrates this fact or (2) provides a taxpayer identification number, certifies as to no loss of exemption and otherwise complies with the applicable requirements of the backup withholding rules. Non-U.S. Holders are generally exempt from information reporting and backup withholding, but may be required to provide a properly completed Form W-8BEN (or other similar form) or otherwise comply with applicable certification and identification procedures in order to prove their exemption. This backup withholding tax is not an additional tax and any amounts withheld from a payment to a holder of notes will be refunded (or credited against such holder's U.S. federal income tax liability, if any) provided that the required information is furnished to the IRS.

ERISA MATTERS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain restrictions on employee benefit plans ("ERISA Plans") subject to ERISA and on persons who are fiduciaries with respect to these ERISA Plans. In accordance with ERISA's general fiduciary requirements, a fiduciary with respect to an ERISA Plan who is considering the purchase of notes on behalf of the ERISA Plan should determine whether the purchase is permitted under the governing ERISA Plan documents and is prudent and appropriate for the ERISA Plan in view of its overall investment policy and the composition and diversification of its portfolio. A fiduciary of an ERISA Plan should also determine whether it holds any of our senior debt and consider how any such holdings and the exercise of rights thereunder might impact its proposed acquisition or retention of the offered notes. Other provisions of ERISA and Section 4975 of the Code, prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with any entities whose underlying assets include the assets of any such plans and with ERISA Plans, "Plans")) and persons who have certain specified relationships to the Plan ("parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of Section 4975 of the Code). Thus, a Plan fiduciary considering the purchase of the notes should consider whether such a purchase might constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code.

Treatment of the Bank's Underlying Assets Under ERISA and the Code

In addition to making the threshold determination that the use of the assets of a Plan to acquire the notes described herein is consistent with the fiduciary duties imposed by ERISA and similar laws, a fiduciary should also consider the potential effects of Section 2510.3-101 of the Labor Regulations (Title 29 of the Code of Federal Regulations) (the "Plan Assets Regulation") on the acquisition of such notes. This regulation provides that, as a general rule, if a Plan acquires an "equity interest" in an entity that is neither a "publicly-offered security" nor a security issued by an investment company registered under the Investment Company Act of 1940, the Plan's assets include both the equity interest and an undivided interest in each of the underlying assets of the entity unless it is established either that equity participation in the entity by "benefit plan investors" is not significant or that the entity is an "operating company," in each case as defined in the Plan Assets Regulation. The Plan Assets Regulation defines an "equity interest" as any interest in an entity other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features. Debt-related instruments incorporating substantial equity features are generally subject to the Plan Assets Regulation to the same extent as equity interests. Further, debt-related instruments that are convertible into equity interests may similarly become subject to the Plan Assets Regulation at the time of their conversion. We anticipate that the notes issued hereunder will be regarded as indebtedness for purposes of the Plan Assets Regulation, although the conditional capital conversion right described above could cause the notes to be regarded as equity interests to the extent we exercise this conversion right.

An investing plan's assets will not include any of the underlying assets of an entity if at all times less than 25 percent of each class of "equity" interests in the entity is held by "benefit plan investors," which is defined to include plans that are not subject to ERISA such as governmental pension plans, pension plans maintained by foreign entities, and individual retirement accounts as well as plans that are subject to ERISA. For purposes of this determination, equity interests held by a person who has discretionary authority or control over the entity's assets, and affiliates of such persons, are disregarded.

Another exception under the Plan Assets Regulation provides that an investing plan's assets will not include any of the underlying assets of an entity if the class of "equity" interests in question is a "publicly-offered security." For purposes of the Plan Assets Regulation, a "publicly offered security" is a security that is (a) "freely transferable," (b) part of a class of securities that is "widely held," and (c)(i) sold to the Plan as part of an offering of securities to the public pursuant to an effective registration statement under the Securities Act and the class of securities to which such security is a part is registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which the offering of such securities to the public has occurred, or (ii) is part of a class of securities that is registered under

Section 12 of the Exchange Act. We do not intend to register the notes under the Exchange Act, and we therefore do not expect the "publicly-traded" exception to be available.

Another exception is provided for an investment in an "operating company," which is defined in the Plan Assets Regulation to include a "venture capital operating company" and a "real estate operating company." We do not anticipate that the acquisition of the notes will be considered to be an investment in an "operating company" for purposes of the Plan Assets Regulation.

We will take such steps as we deem necessary or appropriate to qualify for one or more of the exceptions available under the Plan Assets Regulation and thereby prevent its assets from being treated as assets of any investing Plan. More specifically, we will limit the acquisition notes by benefit plan investors to less than 25 percent of the value of that class of interests issued unless and until those interests comply with another available exception under the Plan Assets Regulation.

If none of the exceptions under the Plan Assets Regulation were applicable and we were deemed to hold plan assets by reason of a Plan's investment in the notes, such Plan's assets would include an undivided interest in the assets held by the Bank. In such event, such assets, transactions involving such assets and the persons with authority or control over and otherwise providing services with respect to such assets would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code, and there is no assurance that any statutory or administrative exemption from the application of such rules would be available.

Accordingly, the sale, transfer or disposition of the notes is prohibited unless, following such sale, transfer or disposition, less than 25 percent of the value of such notes and any other class of security that is treated as an "equity interest" in the Bank for purposes of the Plan Assets Regulation is held by (a) employee benefit plans (as defined in Section 3(3) of ERISA), whether or not it is subject to Title I of ERISA; (b) plans described in Section 4975 of the Code; (c) entities whose underlying assets include plan assets by reason of a plan's investment in such entities; or (d) entities that otherwise constitute "benefit plan investors" within the meaning of the Plan Assets Regulation determined without regard to the value of any such interests held by persons with authority or control with respect to the Bank's assets (other than benefit plan investors).

Treatment of "Parties in Interest" and "Disqualified Persons"

As a result of the nature of our business, we and some of our affiliates may be considered "parties in interest" or "disqualified persons" with respect to one or more Plans. For example, if we provide banking or financial advisory services to Plan, or act as a trustee or in a similar fiduciary role for Plan assets, we may be considered a party in interest or a disqualified person for that Plan. The purchase of the notes by a Plan with respect to which the Bank is a "party in interest" or a "disqualified person" may constitute or result in a prohibited transaction under ERISA or Section 4975 of the Code, unless the notes are acquired pursuant to and in accordance with an applicable exemption, such as Prohibited Transaction Class Exemption ("PTCE") 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 95-60 (an exemption for certain transactions involving insurance company general accounts), or PTCE 96-23 (an exemption for certain transactions determined by an in-house asset manager). Note that there is no assurance that any of these exemptions would apply with respect to all transactions involving the acquisition of the notes described herein. Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to local, state or other federal laws that are substantially similar to the foregoing provisions of ERISA and the Code.

By its purchase of any offered note, the purchaser or transferee thereof will be deemed to represent, on each day from the date on which the purchaser or transferee acquires the offered note through and including the date on which the purchaser or transferee disposes of its interest in such offered note, either that (a) it is not a Plan, an entity whose underlying assets include the assets of any Plan, or a

governmental or church plan which is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its purchase, holding and disposition of such offered note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or in the case of a governmental or church plan, any substantially similar federal, state or local law) unless an exemption is available with respect to such transactions and all the conditions of such exemption have been satisfied.

THIS DISCUSSION IS A GENERAL DISCUSSION OF SOME OF THE RULES WHICH APPLY TO EMPLOYEE BENEFIT PLANS AND THEIR RELATED INVESTMENT VEHICLES. PRIOR TO ACQUIRING ANY OF THE OFFERED NOTES, PROSPECTIVE BENEFIT PLAN INVESTORS SHOULD CONSULT WITH THEIR LEGAL AND OTHER ADVISORS CONCERNING THE IMPACT OF ERISA AND THE CODE, AND, PARTICULARLY IN THE CASE OF GOVERNMENT PLANS AND RELATED INVESTMENT VEHICLES, ANY ADDITIONAL STATE LAW CONSIDERATIONS, AND THE POTENTIAL CONSEQUENCES IN THEIR SPECIFIC CIRCUMSTANCES.

BOOK-ENTRY OWNERSHIP

DTC will electronically record the principal amount of the Regulation S Global Notes and the Rule 144A Global Notes, as the case may be, held within the DTC system. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, DTC and its direct and indirect participants, including Clearstream Banking, société anonyme ("Clearstream") and Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("Euroclear"). Except as described herein under "— Exchange of Interests in Global Notes for Certificates" below, certificates for notes will not be issued in exchange for beneficial interests in the Global Notes.

Until the expiration of 40 days after the later of the commencement of the offering and the Issue Date, investors may hold their interests in the Regulation S Global Notes only through Clearstream or Euroclear. Thereafter, investors may additionally hold such notes directly through DTC if they are participants in such system or indirectly through organizations which are participants in DTC. Clearstream and Euroclear may hold interests in the Global Notes on behalf of their accountholders through customers' securities accounts in Clearstream's or Euroclear's respective names on the books of their respective depositaries, which in turn will hold such interests in such Global Notes in customers' securities accounts in the depositaries' names on the books of DTC. Those depositaries are the DTC participants.

So long as DTC or its nominee is the registered holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such Global Note for all purposes under the Fiscal Agency Agreement and the notes.

Payments of the principal of, and interest on, each Global Note will be to or to the order of DTC's nominee as the registered owner of such Global Note. The Bank expects that DTC or its nominee, as the case may be, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of DTC or the nominee. The Bank also expects that payments by DTC participants to owners of beneficial interests in such Global Note held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. None of the Bank, the Fiscal Agent or any of their agents will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such ownership interests.

Transfers of Notes

Transfers of interests in Global Notes within DTC and its participants will be in accordance with the usual rules and operating procedures of DTC. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Subject to compliance with the transfer restrictions applicable to the notes described under "— Transfer Restrictions" above, cross-market transfers between DTC on the one hand and directly or indirectly through Clearstream or Euroclear accountholders on the other, will be effected in DTC in accordance with DTC rules on behalf of Clearstream or Euroclear, as the case may be, by its respective depositary. However, such cross-market transactions will require delivery of instructions to Clearstream or Euroclear, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Clearstream or Euroclear, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving beneficial interests in the relevant Global

Note in DTC and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream accountholders and Euroclear accountholders may not deliver instructions directly to the depositaries for Clearstream or Euroclear.

On or after the Issue Date, transfers between accountholders in Clearstream and Euroclear and transfers between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. However, as a result of time-zone differences, securities received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be credited to the relevant account at Clearstream or Euroclear during the securities settlement processing day dated the business day (T+4) following the DTC settlement date. Similarly, cash received in Clearstream or Euroclear as a result of a sale of securities by or through a Clearstream or Euroclear accountholder to a DTC participant will be available in the relevant Clearstream or Euroclear cash account only on the business day (T+4) following the DTC settlement date. In the case of cross-market transfers, settlement between Clearstream or Euroclear accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC has advised the Bank that it will take any action permitted to be taken by a holder of notes (including, without limitation, the presentation of Global Notes for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Global Notes as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the Global Notes for exchange for individual Certificates (as defined below) (which will, in the case of Rule 144A Global Notes, bear the legend applicable to transfers pursuant to Rule 144A).

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Notes among participants and accountholders of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Bank, the Fiscal Agent or any of their agents will have any responsibility for the performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Exchange of Interests in Global Notes for Certificates

Registration of title to notes initially represented by the Global Notes in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless such depositary notifies the Bank that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Notes or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Bank is unable to retain a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary (such event, an "Exchange Event").

Upon the occurrence of an Exchange Event, the Global Notes shall be exchanged in full for security certificates (the "Certificates") and the Bank will, at the cost of the Bank (but against such indemnity as the Fiscal Agent or any relevant transfer agency may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Fiscal Agent for completion, authentication and dispatch to the relevant holders of notes for collection by the relevant holders. A person having an interest in a Global Note must provide the Fiscal Agent with (1) a written order containing instructions and such other information as the Bank and the Fiscal Agent may require to complete, execute and deliver such Certificates and (2) in the case of the Rule 144A Global Notes only, a fully completed, signed certification

substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale in compliance with the terms of the Fiscal Agency Agreement, a certification that the transfer is being made in compliance with such provisions. Certificates issued in exchange for a beneficial interest in the Rule 144A Global Notes shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions" below.

Upon the transfer, exchange or replacement of a Certificate bearing the legend referred to under "Transfer Restrictions" below, or upon specific request for removal of the legend on a Certificate, the Bank will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Bank and the Fiscal Agent by the relevant holder at his expense such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Bank, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the applicable provisions of the Securities Act.

Neither the Bank nor the Fiscal Agent shall be required (1) to issue, register the transfer of or exchange Global Notes for a period of 15 days immediately preceding the date on which notice of redemption of such notes is to be given, or (2) to issue, register the transfer of or exchange notes to be redeemed.

In the event any Certificates are issued in exchange for one or more of the Global Notes, the Bank will pay principal, interest and additional amounts to the registered holder on the record date immediately preceding the applicable payment date to the address of such holder appearing in the notes register. Such payment will be made, subject to any applicable laws and regulations, by wire transfer to an account maintained by the registered holder.

TRANSFER RESTRICTIONS

On or prior to the 40th day after the Issue Date, a beneficial interest in the Regulation S Global Notes may be transferred to a person who wishes to take delivery of such beneficial interest through the Rule 144A Global Notes only upon receipt by the Fiscal Agent of a written certification (in the form set out in the schedule to the Fiscal Agency Agreement) from the transferor to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A who is a qualified purchaser within the meaning of Section 2(a)(51)(A) of the Investment Company Act and the rules and regulations promulgated thereunder, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in the Rule 144A Global Notes may also be transferred to a person who wishes to take delivery of such beneficial interest through the Regulation S Global Notes only upon receipt by the Fiscal Agent of a written certification (in the form set out in the schedule to the Fiscal Agency Agreement) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act and the Investment Company Act.

Any beneficial interest in either the Rule 144A Global Notes or the Regulation S Global Notes that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Security for so long as such person retains such an interest.

The notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of Rule 144A who are qualified purchasers within the meaning of Section 2(a)(51)(A) of the Investment Company Act and the rules and regulations promulgated thereunder, or in transactions exempt from the registration requirements of the Securities Act. Because of the following restrictions, purchasers of notes offered in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such notes.

Each purchaser of notes who is in the United States or who is a U.S. Person or purchasing for the account of a U.S. Person will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

(i) The purchaser is (x) a qualified institutional buyer within the meaning of Rule 144A who is a qualified purchaser within the meaning of Section 2(a)(51(A) of the Investment Company Act and the rules and regulations promulgated thereunder and (y) is acquiring the notes for its own account or for the account of such person.

(ii) The notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except in accordance with the legend set forth below.

(iii) It agrees that it will deliver to each person to whom it transfers notes notice of any restrictions on transfer of such notes.

(iv) The Rule 144A Global Notes and any Certificates (as defined below) issued in exchange therefor, if any, will bear a legend to the following effect, unless the Bank determines otherwise in accordance with applicable law:

"THE ISSUER OF THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACY OF 1940, AS AMENDED AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE "INVESTMENT COMPANY ACT"). THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) WHO IS A "QUALIFIED PURCHASER" WITHIN THE MEANING OF SECTION 2(A)(51)(A) OF THE INVESTMENT COMPANY ACT (A 'QUALIFIED PURCHASER") AND (B) AGREES FOR THE BENEFIT OF THE ISSUER THAT THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) TO THE BANK, (2) PURSUANT TO RULE 144A TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A AND A QUALIFIED PURCHASER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A SUCH PERSON WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) OUTSIDE THE UNITED STATES TO A PERSON WHO IS NEITHER A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) NOR A U.S. RESIDENT FOR PURPOSES OF THE INVESTMENT COMPANY ACT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (4) TO A QUALIFIED PURCHASER WHO IS AN ACCREDITED INVESTOR WHICH DELIVERS A CERTIFICATE IN THE FORM OF EXHIBIT C TO THE FISCAL AGENCY AGREEMENT DATED AS OF SEPTEMBER 14, 2006 BETWEEN THE BANK AND JPMORGAN CHASE BANK, N.A., AS FISCAL AGENT ("THE FISCAL AGENT"), OR (5) TO A QUALIFIED PURCHASER PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE). AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT".

(v) It acknowledges that the Fiscal Agent for the notes will not be required to accept for registration of transfer any notes acquired by it, except upon presentation of evidence satisfactory to the Bank and the Fiscal Agent that the restrictions set forth herein have been complied with.

(vi) It acknowledges that the Bank, the Managers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of notes is no longer accurate, it shall promptly notify the Bank and the Managers. If it is acquiring any notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(vii) It has received the information, if any, requested by it pursuant to Rule 144A, has had full opportunity to review such information and has received all additional information necessary to verify such information.

(viii) It (x) has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and the risks of its investment in the notes, and (y) has the ability to bear the economic risks of its prospective investment and can afford the complete loss of such investment.

SUBSCRIPTION AND SALE

Credit Suisse Securities (USA) LLC and UBS Securities LLC, referred to as the managers, are acting as representatives for the several managers named below. Subject to the terms and conditions set forth in the purchase agreement dated September 11, 2006, among the Bank and the managers listed in Schedule A thereto (the "Purchase Agreement"), the Bank has agreed to sell to each manager and each manager has severally agreed to purchase the aggregate principal amount of notes that is referred to below opposite its name. The managers will be obligated to take and pay for all of the notes if any are taken.

Manager	Aggregate Principal Amount
Credit Suisse Securities (USA) LLC	$106,250,000
UBS Securities LLC	$106,250,000
Barclays Capital Inc.	$12,500,000
Deutsche Bank Securities Inc.	$12,500,000
Wachovia Capital Markets, LLC	$12,500,000
Total	$250,000,000

The Purchase Agreement provides that the obligations of the managers to pay for and accept delivery of the notes are subject to, among other conditions, the delivery of certain legal opinions by their counsel.

The notes have not been and will not be registered under the Securities Act and may not be offered or sold except in certain transactions exempt from the registration requirements of the Securities Act and in accordance with all applicable securities laws of the states of the United States. The managers propose to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A under the Securities Act. Each initial purchaser has agreed that it will not offer or sell the notes except (1) to persons it reasonably believes to be qualified institutional buyers and qualified purchasers in reliance on Rule 144A, or (2) pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S. Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except pursuant to an exemption from the registration requirements of the Securities Act or pursuant to a registration statement declared effective under the Securities Act. Each purchaser of the notes offered hereby in making its purchase will be deemed to have made certain acknowledgements, representations and agreements as set forth under "Notice to Investors". The notes initially will be offered at the price indicated on the cover page hereof. After the initial offering of the notes, the offering price and other selling terms of the notes may from time to time be varied by the managers.

It is expected that delivery of the notes will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this offering circular, which will be the third business day following the date of pricing of the notes (such settlement being herein referred to as "T+3").

The Bank has agreed to indemnify the managers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the managers may be required to make in respect thereof.

In connection with the offering, each of Credit Suisse Securities (USA) LLC and UBS Securities LLC or any person acting for them may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. These transactions may include over-allotment and stabilizing transactions and purchases to cover short positions created by each of Credit Suisse Securities (USA) LLC and UBS Securities LLC or any person acting for them, and the imposition of a penalty bid, in connection with the offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or

retarding a decline in the market price of the notes; and short positions created by each of Credit Suisse Securities (USA) LLC and UBS Securities LLC or any person acting for them involve the sale by each of Credit Suisse Securities (USA) LLC and UBS Securities LLC or any person acting for them of a greater number of the notes than they are required to purchase in the offering. Each of Credit Suisse Securities (USA) LLC and UBS Securities LLC or any person acting for them also may impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the notes sold in the offering may be reclaimed by each of Credit Suisse Securities (USA) LLC and UBS Securities LLC or any person acting for it them such notes are repurchased by each of Credit Suisse Securities (USA) LLC and UBS Securities LLC or any person acting for them in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the notes, which may be higher than the price that might otherwise prevail in an independent market. These activities, if commenced, may be discontinued at any time.

No action has been taken in any jurisdiction (including the United States) that would permit a public offering of the notes. Accordingly, the notes may not be offered or sold, directly or indirectly, nor may this offering circular any other offering material or advertisements in connection with the offer and sale of the notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this offering circular comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this offering circular. This offering circular is not an offer to purchase or a solicitation of an offer to sell any of the notes in any jurisdiction in which such an offer or solicitation is unlawful.

There is no existing market for the notes. There can be no assurance as to the liquidity of any market that may develop for the notes, the ability of the noteholders to sell their notes, or the price at which noteholders would be able to sell their notes. Following the completion of the offering, the managers currently intend to make a market in the notes. However, the managers are not obligated to make a market in the notes and any market making activities with respect to the notes may be discontinued at any time without notice.

For a description of the restrictions on the transfer of the notes, see “Notice to Investors”.

United States

In the purchase agreement, the managers also have agreed that they have not solicited offers for, or offered or sold, and will not solicit offers for, or offer or sell, the notes as part of their initial offering except:

- within the United States to persons whom they reasonably believes to be “qualified institutional buyers” (as defined in Rule 144A of the Securities Act) that are “qualified purchasers” as defined in section 2(a)(51)(A) of the Investment Company Act in transactions pursuant to Rule 144A; or

- outside the United States in accordance with Regulation S.

United Kingdom

The managers have represented and agreed that:

- they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by them in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to Glitnir banki; and

- they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the notes in, from or otherwise involving the United Kingdom.

General

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

Credit Suisse Securities (USA) LLC, UBS Securities LLC, and their respective affiliates have performed investment banking, financial advisory and/or commercial lending services for us and our affiliates from time to time, for which they have received customary compensation, and may do so in the future.

NOTICE TO INVESTORS

Because of the following restrictions on the Rule 144A Global Notes, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of any Rule 144A Global Notes.

The Rule 144A Global Notes have not been, and will not be, registered under the Securities Act or the state securities laws of any state of the United States or the securities laws of any other jurisdiction and may not be offered, sold, pledged or otherwise transferred except in reliance on Rule 144A to qualified institutional buyers that also are qualified purchasers as discussed below.

Each U.S. holder and beneficial owner of Rule 144A Global Notes acquired in connection with their initial distribution and each transferee of Rule 144A Global Notes from any such holder or beneficial owner will be deemed to have represented and agreed with the Bank regarding the Rule 144A Global Notes as follows (terms used in this paragraph that are defined in Rule 144A are used herein as defined therein):

(1) It (i) is a U.S. person (within the meaning of Regulation S of the Securities Act), (ii) is a qualified institutional buyer that also is a qualified purchaser, (iii) is not a broker-dealer that owns and invests on a discretionary basis less than $25 million in securities of issuers that are not affiliated persons of the agent and is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by beneficiaries of the plan, (iv) is aware that the sale of the Rule 144A Global Notes to it is being made in reliance on Rule 144A, (v) is acquiring such Rule 144A Global Notes for its own account or the account of a qualified institutional buyer that also is a qualified purchaser, (vi) has not been formed for the purpose of investing in the Bank or the Rule 144A Global Notes and (vii) concurrently with its purchase is executing and delivering a transferee's certificate as required by the Fiscal Agency Agreement.

(2) It understands and acknowledges that the Bank has not been registered under the Investment Company Act and that the Rule 144A Global Notes have not been, and will not be, registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred by it except to a qualified institutional buyer that also is a qualified purchaser, purchasing for its own account or the account of a qualified institutional buyer that also is a qualified purchaser that is not a broker-dealer that owns and invests on a discretionary basis less than $25 million in securities of issuers that are not affiliated persons of the agent and is not a plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, if investment decisions with respect to the plan are made by beneficiaries of the plan, whom the seller has informed, in each case, that the offer,

resale, pledge or other transfer is being made in reliance on Rule 144A, in accordance with all applicable securities laws of the states of the United States and foreign jurisdictions and that is concurrently with its purchase executing and delivering a transferee's certificate in accordance with the provisions of the Fiscal Agency Agreement and any applicable securities laws of the states of the United States and foreign jurisdictions.

(3) It will, and each subsequent holder or beneficial owner is required to, notify any subsequent purchaser of the Rule 144A Global Notes from it of the resale restrictions referred to in paragraph (2) above.

(4) On each day from the date on which it acquires an interest in a Rule 144A Global Note through and including the date on which it disposes of such interests, either (a) it is not an "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), subject to Title I of ERISA, a plan subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), an entity whose underlying assets include the assets of any Plan (as defined in "ERISA Matters"), or a governmental or church plan which is subject to any federal, state or local law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Internal Revenue Code or (b) its purchase, holding and disposition of its interest in a Rule 144A Global Note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code (or, in the case of a governmental or church plan, any substantially similar federal, state or local law) unless an exemption is available with respect to such transactions and all the conditions of such exemption have been satisfied.

The certificates representing the Rule 144A Global Notes will bear a legend to the following effect, unless the Bank determines otherwise in compliance with applicable law:

"THE ISSUER OF THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. INVESTMENT COMPANY ACY OF 1940, AS AMENDED AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE "INVESTMENT COMPANY ACT"). THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, (A) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) WHO IS A "QUALIFIED PURCHASER" WITHIN THE MEANING OF SECTION 2(A)(51)(A) OF THE INVESTMENT COMPANY ACT (A "QUALIFIED PURCHASER") AND (B) AGREES FOR THE BENEFIT OF THE ISSUER THAT THIS SECURITY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) TO THE BANK, (2) PURSUANT TO RULE 144A TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A AND A QUALIFIED PURCHASER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A SUCH PERSON WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) OUTSIDE THE UNITED STATES TO A PERSON WHO IS NEITHER A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) NOR A U.S. RESIDENT FOR PURPOSES OF THE INVESTMENT COMPANY ACT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (4) TO A QUALIFIED PURCHASER WHO IS AN ACCREDITED INVESTOR WHICH DELIVERS A CERTIFICATE IN THE FORM OF EXHIBIT C TO THE FISCAL AGENCY AGREEMENT DATED AS OF SEPTEMBER 14, 2006 BETWEEN THE BANK AND JPMORGAN CHASE BANK, N.A., AS FISCAL AGENT ("THE FISCAL AGENT"), OR (5) TO A QUALIFIED PURCHASER

PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE). AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT".

THE ISSUER HAS THE RIGHT TO FORCE ANY BENEFICIAL OWNER OF THE SECURITIES WHO WAS NOT A QUALIFIED PURCHASER AT THE TIME IT ACQUIRED THE SECURITIES TO TRANSFER SUCH BENEFICIAL INTEREST OR TO HAVE SUCH SECURITY REDEEMED"

Section 3(c)(7) Procedures

In reliance on Section 3(c)(7) under the Investment Company Act, the Bank has not registered with the Securities and Exchange Commission as an investment company pursuant to the Investment Company Act. To rely on Section 3(c)(7), the Bank must have a "reasonable belief" that all purchasers of notes are qualified purchasers within the meaning of Section 2(a)(51)(A). The Bank will establish such a reasonable belief by means of the representations, warranties and agreements made, or deemed made, by the purchasers of the notes contained herein (the "Section 3(c)(7) Representations"), the agreements of the purchasers relating to the distribution of the notes pursuant to Rule 144A and Regulation S referred to under "Subscription and Sale" and the covenants and undertakings of the Bank referred to below (collectively, the "Section 3(c)(7) Procedures"). By purchasing the notes offered hereby, you will be deemed to have made the representations contained herein.

Reminder Notices. Whenever the Bank causes to be sent an annual report or other periodic report to noteholders, the Bank also will cause to be sent an accompanying "Section 3(c)(7) Reminder Notice" to the noteholders. Each Section 3(c)(7) Reminder Notice will state that (i) each noteholder or any interest in the notes must be able to make the Section 3(c)(7) Representations; (ii) the notes or interests in the notes are transferable only to holders that are able to make the Section 3(c)(7) Representations and satisfy the other transfer restrictions applicable to the notes; and (iii) if any noteholder or an interest in the notes is determined not to be a qualified purchaser within the meaning of Section 2(a)(51)(A), then the Bank will have the right (exercisable in its sole discretion) to (A) treat the transfer to such person as null and void, (B) require such purchaser to sell all of its notes (and all interests therein) to a transferee that is such a qualified purchaser at the then-current market price therefor, or (C) redeem such notes at a price equal to the aggregate principal amount. The Bank will send each annual report or other periodic report (and each Section 3(c)(7) Reminder Notice) to DTC with a request that DTC participants pass them along to the beneficial owners of the notes.

DTC Actions. The Bank will direct DTC to take the following steps in connection with the notes:

(i) The Bank will direct DTC to include the "3c7" marker in the DTC 20-character security descriptor and the 48-character additional descriptor for the notes to indicate that sales are limited to qualified purchasers.

(ii) The Bank will direct DTC to cause each physical DTC delivery order ticket delivered by DTC to purchasers to contain the 20-character security descriptor and will direct DTC to cause each DTC delivery order ticket delivered by DTC to purchasers in electronic form to contain the "3c7" indicator and the related provisions of the DTC user manual for participants.

(iii) The Bank will instruct DTC to send an "Important Notice" to all DTC participants in connection with the offering of the notes notifying DTC's participants that the notes are Section 3(c)(7) securities.

(iv) The Bank will request that DTC include the notes in DTC's "Reference Directory" of Section 3(c)(7) offerings.

(v) The Bank will from time to time request DTC to deliver to the Bank a list of all DTC participants holding an interest in the notes.

Bloomberg Screens, Etc. The Bank will request all third-party vendors to include on screens maintained by such vendors appropriate legends regarding Rule 144A, Regulation S and Section 3(c)(7) restrictions on the notes. Without limiting the foregoing, the Managers will request that Bloomberg, L.P. include the following on each Bloomberg screen containing information about the notes as applicable:

(i) The bottom of the "Security Display" pages describing the notes should state: "Iss'd Under 144A/Reg S/3c7."

(ii) The "Security Display" page should have a flashing red indicator stating "See Other Available Information."

(iii) Such indicator for the notes should link to an "Additional Security Information" page, which should state that the notes "are being offered in reliance on the exemption from registration under Rule 144A of the Securities Act or Regulation S of the Securities Act to persons that are either (1) "Qualified Institutional Buyers" (as defined in Rule 144A under the Securities Act) that are also "Qualified Purchasers" (as defined in Section 2(a)(51)(A) of the Investment Company Act) or (2) non-United States persons."

(iv) The "Disclaimer" pages for the notes should state that the notes "will not be and have not been registered under the Securities Act, and the Bank has not registered under the Investment Company Act and these securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements and any such offer or sale of these securities must be in accordance with Section 3(c)(7) of the Investment Company Act."

CUSIP. The Company will cause each "CUSIP" number obtained for the notes to have an attached "fixed field" that contains "3c7" and "144A" or "Reg S" indicators, as applicable.

VALIDITY OF NOTES

Morrison & Foerster LLP, New York, New York, our U.S. counsel, and Allen & Overy LLP, U.S. counsel for the managers, will pass upon certain matters in connection with the offering. Morrison & Foerster LLP and Allen & Overy LLP will rely upon the opinion of LEX as to certain matters of Icelandic law.

INDEPENDENT PUBLIC ACCOUNTING FIRM

KPMG Endurskoðun hf., Reykjavík, Iceland, independent public accountants, have audited the consolidated financial statements of Glitnir banki as of December 31, 2003, 2004 and 2005, incorporated by reference in this offering circular, including the notes to those financial statements, as stated in their reports.

In February 2006, we announced that we decided to replace our external auditors with PricewaterhouseCoopers hf. The consolidated financial statements as of June 30, 2006 and for the six months then ended, incorporated by reference in this offering circular, have been audited by PricewaterhouseCoopers hf., independent accountants, as stated in their report also incorporated by reference herein.

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