

# Glitnir Banki hf.

**Securities Note July 2008**





<b>1.</b>	<b>RISK FACTORS .....</b>	<b>3</b>
1.1.	GENERAL .....	3
1.2.	ISSUER'S LIABILITY TO MAKE PAYMENTS .....	3
1.3.	MARKET RISK.....	3
1.4.	CHANGES IN LAW .....	3
1.5.	TRADING IN THE SECONDARY MARKET.....	3
1.6.	THE BONDS ARE NOT SUITABLE FOR ALL INVESTORS.....	3
<b>2.</b>	<b>PERSONS RESPONSIBLE.....</b>	<b>5</b>
<b>3.</b>	<b>NOTICE TO INVESTORS.....</b>	<b>6</b>
<b>4.</b>	<b>GENERAL INFORMATION .....</b>	<b>7</b>
4.1.	CONFLICT OF INTEREST.....	7
4.2.	REASONS FOR THE ISSUE AND THE USE OF PROCEEDS .....	7
<b>5.</b>	<b>INFORMATION CONCERNING THE SECURITIES.....</b>	<b>8</b>
<b>6.</b>	<b>ADMISSION TO TRADING .....</b>	<b>11</b>
<b>7.</b>	<b>FURTHER INFORMATION.....</b>	<b>12</b>
7.1.	ADVISORS .....	12
7.2.	EXTERNAL INFORMATION.....	12
7.3.	CREDIT RATING .....	12

# **1. RISK FACTORS**

## **1.1. GENERAL**

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds and/or they are of importance when evaluating the market risks associated with the Bonds. Most of these risk factors are contingencies which may or may not occur and do not necessarily have an impact on the Bonds.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds but the inability of the issuer to pay interest, principal or other amounts on or in connection with any Bonds may occur for other reasons that do not currently exist, that are not presently considered material, or of which the Issuer is unaware. The statement below regarding the risks of holding any Bonds is therefore not exhaustive and prospective investors should base their decision about investing in any Bonds on their own independent review and such professional advice as they deem appropriate.

## **1.2. ISSUER'S LIABILITY TO MAKE PAYMENTS**

The bonds are uncollateralized subordinate convertible bonds. The Issuer is liable to deliver shares in Glitnir banki hf. on the Conversion Date. Claims pursuant to bonds will be subordinate to any other claims against the issuer on bankruptcy or winding up. On the Conversion Date the bonds must be converted into shares in Glitnir banki hf. The conversion will take place automatically and without notice.

The Bonds are subject to credit risk. Credit risk is essentially the risk that the principal will not be repaid by the Issuer. If the Issuer fails to deliver the number of shares in Glitnir banki hf. according to terms of the bond, the Issuer will default on the Bonds. As with other debt instruments investors must evaluate the Issuer's liquidity and capacity to meet his obligations. They must also evaluate whether the premium on the Bonds is in line with the risk they involve.

A part of the credit risk regarding the Bonds is the issuer's permission to write down the principal of the bonds. The write down can occur in order to absorb any operating losses by the issuer, provided that prior to such writing down the equity of the issuer has fallen below the required minimum equity requirements as current at any time for financial undertakings. Being subordinate also means that in case of issuer's insolvency the bonds will rank lower than claims against the issuer that are not subordinate.

The Issuer is not subject to any kind of limits on further borrowings and can therefore take on further debt with equal ranking as the Bonds in this issue.

## **1.3. MARKET RISK**

Market risk refers to the risk related to all commercial papers of the same type. The most important market risk related to bonds is changes in the level of interest rates in the relevant market. If general interest rates rise, the market price of the bond will fall and vice versa. Interest rate risk is higher for bonds with longer maturities/duration. Investors shall study the market risk related to bonds and evaluate the impact caused by changes in the interest rate level on the bonds' market price.

## **1.4. CHANGES IN LAW**

The terms and conditions of the Bonds are based on Icelandic law in force as of the date of this Securities Note. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Securities Note.

## **1.5. TRADING IN THE SECONDARY MARKET**

Trading with the Bonds in the secondary market needs to be active and the volume sufficient for investors to profit from their investment. The possibility exists that investors will not be able to sell their bonds easily or only at a discount to comparable securities from other issuers.

## **1.6. THE BONDS ARE NOT SUITABLE FOR ALL INVESTORS**

Investors must make their own decision on whether investing in the Bonds is suitable for them. In particular, the following must be kept in mind:

Investors must possess sufficient knowledge and experience to adequately evaluate the Bonds and the Issuer's liquidity.

Investors must appreciate the risks related to investment in the Bonds and familiarize themselves thoroughly with the information provided in the prospectus.

Investors must be able to estimate what impact an investment in the Bonds has on their asset position and financial resources. Investors must have sufficient resources and liquidity to bear all of the risks of an investment in the Bonds.

Investors must study and understand the terms that apply to the Bonds and be familiar with the behaviour of the financial markets.

Investors must be able to evaluate (either on their own accord or with the aid of advisor) the impact of business cycles, changes in the level of interest rates and other comparable factors that may affect investment in the Bonds.

## 2. PERSONS RESPONSIBLE

The Chief Executive Officer and the Board of Directors of Glitnir banki hf., ID-number 550500-3530, registered office being Kirkjusandur 2, 155 Reykjavík, Iceland, on behalf of the issuer and manager, hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in the Prospectus dated July 14, 2008, is to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, Iceland, July 14, 2008

On behalf of Glitnir banki hf.



Lárus Welding

Chief Executive Officer

Icelandic ID No. 111276-4399



Þorsteinn Már Baldvinsson

Chairman of the Board of Directors

Icelandic ID No. 071052-4539

(On behalf of the Board of Directors)

### **3. NOTICE TO INVESTORS**

This Securities Note concerns Glitnir banki hf., ID No. 550500-3530, Kirkjusandur 2, Reykjavík, Iceland, issue of and admission to trading of, Subordinate Convertible Bonds for the amount of ISK 15,000,000,000 on OMX Nordic Exchange Iceland hf. This Securities Note has been prepared in accordance with chapter VI in the Act. No. 108/2007 on securities transactions. This Securities Note is part of the Prospectus dated July 14, 2008, that consists of three independent documents; this Securities Note, a Summary and a Registration Document all dated July 14, 2008. The admission to trading will proceed pursuant to Icelandic law and regulations. OMX Nordic Exchange Iceland hf. has scrutinized and approved this Securities Note.

Only the Issuer is entitled to procure information about conditions described in the Securities Note. Information procured by any other person is of no relevance in relation to the Securities Note and cannot be relied on.

This Securities Note is not an offer to sell or a request to buy bonds.

The content of the Securities Note does not constitute legal, financial or tax advice and bond owners should seek legal, financial and/or tax advice.

This Securities Note and any document forming a part of the Prospectus shall not be distributed or mailed or otherwise distributed or sent within or into any country in which distribution would require any additional registration measures or other measures apart from those applicable under Icelandic law and regulations, or where it would be in conflict with any law or regulation in such country.

Contact the Issuer to receive copies of the documents forming the Prospectus at its registered office Kirkjusandur 2, 155 Reykjavik, Iceland or send an e-mail to [ir@glitnirbank.com](mailto:ir@glitnirbank.com).

## **4. GENERAL INFORMATION**

### **4.1. CONFLICT OF INTEREST**

The Issuer is not aware of any conflict of interest related to this issue.

### **4.2. REASONS FOR THE ISSUE AND THE USE OF PROCEEDS**

The issue is part of regular financing. The proceeds from the issue are used to finance the Issuer's regular activities.

The total expenses related to the admission to trading of the Bonds are ISK 3,995,000.

The Bonds were sold to institutional investors in the primary market and will be tradable in OMX ICE upon listing during the lifetime of the Bonds.



## 5. INFORMATION CONCERNING THE SECURITIES

### Authorisation

On March 19, 2008 a shareholders' meeting was held in Glitnir banki hf., ID No. 550500-3530, Kirkjusandur 2, 155 Reykjavík Iceland that adopted a motion to authorise an issue of convertible bonds. The same day the Board of directors of the Company decided to issue convertible bonds of total amount of ISK 15,000,000,000 under the ticker symbol GLB010413 CV.

### Issue and Bond characteristics

The Bonds are subordinate convertible bonds and constitute tier 1 capital. The bonds are interest-bearing and linked to the consumer price index. The bonds are issued electronically at the Icelandic Securities Depository (Verðbréfaskráning Íslands hf.), ID No. 500797-3209, Laugavegur 182, 105 Reykjavík, in accordance with Act No. 131/1997 on electronic registration of title securities and registered there under the name of the relevant bondholder or his/her nominee. The Bonds have been assigned the ticker symbol GLB010413 CV and the ISIN code IS0000017689.

The Bonds are uncollateralised and no privileges are attached to the bonds. Claims pursuant to bonds will be subordinate to any other claims against the issuer on bankruptcy or winding up.

The Bonds are denominated in ISK. They do not influence the Issuer's other commitments and they do not include any fringe benefits.

The issue date of the Bonds was March 26, 2008. The issued amount is ISK 15,000,000,000. Denomination of each Bond is ISK 10,000,000.

The bonds are linked to the consumer price index, as calculated and posted by Statistics Iceland pursuant to Act No. 12/1995. The base index of the bonds is 282.3 points (March 2008). The principal of the debt shall be adjusted on each due date, prior to the calculation of interest and payment of interest. The indexation is calculated from the base interest until the first payment date, and then in proportion to changes in the index between due dates. Calculation of indexation at the time of payment of interest and index-linked adjustments are based on the index for March of each year. Following calculation of interest, the accrued amount of index adjustment will be paid out to holders on the interest due date, after which a new base index is established for the bonds on which the next calculation of interest will be based.

Fixed annual interest of 8% will be paid on the debt, calculated from the date of issue (March 26, 2008). Interest shall be paid in arrears on April 1, of each year, first on April 1, 2009. The last payment of interests will be on April 1, 2013. Interest and index adjustment payments are authorized only within the limits permitted by retained earnings, and provided that minimum equity requirements remain fulfilled after the payments. In the event that no payments of interest or index adjustments are made during a specific year or period of years they shall not accumulate, but expire.

On April 1, 2013 ("Conversion Date") the bonds must be converted into shares in Glitnir banki hf. The conversion will take place automatically and without notice in accordance with the following provisions. The principal of the bonds (following payment of interest and price level adjustment, which will take place on the Conversion Date) will be used as follows for the purchase of (conversion into) shares in Glitnir bank hf. at the following price:

If the price of shares in Glitnir Bank hf. in a stock exchange (OMX Nordic Exchange in Iceland, or comparable) is equal to or higher than ISK 27.1 per Icelandic króna of nominal value of the shares (the "Reference Price"), an A number of shares will be delivered, calculated as follows:

A number of shares = residual value of bond / Reference Price.

The A number of shares in Glitnir banki hf. will be delivered on the Conversion Date to the respective owner of the bonds against cancellation of the bonds. If the result of calculations is a fraction of a share, the number of shares shall always be adjusted upwards to the next whole share.

If the price of shares in Glitnir banki hf. in a stock exchange (OMX Nordic Exchange in Iceland, or comparable) is lower than the Reference Price, a B number of shares will be delivered, calculated as follows:

B number of shares = residual value of bond / Market Price.

The "Market Price" is the average of the closing prices of the shares in a stock exchange for ten consecutive business days over a period ending three days before the Conversion Date (closing price T-3 is thus the last price taken into account in the calculation).

The B number of shares in Glitnir banki hf. will be delivered on the Conversion Date to the respective owner of the bonds against cancellation of the bonds. If the result of calculations is a fraction of a share, the number of shares shall always be adjusted upwards to the next whole share.

The transfer of shares shall be effected into the same ISD account (or comparable account) in which the owner's bonds are held. If no such ISD account exists, Glitnir banki hf. (or a settlement agent appointed by Glitnir banki hf.) is permitted (and granted power of attorney) to open such an account on behalf of the owner of the bonds. On the transfer of the shares into the ISD account in question all claims of the owner of the bonds pursuant to the terms of the bonds will be cancelled. The bonds shall be delivered to Glitnir banki hf, which will cancel them as paid and delist them from the market. Instead, the owner of the bonds shall become the owner of the shares.

The above conversion of bonds into shares in Glitnir banki hf. will take place only following approval by the Financial Supervisory Authority pursuant to the Act on Financial Undertakings or rules issued under the Act.

The Reference Price shall be adjusted to take into account the issue of bonus shares, the issue of shares in other currencies than the Icelandic króna (or the conversion of share capital into such currency), the issue of subscription rights to new shares, the issue of convertible bonds, increases or decreases in share capital (adjustment to apply only if shares or share options are issued at a discount exceeding 10% from the prevailing price at the time of issue), payment of dividends or other amounts to shareholders, mergers or other similar events relating to shares and affecting the value of the mandatory conversion. The adjustment shall be calculated as taking place at the same time that the event causing it occurred. The adjustment has the objective of maintaining the value of the mandatory conversion on the date that the event occurred and bring about the same position, as if the event in question had not occurred. If the share capital of the issuer is listed in a foreign currency, a Reference Price will be created in the foreign currency and the principal of the bonds will remain in Icelandic krónur. Glitnir banki hf. will calculate the adjustment pursuant to the above and the adjusted Reference Price will be posted, if such an event has occurred, at the latest 15 days prior to the Conversion Date. The adjustment so made is binding for both parties.

The issuer is permitted to write down the principal of the bonds in order to absorb any operating losses by the issuer, provided that prior to such writing down the equity of the issuer has fallen below the required minimum equity requirements as current at any time for financial undertakings. If an issuer fulfils the minimum equity requirements once more, the write-down of the principal may be reversed, in full or in part, to its previous position.

The issuer is permitted to accelerate the repayment of the bonds or pay them in full at the issuer's discretion, subject to the approval of the Financial Supervisory Authority, cf. paragraph 8 of Article 84 of Act No. 161/2002 on financial undertakings. If the price of shares in Glitnir banki hf. falls below ISK 12 for each króna of nominal value (or corresponding adjusted price) the issuer is permitted to effect the prepayment in cash without regard for the mandatory conversion.

On any transfer of title the bonds shall be transferred to identified parties. For the issuer a statement from the Icelandic Securities Depositories hf. concerning the owners of the shares constitute full proof of title. Payments and notices will be sent to the party registered as the owner of the bonds in question at any time.

Indication of yield is approximately 14.77% at the first date of the selling period, which was March 12, 2008 (the bonds were sold conditional upon shareholders approval).

All amounts payable under the Bonds will be paid to relevant financial institution where the registered owner has his/her VS account.

The depository agent is the Icelandic Securities Depository (Verðbréfaskráning Íslands hf.), ID No. 500797-3209, Laugavegur 182, 105 Reykjavík. The calculating agent is Glitnir banki hf.

The Bonds shall in change of ownership be endorsed to a named party. No other restrictions are on transferring the Bonds.

#### **Event of default, Acceleration and Enforcement**

If payment of the principal or interest on the Bonds defaults, it is permitted to declare the Bonds immediately due and payable. The Issuer shall then pay penalty interest as determined by the Central Bank of Iceland, cf. paragraph 1, article 6 of Act No. 38/2001, on a mature or called amount according to the aforesaid.

#### **Prescription**

The principal of the debt will expire 10 years from the due date if uncollected by the holder, cf. Article 5 of Act No. 150/2007 on limitations of claims rights. Interest on the bonds will expire four years from the due date, cf. Article 3 of the same Act.

#### **Taxation**

All payments in respect of the Bonds by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any tax jurisdiction unless such withholding or deduction is required by law according to Act No. 94/1996. In such event, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction. The Issuer does not guarantee that tax on capital gains is paid to the national treasury.

**Governing law**

The governing law is Icelandic law. The Issuer irrevocably agrees that any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavík. Legal action regarding the Bonds may be initiated in accordance with the Act on Civil Procedure No. 91/1991, Chapter 17.

## **6. ADMISSION TO TRADING**

The Issuer has applied for the Bonds' to be admitted to trading on a regulated securities market, run by OMX Nordic Exchange Iceland hf. OMX Nordic Exchange Iceland hf. operates in pursuance of Act. No. 110/2007 on Stock Exchanges.

The Bonds are expected to be admitted to trading on July 15, 2008.

## **7. FURTHER INFORMATION**

### **7.1. ADVISORS**

The Corporate Finance unit of Glitnir banki hf. has been the Issuer's advisor on the listing of the Bonds. Glitnir banki hf. has advised on e.g. the size of the issue and the Bonds' yield and market value at time of sale.

### **7.2. EXTERNAL INFORMATION**

This Securities Note is not based on the statements of external specialists or another third party.

### **7.3. CREDIT RATING**

Glitnir banki hf. is rated by three, independent, international rating agencies: Standard and Poor's (Long term rating: BBB+), Moody's Investor Service (Long term rating: A2) and Fitch Ratings (Long term rating: A). Further information can be found on Glitnir bank's website: <http://www.glitnir.is/English/AboutGlitnir/Ir/Ratings/>