



LANDSBANKI ÍSLANDS HF.

(incorporated with limited liability in Iceland)

€11,000,000,000

Euro Medium Term Note Programme

Under this €11,000,000,000 Euro Medium Term Note Programme (the “Programme”), Landsbanki Íslands hf. (the “Issuer”) may from time to time issue notes (the “Notes”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €11,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein. This Offering Circular is an update and supersedes the Offering Circular dated 25 February 2005.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “Summary of the Programme” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “Dealer” and together the “Dealers”), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the “relevant Dealer” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the “CSSF”) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market and to be listed on the Luxembourg Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a final terms (the “Final Terms”) which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be filed with the CSSF. The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

This Offering Circular comprises a base prospectus for the purposes of Article 5.4 the Prospectus Directive.

Arranger

Banc of America Securities Limited

Dealers

Banc of America Securities Limited

Credit Suisse

Deutsche Bank

HVB Corporates & Markets

IXIS Corporate & Investment Bank

SEB Merchant Banking

Banca IMI

Daiwa Securities SMBC Europe

Dresdner Kleinwort Wasserstein

ING Wholesale Banking

Merrill Lynch International

The Issuer (the “Responsible Person”) accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (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.

Copies of the Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below) and copies of the Final Terms relating to Notes which are admitted to trading on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange, www.bourse.lu.

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

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any Notes.

This Offering Circular may only be used for the purposes for which it has been published.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons (see “Subscription and Sale” below).

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes outside Luxembourg 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

any 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, Iceland, the Netherlands, Italy and France) and Japan, see “Subscription and Sale”.

All references in this document to “U.S. dollars”, “U.S.\$” and “\$” refer to United States dollars and references to “ISK”, “krona” or “krónur” refer to Icelandic Krona. In addition, references to “Sterling” and “£” refer to pounds sterling and references to “EUR”, “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.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

Summary of the Programme

This summary must be read as an introduction to this Offering Circular and any decision to invest in any Notes should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Responsible Person in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Offering Circular. Where a claim relating to information contained in this Offering Circular is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Offering Circular before the legal proceedings are initiated.

Words and expressions defined in “Form of the Notes” and “Terms and Conditions of the Notes” below shall have the same meanings in this summary.

Issuer:	Landsbanki Íslands hf., the oldest full service bank in Iceland with total assets at 31 December 2005 of €18.81 billion.
Risk Factors:	There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “Risk Factors” below and include the exposure of the Issuer to credit risk, market risk, operational risk and liquidity risk. Failure to control these risks could result in material adverse effects on the Issuer’s financial performance and reputation. In addition, the terms of the Notes contain significant risks — see “Risk Factors”.
Description:	Euro Medium Term Note Programme
Arranger:	Banc of America Securities Limited
Dealers:	Banc of America Securities Limited Banca IMI S.p.A. Bayerische Hypo- und Vereinsbank AG Credit Suisse Securities (Europe) Limited Daiwa Securities SMBC Europe Limited Deutsche Bank AG, London Branch Dresdner Bank Aktiengesellschaft ING Bank N.V. IXIS Corporate & Investment Bank Merrill Lynch International SEB Merchant Banking, Skandinaviska Enskilda Banken AB (publ) and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale”) including the following restrictions applicable at the date of this Offering Circular.
Issuing and Principal Paying Agent:	Deutsche Bank AG, London Branch
Programme Size:	Up to €11,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer including but not

limited to U.S. dollars, euro, Sterling, Japanese Yen, Swiss Francs, Danish Krone, Icelandic Krona, Norwegian Krone and Swedish Krona.

Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:	Such maturities (or no maturity) as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in “Form of the Notes”.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (if any) (other than in

specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity (if any) and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

In addition, in the case of Capital Notes only, upon the occurrence of a Special Event (as described in Condition 8), the Issuer may, at its option, having given not less than 30 days' nor more than 60 days' notice to the holders of the Capital Notes in accordance with Condition 15 (which notice shall be irrevocable), redeem all (but not some only) of the Capital Notes on the date(s) specified in the applicable Final Terms at an amount equal to the Special Event Redemption Amount (as specified in the applicable Final Terms).

Any redemption of Capital Notes is subject to the prior approval of the Financial Supervisory Authority of Iceland (*Fjármálaeftirlitid*) (the "FME") (provided that such approval is at such time required to be given in accordance with applicable rules, regulations and policies of the FME).

Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and shall not be less than €1,000 or its equivalent (unless an issue of Notes is (i) not admitted to an European Economic Area exchange and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, subject as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 4.
Cross Default:	The terms of the Senior Notes will contain a cross default provision as further described in Condition 11.
Status of the Senior Notes:	The Senior Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4, unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.
Subordination:	Payments in respect of the Capital Notes and the Subordinated Notes will be subordinated as described in Conditions 2(b) and 2(c).
Rating:	Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation

to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Listing, approval and admission to trading:

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. The Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to each Series.

Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law:

The Notes will be governed by, and construed in accordance with, English law, except for the provisions of Conditions 2(b), 2(c), 3 and 6(f) which will be governed by Icelandic law.

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, Iceland, the Netherlands, Italy and France) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "Subscription and Sale".

Risk Factors

The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. [All/Most] of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

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

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. 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.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

Economic Activity in Iceland

The Issuer's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economy and market interest rates at the time. As the Issuer currently conducts the majority of its business in Iceland, its performance is influenced by the level and cyclical nature of business activity in Iceland, which is in turn affected by both domestic and international economic and political events. There can be no assurance that a weakening in the Icelandic economy will not have a material effect on the Issuer's future results.

Competition Risk

The Issuer operates in a financial market which has been changing rapidly in recent years, with increased competition and competitors increasing in strength. The Issuer's main competitors are KB Bank, Íslandsbanki, Straumur-Burðarás Investment Bank, the savings banks and the Housing Financing Fund (HFF), as well as competition from foreign markets. There is always a risk of new entrants to the market, or for smaller competitors to merge and increase their strength. Such competition could develop in individual market sectors, or in the market as a whole. The Issuer has a strong market share, which it intends to maintain. The Issuer makes every effort to have its product range, service and prices competitive, and must constantly monitor who its competitors are and what they have to offer. However, there is always a risk that the Issuer could lose its competitive edge, that its new products fail to meet the demands of the market or compete with competitors' products. Launching of new products could be unsuccessful. All of these are risk factors which could undermine the Issuer's income generation and affect its performance.

Risks Related to the Issuer's Business

As a result of its business activities, the Issuer is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. Failure to control these risks could result in material adverse effects on the Issuer's financial performance and reputation.

Credit Risk

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Issuer's businesses. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in the Icelandic, or global economic conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of the Issuer's assets and require an increase in the Issuer's provision for bad and doubtful debts and other provisions.

Counterparty risk covers situations where a counterparty is unable to make full payment of amounts when due. Provisions are made by the Issuer to cover possible losses. Every effort is made to manage counterparty risk diligently, to respond to substantial economic fluctuations or changing conditions in a specific industrial sector which could negatively affect the Issuer's asset portfolio.

The Issuer manages counterparty risk by setting limits for acceptable risk towards individual borrowers or groups of borrowers, specific regions or industrial sectors. The Issuer evaluates the capacity of new

borrowers to meet their commitments, regularly assessing that of current borrowers, and altering credit authorisations as necessary. Risk is also managed in part by requiring collateral or other form of guarantees from enterprises and individuals.

Counterparty risk from derivatives contracts is managed by the Issuer's Securities division as part of customers' credit authorisations, at the same time as possible risk of market movements is monitored. The Issuer further reduces its risk of loss on derivative contracts through netting arrangements with counterparties. Netting arrangements reduce counterparty risk in the event of default on payment as, in such an event, all claims on the counterparty are foreclosed and settled by netting.

Such risk factors are under constant surveillance and are reviewed at least once each year.

Market Risk

The most significant market risks that the Issuer faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios. The Issuer has implemented risk management methods to mitigate and control these and other market risks to which the Issuer is exposed and exposures are constantly measured and monitored. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Issuer's financial performance and business operations.

The Issuer analyses Value-at-Risk ("VAR") to assess the market risk of positions and estimates maximum loss based on expectations of various changes in market conditions. The Issuer's board of directors sets maximum limits for VAR, which are monitored daily.

The Issuer's Asset and Liability Committee ("ALCO") sets VAR limits for all trading in securities, interest rates, FX, derivatives and portfolios. Policy decisions concerning market risk are taken by ALCO. Day-to-day management of the Issuer's market risk is in the hands of the Issuer's Securities and Treasury division. Each day, management compare the actual risk with authorisations and VAR. These methods do not, however, exclude exceeding the limits when major market fluctuations occur.

Interest rate risk

The Issuer's interest rate risk arises from the impact of interest rate changes on the Issuer's assets and liabilities. Since a major portion of the Issuer's assets and liabilities are interest-related in one manner or another, this is one of the Issuer's most extensive types of risk. Interest rate risk on its market bonds portfolio is evaluated and limits are set for the total portfolio risk by ALCO. The Issuer's Risk Management division is responsible for supervision of overall market bond risk, while day-to-day monitoring is the responsibility of the Issuer's Securities and Treasury division. The market bond trading book is managed in line with current expectations on interest rate developments, and the risk it involves closely monitored.

Indexation risk

The Issuer's indexation risk derives from imbalance in its indexed assets and liabilities, including both on- and off-balance-sheet items. The Issuer's Treasury division is responsible for the Issuer's indexation risk.

Equity risk

Equity risk includes risks connected with changes in the Issuer's equity portfolio as a result of changes in the market value of equities. The Issuer's equity risk arises in proprietary trading and securities trading, which are both part of the Issuer's Securities and Treasury division. Proprietary trading handles the Issuer's own investments in listed and unlisted equities, as well as underwriting and market-making of equities.

Operational Risk

The Issuer's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, equipment failures, natural disasters or the failure or inadequacy of internal processes or systems or external systems, for example, those of the Issuer's suppliers or counterparties. Although the Issuer has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

Employees

Both current and former employees of the Issuer can damage the Issuer if they infringe its rules either intentionally or through negligence. While it is difficult to evaluate the damage in each instance, the loss can be financial and/or damage the Issuer's reputation.

Work procedures

Losses can occur due to flaws in current working procedures or because there are no documented working procedures. A loss can result from human error or because the current working procedures were not followed. The Issuer's rules and working procedures are maintained in the Issuer's "Employees' Manual", which employees have easy access to, for instance, on the Issuer's Intranet. It is intended to ensure that all the main information on work processes is available in one place. However, there is no guarantee that mistakes will not occur which might have a material impact on the Issuer's business.

Operating security of information systems

The Issuer's information systems comprise a major operational risk, both with regard to their functioning and accessibility. The Issuer's IT systems are varied and in many instances depend upon co-operating partners such as the Icelandic Issuers' Data Centre, telecom operators, Bloomberg and Reuters, to mention only a few. In recent months, extensive work has gone into ensuring the security of the Issuer's IT systems. All the Issuer's hardware has been recently renewed or overhauled. Although natural catastrophes could threaten operating security, attempts are made to limit this risk by ensuring the security of central equipment, its location and distribution between risk areas. It is not entirely possible, however, to eliminate operational risk arising from unexpected events.

Risks arising from external events

Various external events, beyond the control of the Issuer and its management, could have a major impact on the operations, performance and share price of the Issuer. Examples of this are natural catastrophes, war, vandalism and terrorist attacks. The Issuer has a disaster plan, intended to ensure its capacity to maintain services with, and the confidence of, its clients, partners and other parties should a serious situation arise.

Criminal action risk

The Issuer could suffer a loss as a result of criminal actions, such as a bank robbery, fraud, money laundering or embezzlement. All of these risk factors could cause the Issuer extensive damage and affect its performance. Great emphasis is placed on the Issuer's security and access control systems, in addition to which front line employees receive training in responding to situations which may arise, such as bank robberies. Clear procedures instruct staff to identify evidence of fraud or money laundering. The Issuer's settlement system is designed to prevent misconduct from going unnoticed. The Issuer's branches and departments are closely monitored by the Issuer's Internal Audit division and the Issuer's security affairs are reviewed on an ongoing basis.

Liquidity Risk

The inability of a bank, including the Issuer, to anticipate and provide for unforeseen decreases or changes in funding sources could have an adverse effect on such bank's ability to meet its obligations when they fall due.

Legal Risk and Impact of Regulatory Changes

Like other financial institutions, the Issuer operates within a complex regulatory framework and a variety of specific regulations apply to its operations. The Issuer is regulated by the Icelandic Financial Supervisory Authority in Iceland (the "FSE"). The Issuer's operating license is subject to compliance with laws and regulations governing the Issuer and its operations, and any breach of those laws or regulations may result in severe fines, liability for damages and/or the revocation of the Issuer's license.

The Issuer is subject to financial services laws, regulations, administrative actions and policies in each location that the Issuer operates. Changes in supervision and regulation, in particular in Iceland, could materially affect the Issuer's business, the products and services offered or the value of its assets. Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Issuer.

Competition risk

The Issuer operates in a financial market which has been changing rapidly in recent years, with increased competition and competitors increasing in strength. The Issuer's main competitors are KB Bank, Íslandsbanki, Straumur-Burðarás Investment Bank, the savings banks and the Housing Financing Fund

(“HFF”), as well as competition from foreign markets. There is always a risk of new entrants to the market, or for smaller competitors to merge and increase their strength. Such competition could develop in individual market sectors, or in the market as a whole.

The Issuer has a strong market share, which it intends to maintain. The Issuer makes every effort to have its product range, service and prices competitive, and must constantly monitor who its competitors are and what they have to offer. But there is always a risk that the Issuer could lose its competitive edge, that its new products fail to meet the demands of the market or compete with competitors’ products. Launching of new products could be unsuccessful. All of these are risk factors which could undermine the Issuer’s income generation and affect its performance.

International Financial Reporting Standards

The Issuer has adopted IFRS for reporting periods beginning 1 January 2005 and thereafter. These standards are, in a number of ways, different from existing generally accepted accounting principles in Iceland. However, their implementation have limited effect on the presentation of the Issuer’s financial statements.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

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:

- (i) 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 or any applicable supplement;
- (ii) 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;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) 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.

Some 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 Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor’s overall investment portfolio.

Risks related to the structure of a particular issue of Notes

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

Notes subject to optional redemption by the Issuer

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

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so

at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

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

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

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

Inverse Floating Rate Notes

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

Fixed/Floating Rate Notes

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

Notes issued at a substantial discount or premium

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

The Issuer's obligations under Subordinated Notes are subordinated

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority of payment to all obligations of the Issuer which are not expressed to be subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act on Financial Undertakings No. 161/2002 (the "Act") of the Icelandic Parliament. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Issuer become insolvent.

The Issuer's obligations under Capital Notes are subordinated

The Issuer's obligations under Capital Notes will be unsecured and subordinated and will rank junior in priority of payment to the payment of any present or future claims of (a) depositors of the Issuer, (b) other unsubordinated creditors of the Issuer and (c) subordinated creditors of the Issuer in respect of Subordinated Indebtedness. "Subordinated Indebtedness" means any obligation, whether dated or undated, of the Issuer which by its terms is, or is expressed to be, subordinated in the event of the insolvency or voluntary or involuntary liquidation of the Issuer to the claims of depositors and all other unsubordinated creditors of the Issuer but not otherwise.

Utilisation and Conversion

To the extent that it may be required to avoid the Issuer no longer meeting the requirements with respect to minimum own funds ("Minimum Own Funds") as set out in The Act on Financial Undertaking (161/2002), as amended, the Board of Directors of the Issuer, by resolution passed at a board meeting, may decide that the principal amount (or part thereof, as the case may be) of a Capital Note will be utilised by writing down the part or whole of such principal amount to the extent and by the amount required to avoid falling below the required Minimum Own Funds and converting such aggregate amount (the "Converted Amount") into a conditional capital contribution. The rights of the Noteholders, any Receiptholders and the Couponholders in respect of the Converted Amount will thereupon be converted into rights of providers of conditional capital contributions as set out herein.

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

Utilisation of the Converted Amount as aforesaid (and in accordance with the Conditions) shall not constitute an Event of Default Reconversion and reinstatement of the Converted Amount as debt in full in the balance sheet of the Issuer shall only occur in the limited circumstances set out in Condition 3.

Under certain conditions, interest payments under Capital Notes must be deferred

Payments of interest on any Interest Payment Date in respect of Capital Notes may not exceed, taking into account all payments previously made in that fiscal year in respect of the Capital Notes, other Capital Securities ranking *pari passu* with the Capital Notes, Other Tier I Securities and Tier I Guarantees, the Available Distributable Funds (each as defined in the Conditions). To the extent that, on any Interest Payment Date, Available Distributable Funds are insufficient to pay or provide for payment in full of all accrued but unpaid interest under the Capital Notes, other Capital Securities ranking *pari passu* with the Capital Notes, Other Tier I Securities and Tier I Guarantees (in each case falling due on that Interest Payment Date), the Issuer will make partial payment of all accrued but unpaid interest under the Capital Notes, such other Capital Securities, Other Tier I Securities and Tier I 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 Issuer makes partial payment of, or does not pay, accrued but unpaid interest, the right of the Noteholders to receive accrued but unpaid interest in respect of the relevant Interest Period will be deferred until the Deferral End Date (as defined in the Conditions). At the Deferral End Date the Issuer will make full or partial payment of all deferred but unpaid interest under the Capital Notes, such other Capital Securities, Other Tier I Securities and Tier I Guarantees *pro rata* to the extent the Issuer has accrued any Unallocated Distributable Profits (as defined in the Conditions), as determined by the Board of Directors of the Issuer, 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 holders of the Capital Notes to receive such deferred

payments will be lost. The Issuer 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.

Notwithstanding anything to the contrary in the Conditions, the Issuer will not make any payments of interest if the Issuer, following payment of such interest, would no longer meet the requirements with respect to Minimum Own Funds.

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

Redemption upon the occurrence of a Special Event

In the case of Capital Notes, upon the occurrence of a Special Event (as defined in Condition 8) the Issuer may, subject to the prior approval of the FME, redeem all of the Capital Notes at an amount set out in the relevant Final Terms. See also “*Risk Factors — Notes subject to optional redemption by the Issuer*”.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Noteholder Meetings

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 1 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, Austria, Belgium and Luxembourg 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 the Issuer nor any Paying Agent 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, the Issuer 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 are based on English law (or, in respect of Conditions 2(b), 2(c), 3 and 6(f), Icelandic 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 English law or administrative practice after the date of this Offering Circular.

Trading in the clearing systems

In relation to any issue of Notes which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the

form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

Risks related to the market generally

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

The secondary market generally

Notes may 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. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. 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 the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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 Specified Currency 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 Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

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

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) 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 advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Documents Incorporated by Reference

The auditors report and audited consolidated annual financial statements for the financial years ended 31 December 2004 and 31 December 2005 of the Issuer, which have previously been published and have been filed with the CSSF shall be incorporated in, and form part of, this Offering Circular.

Following the publication of this Offering Circular a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. 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 the Luxembourg Stock Exchange's website at www.bourse.lu and from the registered office of the Issuer.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

Specific items contained in "Documents Incorporated by Reference"

	Page Number	
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Balance Sheet	7	7
Income Statement	6	6
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Accounting Policies and Explanatory Notes	9	10
Audit Reports	5	5

Any information not listed in the cross-reference table but included in the documents incorporated by reference is given for information purposes only.

General Description of the Programme

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears above, see “Summary of the Programme”. The applicable terms of any Notes will be agreed between the Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under “Form of Notes”. Application has been made to the CSSF in its capacity as competent authority under the Luxembourg Act relating to prospectuses for securities to approve this document as a base prospectus for the issuance of Notes under the Programme by the Issuer, and application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange’s regulated market.

Form of the Notes

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a “Temporary Global Note”) or if so specified in the applicable Final Terms a permanent Global Note (a “Permanent Global Note”) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the “Common Depositary”) for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the “Exchange Date”) which is 40 days after the Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Global Note of the same Series or (ii) for definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days’ written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, “Exchange Event” means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

“ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

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

Pursuant to the Agency Agreement (as defined under “Terms and Conditions of the Notes”), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the “Deed of Covenant”) dated 20 April 2006, executed by the Issuer.

Applicable Final Terms

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

LANDSBANKI ÍSLANDS HF

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €11,000,000,000
Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 20 April 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular is available for viewing at [address] and on the Luxembourg Stock Exchange’s website at www.bourse.lu and from the registered office of the Issuer and from the specified office of the Agent in London.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Offering Circular dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Offering Circular dated 20 April 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circulars dated 20 April 2006 and [original date]. Copies of such Offering Circulars are available for viewing at [address] and on the Luxembourg Stock Exchange’s website at www.bourse.lu and copies may be obtained from the registered office of the Issuer and from the specified office of the Agent in London.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.]

1. Issuer: Landsbanki Íslands hf.
2. (i) Series Number: []
(ii) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
 - (i) Tranche: []
 - (ii) Series: []
5. (i) Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
(ii) Net Proceeds: []
(Required only for listed issues)

6. Specified Denominations: []
[]
(The minimum denomination of a Note shall not be less than €1,000 or its equivalent)
(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €1,000 minimum denomination is not required.)
7. (i) Issue Date: []
(ii) Interest Commencement Date: []
8. Maturity Date: [Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]/Capital Notes — Undated]
9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
11. Change of Interest Basis or Redemption/Payment Basis: [Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. (a) Status of the Notes: [Senior/Subordinated/Capital Notes]
[In the case of Capital Notes, specify any details of special provisions of Tier I qualifying Capital Notes, including relevant interest deferral provisions and details of Utilisation/Conversion]
(b) [Date [Board] approval for issuance of Notes obtained: []
(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition 6)
- (ii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/[specify other]
(NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [] per [] in nominal amount
- (iv) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ISMA) or [specify other]]
- (vi) Determination Date(s): [] in each year
*[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon
NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration
NB: Only relevant where Day Count Fraction is Actual/ Actual (ISMA)]*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/ Give details]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/[specify other]]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (vi) Screen Rate Determination:
- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other—including fallback provisions in the Agency Agreement)
- Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the

	<i>TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)</i>
— Relevant Screen Page:	[] <i>(In the case of EURIBOR, if not Moneyline Telerate page 248, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)</i>
(vii) ISDA Determination:	
— Floating Rate Option:	[]
— Designated Maturity:	[]
— Reset Date:	[]
(viii) Margin(s):	[+/-][] per cent. per annum
(ix) Minimum Rate of Interest:	[] per cent. per annum
(x) Maximum Rate of Interest:	[] per cent. per annum
(xi) Day Count Fraction:	[Actual/365 Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 Other] <i>(See Condition 6 for alternatives)</i>
(xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[]
17. Zero Coupon Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Accrual Yield:	[] per cent. per annum
(ii) Reference Price:	[]
(iii) Any other formula/basis of determining amount payable:	[]
(iv) Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 8(f)(iii) and 8(k) apply/specify other] <i>(Consider applicable day count fraction if not U.S. dollar denominated)</i>
18. Index Linked Interest Note Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
(i) Index/Formula:	[give or annex details]
(ii) Calculation Agent responsible for calculating the interest due:	[]
(iii) Provisions for determining interest where calculation by reference to Index and/or Formula is impossible or impracticable:	[Need to include a description of market disruption or settlement disruption events and adjustment provisions]
(iv) Specified Period(s)/Specified Interest Payment Dates:	[]
(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ [specify other]]

- (vi) Additional Business Centre(s): []
 - (vii) Minimum Rate of Interest: [] per cent. per annum
 - (viii) Maximum Rate of Interest: [] per cent. per annum
 - (ix) Day Count Fraction: []
19. **Dual Currency Interest Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give or annex details]
 - (ii) Calculation Agent, if any, responsible for calculating the interest payable: []
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: *[Need to include a description of market disruption or settlement disruption events and adjustment provisions]*
 - (iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [] per Note of [] Specified Denomination
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: []
 - (b) Maximum Redemption Amount: []
 - (iv) Notice period (if other than as set out in the Conditions): []
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)
21. Investor Put: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): [] per Note of [] Specified Denomination
 - (iii) Notice period (if other than as set out in the Conditions): []
(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)
22. Final Redemption Amount of each Note: [[] per Note of [] Specified Denomination/
[specify other]/see Appendix
(N.B. In relation to any issue of Notes which are expressed at paragraph 6 above to have a minimum

denomination and tradeable amounts above such minimum denomination which are smaller than it the following wording should be added: ‘For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of [] in excess of [] as envisaged in paragraph 6 above, such holding will be redeemed at its nominal amount.’.)

(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)

23. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8(f)): []
24. Capital Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Special Event Redemption Amount: []
- (ii) Special Event Redemption Date(s): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days’ notice given at any time/only upon an Exchange Event]]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days’ notice given at any time/only upon an Exchange Event]]
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vi) relate)
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. NB: a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]
29. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]
30. Redenomination applicable: Redenomination [not] applicable
[If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)]
31. Other terms or special conditions: [Not Applicable/give details]

(When adding any other final terms consideration should be given as to whether such terms constitute “significant new factors” and consequently trigger the need for a supplement to the Offering Circular under Article 16 of the Prospectus Directive.)

DISTRIBUTION

32. (i) If syndicated, names [and addresses]** of Managers [and underwriting commitments]**: [Not Applicable/give names [and addresses and underwriting commitments]**
- (Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)***
- (ii) Date of [Subscription] Agreement:** []**
- (iii) Stabilising Manager (if any): [Not Applicable/ give name]
33. If non-syndicated, name [and address]** of relevant Dealer: [Name [and address]**]
34. Total commission and concession:** [] per cent. of Aggregate Nominal Amount**
35. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
36. Additional selling restrictions: [Not Applicable/ give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the €11,000,000,000 Euro Medium Term Note Programme of Landsbanki Íslands hf.]

MATERIAL ADVERSE CHANGE STATEMENT

There has been no significant change in the financial or trading position of the Issuer, and there has been no material adverse change in the financial position or prospects of the Issuer, since 31 December 2005.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms [[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By:
Duly authorised

PART B — OTHER INFORMATION

1. LISTING

- (i) Listing: [London/Luxembourg/other (specify)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [the Luxembourg Stock Exchange's regulated market] with effect from [].]
[Not Applicable.]
*(Where documenting a fungible issue need to indicate that original securities are already admitted to trading.)***
- (iii) Estimate of total expenses related to admission to trading:* []*

2. RATINGS

- Ratings: The Notes to be issued have been rated:
Moody's: []
*[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]***
(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. NOTIFICATION

The [name of competent authority in home Member State] [has been requested to provide/has provided — include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. — Amend as appropriate if there are other interests]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer: []
*(See "Use of Proceeds" wording in Offering Circular — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)***
- [(ii) Estimated net proceeds: []
*(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)***
- [(iii) Estimated total expenses: []. [Expenses are required to be broken down into each principal intended "use" and presented in order of priority of such "uses''].**
(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging

certain risks regardless of the minimum denomination of the securities and where this is the case disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

6. YIELD (*Fixed Rate Notes only*)

Indication of yield:

[]

[Calculated as *[include details of method of calculation in summary form]* on the Issue Date.]**

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. HISTORIC INTEREST RATES (*Floating Rate Notes only*)**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]

8. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

9. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (*Dual Currency Notes only*)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

*[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]***

10. OPERATIONAL INFORMATION

(i) ISIN Code: []

(ii) Common Code: []

(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): []

Notes:

* Delete if the minimum denomination is less than €50,000.

** Delete if the minimum denomination is €50,000.

Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each Definitive Note, in the latter case only if permitted by the rules of the relevant stock exchange (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to “Form of the Notes” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Landsbanki Íslands hf. (the “Issuer”) pursuant to the Agency Agreement (as defined below).

References herein to the “Notes” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a “Global Note”), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note; and
- (iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement dated 20 April 2006 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “Agency Agreement”), and made between the Issuer, Deutsche Bank AG, London Branch as issuing and principal paying agent and agent bank (the “Agent”, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons (“Coupons”) and, if indicated in the applicable Final Terms, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (“Receipts”) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note supplement these Terms and Conditions (the “Conditions”) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the “applicable Final Terms” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to “Noteholders” or “holders” in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to “Receiptholders” shall mean the holders of the Receipts and any reference herein to “Couponholders” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the “Deed of Covenant”) dated 20 April 2006 and made by the Issuer. The original of the Deed of Covenant is held by the common depository for Euroclear and Clearstream, Luxembourg (each as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at [address] and on the Luxembourg Stock Exchange’s website and copies may be

obtained from the registered office of the Issuer and the specified office of each of the Paying Agents save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Final Terms.

This Note may also be a Senior Note, a Subordinated Note or a Capital Note, as indicated in the applicable Final Terms.

Whenever there is any adjustment to the principal amount of any Capital Note pursuant to the Conditions, upon presentation of such Capital Note to the Agent at its specified office, a record of such adjustment shall be endorsed by it on such Capital Note provided that any failure to so present or record shall not in any way affect the decrease or increase pursuant to Condition 3.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly. Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. Status of the Senior Notes, Subordinated Notes and Capital Notes

(a) Status of the Senior Notes

The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

(b) Status of the Subordinated Notes

The Subordinated Notes and any relative Receipts and Coupons are unsecured and unconditional obligations of the Issuer, subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act on Financial Undertakings (*Lög um Fjármálaþyrirtæki*) No. 161/2002 (the “Act”) of the Icelandic Parliament, and rank *pari passu* and rateably and without any preference among themselves and accordingly, on the insolvency or voluntary or involuntary liquidation of the Issuer, the Subordinated Notes rank in right of payment:

- (i) after payment of all obligations of the Issuer which are not expressed to be subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act (or any provision in any other Act of the Icelandic Parliament which modifies or replaces those provisions);
- (ii) at least *pari passu* with all other obligations of the Issuer (other than obligations of the Issuer in respect of Tier I Capital (as defined below) of the Issuer) which are expressed to be subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act (or any provision in any other Act of the Icelandic Parliament which modifies or replaces those provisions);
- (iii) before all obligations of the Issuer in respect of Tier I Capital of the Issuer;
- (iv) before the refund of any share capital and/or establishment funds (*hlutafe eda stofnfe*) and/or comparable capital and reserves (*sambaerilegt eigidfe*) of the Issuer.

The Issuer undertakes that for so long as any of the Subordinated Notes, Receipts or Coupons remain outstanding (as defined in the Agency Agreement) it will not create any subordinated obligation other than in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act (or any provision in any other Act of the Icelandic Parliament which modifies or replaces those provisions).

The provisions of this Condition 2(b) shall be governed by, and construed in accordance with, Icelandic law.

(c) Status of the Capital Notes

The Capital Notes and any relative Receipts and Coupons are unsecured obligations of the Issuer, subordinated in accordance with and for the purposes of Chapter X; Liquid Assets and Own Funds; Article 84 of the Act, and rank *pari passu* and rateably and without any preference among themselves and accordingly in the event of the insolvency or voluntary or involuntary liquidation of the Issuer, the rights of:

- (A) the holders of the Capital Notes, Receipts and Coupons to payments of the principal amount of the Capital Notes and any other amounts including interest due in respect of the Capital Notes; and
- (B) where the whole or any part of the principal amount of the Capital Notes has been converted into conditional capital contributions as described below and such conditional capital contributions have not been reconverted and reinstated as provided below, the providers of such conditional capital contributions, in respect of such conditional capital contributions, shall rank:
 - (i) *pari passu* without any preference among the holders of the Capital Notes, the Receipts, the Coupons and such providers;
 - (ii) at least *pari passu* with the rights of the holders of any other outstanding Capital Securities (as defined below) whether or not such Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of, or persons otherwise entitled to the benefit of, any other obligations of the Issuer constituting or eligible (“eligible” to be construed, *mutatis mutandis*, as provided in the definition of Capital Event in Condition 8(m) below) as constituting Tier I Capital of the Issuer, in each case in relation to their rights as such holders and to payments in respect thereof;
 - (iii) in priority to the rights of holders of all classes of Junior Securities (as defined below); and
 - (iv) junior in right of payment to the payment of any present or future claims of (a) depositors of the Issuer, (b) other unsubordinated creditors of the Issuer and (c) subordinated creditors of the Issuer in respect of Subordinated Indebtedness.

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

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

For the purposes of the Conditions:

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

“FME” means the Financial Supervisory Authority of Iceland (*Fjármálaeftirlitid*) or any successor.

“Junior Securities” means (i) ordinary shares of the Issuer, (ii) each class of preference shares of the Issuer ranking junior to the Capital Notes, if any, and any other instrument of the Issuer ranking junior to the Capital Notes, and (iii) preference shares or any other instrument of any Subsidiary (as defined in Condition 4) of the Issuer subject to any guarantee or support agreement of the Issuer ranking junior to the obligations of the Issuer under the Capital Notes.

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

“Tier I Capital” means capital which is treated as issued tier I capital by the FME either on a solo or on a consolidated basis.

The provisions of this Condition 2(c) shall be governed by, and construed in accordance with, Icelandic law.

3. Utilisation and Conversion

To the extent that it may be required to avoid the Issuer no longer meeting the requirements with respect to minimum own funds (“Minimum Own Funds”) as set out in The Act on Financial Undertaking (161/2002), as amended, the Board of Directors of the Issuer, by resolution passed at a board meeting, may decide that the principal amount (or part thereof, as the case may be) of each Capital Note will be utilised by writing down the part or whole of such principal amount to the extent and by the amount required to avoid falling below the required Minimum Own Funds and converting such aggregate amount (the “Converted Amount”) into a conditional capital contribution. The rights of the Noteholders, the Receiptholders and the Couponholders in respect of the Converted Amount will thereupon be converted into rights of providers of conditional capital contributions as set out herein.

Upon utilisation of the Converted Amount as above the Issuer shall give notice to the Noteholders in accordance with Condition 15.

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

Where, pursuant to this Condition 3, writing down and conversion applies to part only of the principal amount of the Capital Notes, the part of the principal amount of each Capital 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 Capital Note as the aggregate amount of the principal amount of all the Capital Notes to be subject to such writing down and conversion bears to the aggregate outstanding principal amount of all the Capital Notes respectively. Any reconversion and reinstatement as provided below will be made on the same basis.

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

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

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

- (i) the Board of Directors of the Issuer 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 I Securities (as defined below), any Junior Securities or make any payment on a Tier I Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Capital 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 I Securities or Junior Securities or purchase or otherwise acquire any security or obligation (however named or designated) benefiting from a Tier I 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 the insolvency or voluntary or involuntary liquidation of the Issuer 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 I Guarantee.

If the Issuer's own funds exceed the required Minimum Own Funds allowing for reconversion and reinstatement (in whole or in part) as debt of amounts converted in respect of subordinated indebtedness in the form of Capital Securities and/or perpetual/undated subordinated securities and/or any other securities, the Board of Directors of the Issuer shall subsequently decide that such reconversion and reinstatement shall be made with due observance taken to the prescribed ranking between the relevant instruments to the extent such replenishment does not result in the Issuer's own funds falling below the required Minimum Own Funds.

Utilisation as described above of the principal amount of the Capital Notes shall not constitute an Event of Default under Condition 11.

If and to the extent that any Converted Amount has been reconverted and reinstated as an obligation in respect of such Capital Note in the balance sheet of the Issuer, such amount shall be reinstated as principal and shall be added to the principal amount of such Capital Note not converted to a Converted Amount 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 Capital Notes as from the date of such reinstatement.

Reconversion and reinstatement

Reconversion and reinstatement (in whole or in part) as debt of the Converted Amount may only be made out of Unallocated Distributable Profits (as defined below) of the Issuer and subject to a resolution of the Board of Directors of the Issuer. Reconversion and reinstatement shall first be made in respect of perpetual/undated subordinated debt (other than Capital Securities) issued by the Issuer that may have been converted into conditional capital contributions.

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

Upon reconversion and reinstatement as debt of the Converted Amount as described above the Issuer shall give notice to Noteholders in accordance with Condition 15.

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

For the purposes of the Conditions:

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

“Other Tier I Securities” means any securities or obligations (however named or designated) which are Tier I Capital of the Issuer and which rank on the insolvency or voluntary or involuntary liquidation of the Issuer *pari passu* with the Capital Notes.

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

“Unallocated Distributable Profits” means, in respect of each fiscal year of the Issuer, the aggregate amount, as calculated during the course of such fiscal year in the individual financial statements of the Issuer, 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.

4. Negative Pledge

So long as any of the Senior Notes, Receipts or Coupons remains outstanding the Issuer undertakes that it will not and that it will procure that none of its Relevant Subsidiaries will create or have outstanding any mortgage, charge, pledge, lien or other security interest (each a “Security Interest”) upon the whole or any part of its undertaking, assets or revenues (including any uncalled capital), present or future, in order to secure any Relevant Indebtedness (as defined below) or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless (a) all amounts payable by it under the Senior Notes, Receipts and Coupons are equally and rateably secured therewith by such Security Interest or (b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

For the purposes of the Conditions:

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

(i) recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from a Specified Asset; and/or

(ii) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Relevant Indebtedness in an enforcement of any encumbrance given by such borrower over a Specified Asset or the income, cash flow or other proceeds deriving therefrom (or given by a shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such Relevant Indebtedness, provided that (a) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (b) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such Relevant Indebtedness, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or

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

“Relevant Indebtedness” means any present or future indebtedness (which term shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent) in the form of, or represented or evidenced by, bonds, debentures, notes or other securities which are, or are intended to be, with the agreement of the issuer thereof, quoted, listed, dealt in or traded on any stock exchange or over-the-counter or other securities

market other than such indebtedness which by its terms will mature within a period of one year from its date of issue and other than Excluded Indebtedness;

“Relevant Subsidiary” means any Subsidiary, in each case for so long as the Issuer does not own directly more than 50 per cent. of the outstanding voting stock or similar rights of ownership of either of these two companies;

“Specified Asset” means an asset of the Issuer or any Relevant Subsidiary over which security is given in connection with any limited recourse securitisation or other asset-backed financing; and

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

5. Redenomination

(a) Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

(i) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Paying Agents of such deemed amendments;

(ii) save to the extent that an Exchange Notice has been given in accordance with paragraph (iv) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(iii) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Agent may approve) euro 0.01 and such other denominations as the Agent shall determine and notify to the Noteholders;

(iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the “Exchange Notice”) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(v) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(vi) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the

applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention;

(vii) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and

(viii) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Agent, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

(b) Definitions

In the Conditions, the following expressions have the following meanings:

“Established Rate” means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into euro established by the Council of the European Union pursuant to Article 123 of the Treaty;

“euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

“Redenomination Date” means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to paragraph (a) above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

“Treaty” means the Treaty establishing the European Community, as amended.

6. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(a):

(i) if “Actual/Actual (ISMA)” is specified in the applicable Final Terms:

(a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
- (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 6(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, 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 (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date 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; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, “Business Day” means a day which is both:

(A) 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 any Additional Business Centre specified in the applicable Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the “TARGET System”) is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the “ISDA Definitions”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“LIBOR”) or on the Euro-zone inter-bank offered rate (“EURIBOR”), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

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

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 6(b):

(i) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period (or, where the Calculation Agent is other than the Agent, as soon as reasonably practicable after the Calculation Agent has notified the Agent of such)) and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London

Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6(b), whether by the Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or the Calculation Agent (if applicable) in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15.

(f) *Sufficiency of Available Distributable Funds*

(i) Payments of interest on any Interest Payment Date in respect of Capital Notes may not exceed, taking into account all payments previously made in that fiscal year in respect of the Capital Notes, other Capital Securities ranking *pari passu* with the Capital Notes, Other Tier I Securities and Tier I Guarantees, the Available Distributable Funds (as defined below). To the extent that, on any Interest Payment Date, Available Distributable Funds are insufficient to pay or provide for payment in full of all accrued but unpaid interest under the Capital Notes, other Capital Securities ranking *pari passu* with the Capital Notes, Other Tier I Securities and Tier I Guarantees (in each case falling due on that Interest Payment Date), the Issuer will make partial payment of all accrued but unpaid interest under the Capital Notes, such other Capital Securities, Other Tier I Securities and Tier I 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 Issuer makes partial payment of, or does not pay, accrued but unpaid interest, the right of the Noteholders to receive accrued but unpaid interest in respect of the relevant Interest Period will be deferred until the Deferral End Date (as defined below). At the Deferral End Date the Issuer will make full or partial payment of all deferred but unpaid interest under the Capital Notes, such other Capital Securities, Other Tier I Securities and Tier I Guarantees *pro rata* to the extent the Issuer has accrued any Unallocated Distributable Profits, as determined by the Board of Directors of the Issuer, 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 holders of the Capital Notes to receive such deferred payments will be lost. The Issuer 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.

Notwithstanding anything to the contrary herein, the Issuer will not make any payments of interest if the Issuer, following payment of such interest, would no longer meet the requirements with respect to Minimum Own Funds.

(ii) The Issuer covenants that, so long as any Capital Note is outstanding, if the most recent scheduled payments on the Capital Notes have not been made in full:

(A) the Board of Directors of the Issuer 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 I Securities, any Junior Securities or make any payment on a Tier I Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Capital 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, its preference shares, any Other Tier I Securities or Junior Securities or purchase or otherwise acquire any security or obligation (however named or designated) benefiting from a Tier I 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 the insolvency or voluntary or involuntary liquidation of the Issuer 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 I 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.

If the Issuer deems that it does not have sufficient Available Distributable Funds to pay accrued interest on the Capital Notes on the next Interest Payment Date, the Issuer shall, if reasonably practicable and if so permitted by the applicable regulations of any stock exchange upon which the Issuer's equity or debt is then listed, give not more than 14 nor less than five days' prior notice to the Noteholders in accordance with Condition 15.

The Issuer shall also give not more than 14 nor less than five days' prior notice to the Noteholders in accordance with Condition 15 in case of a deferred payment of interest out of Unallocated Distributable Profits.

The Board of Directors of the Issuer 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 a report by the auditors of the Issuer addressed to the Directors of the Issuer as to proper extraction of the figures used by the Directors of the Issuer to determine Available Distributable Funds and Unallocated Distributable Profits and the mathematical accuracy of the calculations.

For the purposes of the Conditions:

“Available Distributable Funds” means, in respect of each fiscal year of the Issuer, the aggregate amount, as calculated as of the end of the immediately preceding fiscal year in the individual financial statements of the Issuer, of accumulated retained earnings and any other reserves and surpluses capable under Icelandic law of being available for distribution as cash dividends 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.

“Deferral End Date” means the earlier of (i) the date on which the Issuer accrues enough Unallocated Distributable Profits during the fiscal year of the Issuer in which such interest payments were otherwise due, as determined by the Board of Directors of the Issuer, to pay the entire deferred payment due under the Capital Notes and under other Capital Securities ranking *pari passu* with the Capital Notes and Other Tier I Securities, and makes such payments or (ii) 31 December of the fiscal year of the Issuer in which such payments were otherwise due.

7. Payments

(a) Method of payment

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

(b) Presentation of definitive Notes, Receipts and Coupons

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

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

(c) Payments in respect of Global Notes

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

(d) General provisions applicable to payments

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

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

(e) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 10) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation; and
 - (B) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 9;
- (ii) the Final Redemption Amount of the Notes;

- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8(f)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

8. Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date. Capital Notes shall be undated, with no fixed date for redemption.

(b) Redemption for tax reasons

The Notes may, subject, in the case of Capital Notes, to the prior approval of the FME (provided that such approval is at such time required to be given in accordance with the applicable rules, regulations and policies of the FME) and to Condition 8(l) below, be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if:

(i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Republic of Iceland ("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 on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Each Note redeemed pursuant to this Condition 8(b) will be redeemed at its Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, subject, in the case of Capital Notes, to the prior approval of the FME and to Condition 8(l) below, having given:

(i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and

(ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or (other than in respect of Capital Notes) some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional

Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

(d) Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days’ notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at its Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If the Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default has occurred and is continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph and instead to declare such Note forthwith due and payable pursuant to Condition 11.

(e) Redemption upon the occurrence of a Special Event

Subject as provided in Condition 8(l) below, and in the case of Capital Notes only, upon the occurrence of a Special Event (as defined in Condition 8(m) below), the Issuer may, subject to the prior approval of the FME (provided that such approval is at such time required to be given in accordance with applicable rules, regulations and policies of the FME), at its option, having given not less than 30 days’ nor more than 60 days’ notice to the holders of the Capital Notes in accordance with Condition 15 (which notice shall be irrevocable), redeem all (but not some only) of the Capital Notes on any Special Event Redemption Date (as specified in the applicable Final Terms) at an amount equal to the Special Event Redemption Amount (as specified in the applicable Final Terms).

(f) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(iii) in the case of a Zero Coupon Note, at an amount (the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^x$$

where:

“RP” means the Reference Price;

“AY” means the Accrual Yield expressed as a decimal; and

“x” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

(g) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (f) above.

(h) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(i) Purchases

The Issuer or any Subsidiary of the Issuer may (subject, in the case of Capital Notes, to the prior approval of the FME) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Agent for cancellation.

(j) Cancellation

All Notes which are redeemed or surrendered for cancellation pursuant to paragraph (i) above will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(k) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 15.

(l) Redemption of Converted Amounts

Save as provided in Condition 11, where any principal amount has been converted into Converted Amounts as described in Condition 3, the Issuer shall not redeem the Capital Notes until all Converted Amounts have been reconverted and reinstated as debt in full.

(m) Definitions

A “Capital Event” means the determination by the Issuer (such determination to be evidenced by a certificate signed by two Directors of the Issuer and to be binding on the holders of the Capital Notes without further investigation (copies of such certificate to be available for inspection at the specified office of the Agent)), having received confirmation or similar proof thereof from the FME, that the Capital Notes are no longer eligible for inclusion in Tier I Capital (*Eiginfjárláttur A*) of the Issuer and for these purposes the Capital 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 Capital Notes and accordingly for these purposes any such limits shall be disregarded.

A “Special Event” means the occurrence of any of a Tax Event or a Capital Event.

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

9. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons 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 Iceland or any political subdivision or any authority thereof having the power to tax (“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 holders of the Notes, Receipts or Coupons 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, Receipts or Coupons, 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, Receipt or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with the Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7(e)); or
- (c) 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 law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) 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, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, the “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 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 15.

10. Prescription

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

11. Events of Default

(a) Events of Default relating to Senior Notes

Each holder of a Senior Note may, by written notice to the Issuer at the specified office of the Agent, effective upon the date of receipt thereof by the Agent, declare any Senior Note held by it to be immediately due and payable and such Senior Note accordingly shall become immediately repayable at its Early Redemption Amount (as described in Condition 8(f)), together with accrued interest (if any) to the date of repayment, on the occurrence of any of the following events (each an "Event of Default"):

- (i) if there is default for more than seven days in the payment of principal or premium (if any), or for more than 14 days in the payment of any interest, due and payable on or in respect of the Senior Notes or any of them; or
- (ii) if the Issuer shall fail duly to perform or observe any other term, undertaking or agreement contained in the Senior Notes for a period of 30 days after the date on which written notice of such failure, requiring the Issuer to remedy the same, shall first have been given to the Issuer at the specified office of the Agent, effective upon the date of receipt by the Agent, by any holder of a Senior Note; or
- (iii) if any other present or future indebtedness of the Issuer or any Subsidiary for borrowed money becomes or, is declared, due and payable prior to the stated maturity thereof by reason of default (howsoever described) or any such indebtedness for borrowed money or interest is not honoured when due and called upon or within any grace period applicable thereto or the security for any such guarantee, indemnity or indebtedness for borrowed money becomes enforceable or the Issuer or any Subsidiary shall declare a general moratorium on the payment of such indebtedness, provided that no such event shall constitute an Event of Default unless the indebtedness for borrowed money or other relative liability either alone or when aggregate with other indebtedness for borrowed money and/or liabilities relative to all (if any) other events which shall have occurred and be outstanding shall amount to at least U.S.\$5,000,000 (or its equivalent in any other currency); or
- (iv) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any Material Subsidiary; or
- (v) if:
 - (a) the Issuer or any Material Subsidiary ceases to carry on the whole or a substantial part of its business; or
 - (b) the Issuer or any Material Subsidiary stops payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due; or
 - (c) the Issuer or any Material Subsidiary is unable to pay its debts pursuant to or for the purpose of any applicable law, or is adjusted or found bankrupt or insolvent; or
- (vi) if:
 - (a) proceedings are initiated against the Issuer or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws; or
 - (b) an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any Material Subsidiary or, as the case may be, in relation to the whole or a part of the undertaking or assets of any of them; or
 - (c) an encumbrancer takes possession of the whole or a part of the assets of the Issuer or any Material Subsidiary; or

(d) a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the assets of either the Issuer or any Material Subsidiary, and in any such case (other than the appointment of an administrator or other similar official) is not discharged within 30 days or, in the case of (a) above, such proceedings are being contested, in good faith, by the Issuer or such Material Subsidiary, as the case may be, in which case the initiation of such proceedings shall so long as they are being contested in good faith by the Issuer or such Material Subsidiary, as the case may be, not constitute an Event of Default; or

(vii) if:

(a) the Issuer or any Material Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation (other than a reorganisation on terms approved by an Extraordinary Resolution) or other similar laws; or

(b) the Issuer or any Material Subsidiary makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or

(c) any meeting is convened to consider a proposal for an arrangement or composition with the creditors generally (or any class of the creditors) of the Issuer or any Material Subsidiary.

For the purpose of the Conditions:

“Accounts” means, at any time, the most recent audited annual consolidated accounts of the Issuer prepared in accordance with generally accepted accounting principles in Iceland;

“Auditors” means the auditors for the time being of the Issuer who prepared the Accounts;

“Group” means the Issuer and its consolidated Subsidiaries;

“Material Subsidiary” means any Subsidiary;

(i) whose total assets (excluding intangible assets) as shown by its latest balance sheet are at least 10 per cent. of total assets (excluding intangible assets) of the Group (as shown in the latest Accounts); or

(ii) whose operating profits (as shown by its latest audited profit and loss account (consolidated where applicable)) before interest and taxation and extraordinary items are at least 10 per cent. of the consolidated operating profits before interest and taxation and extraordinary items of the Group (as shown in the latest Accounts); or

(iii) to which is transferred the whole or substantially the whole of the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this sub-paragraph (iii) on the date on which the Accounts of the Group for the financial period current at the date of such transfer are published, but so that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after such date by virtue of the provisions of sub-paragraph (i) or (ii) above.

For this purpose, references to the audited consolidated balance sheet or profit and loss account of any Subsidiary shall be construed as references to the audited consolidated balance sheet or profit and loss account of such Subsidiary and its subsidiaries for the relevant financial period of such Subsidiary if such audited consolidated balance sheet or profit and loss account was produced, or if no such audited consolidated balance sheet or profit and loss account was produced, to a *pro forma* consolidated balance sheet or profit loss account produced on the basis of the relevant audited balance sheet or profit and loss account, as the case may be, of such Subsidiary and its subsidiaries.

A report by the Directors of the Issuer that, in their opinion, a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary, accompanied by a report by the Auditors addressed to the Directors of the Issuer as to proper extraction of the audited figures used by the Directors of the Issuer in determining the Principal Subsidiaries of the Issuer and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties, subject to the Issuer entering into an engagement contract with the Auditors including terms limiting the Auditors' liability.

(b) Enforcement relating to Subordinated Notes

(i) If the Issuer fails to meet its obligations under the Subordinated Notes, any holder of a Subordinated Note may, at its discretion and without further notice, institute proceedings in Iceland for the compulsory winding-up of the Issuer in accordance with Act No. 113/1996 on Commercial Banks and Savings Banks.

(ii) Any holder of a Subordinated Note may at its discretion and without further notice institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Subordinated Notes provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

(iii) If an order is made or an effective resolution is passed for the winding-up or liquidation of the Issuer, then each Subordinated Note shall become due and payable at its Early Redemption Amount together with interest accrued to the date of repayment, without presentment, demand, protest or other notice of any kind.

(c) Events of Default relating to Capital Notes

(1) The following events or circumstances (each an “Event of Default”) shall be an event of default in relation to the Capital Notes:

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

(ii) the Issuer shall, to the extent that it is obliged to pay interest under Condition 6(f), default for a period of seven days in the payment of interest due on any Capital Note in accordance with the Conditions; or

(iii) a court or agency or supervisory authority in Iceland (having jurisdiction in respect of the same) shall have instituted a proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or all or substantially all of its property and such proceedings, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 14 days; or

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

(2) If any Event of Default shall have occurred and shall be continuing, any holder of a Capital Note may give notice to the Issuer that the Capital Note is, and it shall accordingly, subject to this Condition 11(c), forthwith become, immediately due and repayable whether or not the whole or any part of any Converted Amount has been reconverted and reinstated as debt at an amount equal to the principal amount (construed as provided above) of the Capital Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make such payment of interest in accordance with Condition 6(f) or would be so obliged were the due date for repayment an Interest Payment Date).

(3) If a Capital Note has been declared due and payable under this Condition 11(c), the holder of the Capital Note may claim payment in respect of the Capital Notes only in the insolvency or liquidation of the Issuer and may therefore institute such steps, including the obtaining of a judgment against the Issuer for any amount due in respect of the Capital Notes, as it thinks desirable with a view to having the Issuer declared insolvent or put into liquidation.

(4) A holder of Capital Notes may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Capital Notes (other than, without prejudice to sub-paragraphs (2) and (3) above, any obligation for the payment of any principal or interest in respect of the Capital Notes) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

A provider of any Converted Amount may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under Condition 2(c) or 3 provided that the Issuer shall not by virtue of the institution of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

(5) No remedy against the Issuer, other than as provided in sub-paragraphs (2), (3) and (4) above, or proving or claiming in the insolvency or liquidation of the Issuer in Iceland or elsewhere, shall be available to the holders of Capital Notes, whether for the recovery of amounts owing in respect of the Capital Notes or in respect of any breach by the Issuer of any of its obligations or undertakings with respect to the Capital Notes.

12. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the 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 Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent; and
- (b) 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); and
- (c) the Issuer will maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

14. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. Notices

All notices regarding the Notes will be deemed to be validly given if published (i) in a leading English language daily newspaper of general circulation in London and (ii) if and for so long as the Notes are listed on the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Financial Times* in London and in the *Luxemburger Wort* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange and the rules of that stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

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

16. Meetings of Noteholders, Modification and Waiver

The 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, the Receipts, the Coupons or any of the provisions of the Agency Agreement although any modification in relation to Capital Notes cannot be made without the prior approval of the FME. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 5 per cent. in nominal 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 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling 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 Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal 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 nominal 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, and on all Receiptholders and Couponholders.

The Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification (except as mentioned above) of the Notes, the Receipts, the Coupons or Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement 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, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

17. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders 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.

18. The Contracts (Rights of Third Parties) Act 1999

Except as provided herein in relation to providers of any Converted Amount and as provided in the Global Notes in relation to Accountholders (as defined therein) no rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

19. Governing Law and Submission to Jurisdiction

(a) Governing law

The Agency Agreement, the Deed of Covenant, the Notes (except for Conditions 2(b), 2(c), 3 and 6(f)), the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law. Conditions 2(b), 2(c), 3 and 6(f) of the Notes is governed by, and shall be construed in accordance with, Icelandic law.

(b) Submission to jurisdiction

The Issuer agrees, for the exclusive benefit of the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Receipts and/or the Coupons and that accordingly any suit, action or proceedings (together referred to as "Proceedings") arising out of or in connection with the Notes, the Receipts and the Coupons may be brought in such courts.

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

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

(c) Appointment of Process Agent

The Issuer irrevocably designates, appoints and empowers the Ambassador of Iceland to the Court of St. James's for the time being and from time to time to act as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

(d) Waiver of immunity

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

(e) Other documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts, appointed an agent for service of process and waived immunity in terms substantially similar to those set out above.

Use of Proceeds

The net proceeds from each issue of Notes will be applied by the Issuer for general funding purposes, which include making a profit and/or hedging certain risks. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Description of the Issuer

General Information

Landsbanki Íslands hf. (the “Issuer”, “Landsbanki” or the “Bank”) is the oldest full service commercial bank in Iceland with total assets of ISK 1.405 billion (EUR 18.81 billion) at the end of December 2005. The Issuer was established on 14 February 1991 as a limited liability company with registered number 540291-2259. Currently, the Issuer operates pursuant to the provisions of the Act on Financial Undertakings, No. 161/2002, the Act Respecting Public Limited Companies, No. 2/1995 and the Act on the Establishment of Limited Liability Companies to operate Landsbanki Íslands and Búnadarbanki Íslands, No. 50 of 22 May 1997.

The Issuer’s registered offices are located at Austurstraeti 11, with telephone number +354 410-4000.

The Issuer is the parent bank within the Landsbanki Group of companies. The Issuer currently has 46 branches and sub-branches throughout Iceland. Through its extensive domestic branch system and a wide-ranging network of international correspondent banks, coupled with a broad range of financial products and services, the Issuer has positioned itself as a leading source in Iceland of general and specialised financial services to individuals, corporate entities and institutions.

The Issuer has formed strategic alliances in the fields of insurance and real estate financing.

The principal subsidiaries and affiliated companies of the Issuer include the following:

Principal Subsidiaries:	Principal Area of Activity	% Owned
Landsbanki Holdings (UK) plc		
Heritable Bank Ltd	Corporate banking	
Key Business Finance Corporation PLC	Specialist lending and financing	100
Key Business Finance Ltd	Specialist lending and financing	100
Heritable Asset Finance Ltd	Asset financing (Hire Purchase and Finance Leasing)	100
Eagle Property Company Ltd	Property trading & investment	100
Teather & Greenwood Holdings plc	Stock brokers and financial services	100
Teather & Greenwood Ltd	Financial services	100
First Manchester Properties Ltd	Dormant	100
County of Kent Developments Ltd	Dormant	100
Escalon Investments Ltd	Dormant	100
Landsbanki Holdings Europe S.A.	Holding company	100
Landsbanki Luxembourg S.A.	Private and corporate banking	100
Lex Life S.A.	Life insurance company	97
Landsvaki hf	Operation company for mutual funds	100
Landsbankinn eignarhaldsfélag ehf.	Holding company	100
Landsbanki-Fjárfesting hf.	Holding company	100
Landsbankinn fasteignafélag ehf.	Real estate company	100
LI Investments Ltd	Holding company	100
LI Investments A.B.	Holding company	100
Hömlur hf.	Holding company for appropriated assets	100
Stofnlánadeild Samvinnufélaga	Holding company (dormant)	100
Verðbréfun hf.	Securitisation company	100
Kepler Equities SA	Stockbrokers and financial services	84
Landsafl hf	Real estate company	80
SP-Fjármögnun hf.	Leasing company	51
Merrion Capital Group Ltd	Stockbrokers and financial services	50

Historical Background

The entity which has now evolved to become the Issuer began its existence as a wholly owned undertaking of the Republic of Iceland (the “State” or “Iceland”) known as Landsbanki Íslands (“Landsbanki Íslands”). Landsbanki Íslands was established in 1885 and began operations on 1 July 1886.

Having commenced operations from a single branch in Reykjavik, at the turn of the last century, Landsbanki Íslands began a plan of gradual expansion in other areas of Iceland. In 1902, a branch was established in Akureyri, which is the largest town outside the capital region and is located in the northern

part of the island. In 1904, a further branch was established in the largest town on the Western Fjords of Iceland, Ísafjördur, with two branches established in 1918, one in Eskifjördur on the east part of the island and the other in Selfoss on the south coast of the island.

In 1922, Landsbanki Íslands was granted permission for a limited issue of bank notes, which took place in 1924. In 1928, Landsbanki Íslands assumed the role of a central bank for Iceland. Landsbanki Íslands was reorganised in 1957, splitting into two major divisions, a central bank and a commercial bank, each with their own board of management.

A further restructuring took place in 1961, when the Central Bank of Iceland was established separately. Since that time, Landsbanki Íslands has operated as a commercial bank.

On 14 March 1997, Landsbanki Íslands entered into an agreement to purchase all of the holdings of Brunabótafélag Íslands hf. in Vátryggingafélag Íslands hf. (“VÍS”) and Líftryggingafélag Íslands hf. (“LÍFÍS”) between 1997 and 1999, representing a direct and indirect 50 per cent. share in VÍS and LÍFÍS, respectively. Both of these holdings were sold in 2002 and 2003, and the Issuer made an agreement with TM Insurance on the sale of non-life insurance.

Privatisation

On 22 May 1997, the Icelandic Parliament passed Act No. 50 of 1997 pursuant to which the state owned commercial bank entity Landsbanki Íslands was incorporated as a 100 per cent. state owned limited liability company.

A limited liability company Landsbanki Íslands hf. (the “Issuer”) was established on 10 September 1997 and it took over the operations and activities, assets and liabilities of Landsbanki Íslands as of 1 January 1998. Landsbanki Íslands hf. was granted an operating licence by the Icelandic Minister of Commerce on 20 December 1997, effective as of 1 January 1998.

In August 1998, the first steps toward privatisation of the Issuer were taken with an 18 per cent. capital increase through an offer of shares to the public. As a result of this issue of shares, 15.38 per cent. of the Issuer’s total ordinary share capital became owned by private investors. The remaining 84.62 per cent. of the ordinary share capital was controlled by the Ministry of Industry and Commerce on behalf of the Republic of Iceland.

In November 1999, the Ministry of Industry and Commerce decided to sell a further 15 per cent. of its share in the Issuer to the public and to professional investors. The shares were offered in December 1999 and were oversubscribed by a factor of eight. At the end of February 2002, there were 14,567 shareholders in the Issuer.

The State’s holding in the Issuer was further reduced to 72 per cent. in December 1999 through a public offering and to 68 per cent. in July 2000 as a result of a capital increase in conjunction with the Issuer’s purchase of a 70 per cent. share in London-based Heritable Bank.

At the beginning of 2001, the Icelandic Government requested, and was granted, authorisation from the Icelandic Parliament to sell the State’s entire interest in the Issuer. Legislation to this effect was passed in May 2001. About mid-year 2001, preparations were begun for the sale of a substantial share in the Issuer, up to 51 per cent. of the total share capital, to a foreign strategic investor. HSBC Investment Bank, in London, was awarded a mandate to find such an investor. The Government’s aim was to conclude the sale before the end of the year, but owing to difficult market conditions, it was decided to postpone further presentations until a later date.

An important milestone in the ongoing privatisation of Landsbanki Íslands hf. was passed in June 2002, when the Government successfully sold 20 per cent. of the total share capital of the Issuer, bringing the Government’s holdings to 48.29 per cent. At this juncture of the privatisation process, a nominal amount of ISK 1,369,140,724 was offered at the price of ISK 3.50 per share, representing a total market value of ISK 4,791,992,534. Landsbanki Íslands acted as the Offering and Subscription Co-ordinator for the offering.

Following the solicitation of bids by the Executive Committee on Privatisation, five groups of domestic investors indicated their interest in acquiring a 25 per cent. minimum stake in Landsbanki, reducing the State’s holding by the same percentage. The Ministerial Committee on Privatisation decided to enter into discussions with Samson Holding ehf. on the sale of a substantial stake in Landsbanki Íslands hf. Samson Holding ehf. is now owned by Björgólfur Thor Björgólfsson and Björgólfur Gudmundsson. This decision was based on criteria established by the Executive Committee on Privatisation and the evaluation of HSBC

of the documents received from the three parties with whom the Committee has been engaged in recent discussions.

An agreement was signed on 31 December 2002 on the sale of the State's 45.8 per cent. interest in Landsbanki to the holding company Samson ehf. Following the sale, the State held a 2.5 per cent. stake in the Issuer.

Delivery of the shares took place in two stages. First, 33.3 per cent. of the total shares of Landsbanki Íslands hf. was delivered following signature of the Purchase Agreement and approval of the Financial Supervisory Authority, and, second, 12.5 per cent. was delivered in December 2003. Samson Holding ehf. made their final payment to the State on 29 December 2003. The first stage of the acquisition, involving 33.3 per cent. of the total shares in Landsbanki Íslands hf., was subject to the condition that Samson Holding ehf. was not permitted to sell for 21 months from the date of signing the purchase agreement except with the prior written consent of the State.

The privatisation of Landsbanki was completed on 25 February 2003, when the Government successfully sold its remaining 2.5 per cent. of the total share capital of the Issuer by means of public offering. The shares were in the nominal amount of ISK 170,527,018 at the price of ISK 3.73 per share, representing a total market value of ISK 636,065,777. Following the sale, the State has no stake in Landsbanki.

At 31 December 2005, shareholders in Landsbanki numbered 29,675. The largest shareholder was Samson Holding ehf. with 40.17 per cent. The next 10 shareholders were mainly institutional investors holding 28.21 per cent., and the next 10 shareholders held 9.47 per cent. In total, the Bank's five largest shareholders held 57.97 per cent. of the Issuer's share capital. No single shareholder controls the Issuer, in regards to IFRS 24.

Recent Developments

In November 2005, Fitch Ratings upgraded Landsbanki's individual rating to "B/C" from "C" and affirmed its other ratings; Long Term "A", Short Term "F1" and Support "2". The rating outlook is "stable".

On 15 November 2005, the Issuer entered into an agreement in principle to make a strategic investment in Merrion Capital, a leading independent stockbroking and corporate finance firm in Ireland, whereby the Issuer will acquire a 50 per cent. shareholding in Merrion Capital and subsequently the remaining 50 per cent. over the next three years. The initial investment will value Merrion Capital at €55.3 million. The subsequent acquisition price will be based on future profits generated by Merrion Capital. The investment is subject to regulatory approval, due diligence and finalisation of contracts and will be financed through internal resources. On 21 December 2005, Landsbanki announced the completion of the Merrion Capital transaction.

On 5 September 2005, Landsbanki announced an agreement to acquire Kepler Equities SA (Kepler), a European securities company, previously known as the Julius Bär Brokerage. Initially Landsbanki will acquire 81 per cent. of the total shares for a consideration of EUR 76.1 million (ISK 5,846 million), valuing Kepler at total EUR 94 million (ISK 7,220 million).

On 1 August 2005, the Boards of Directors of Burðarás, Landsbanki Íslands hf. and Straumur Investment Bank Ltd. signed a joint plan to divide Burðarás and merge the company, on the one hand, with Straumur Investment Bank Ltd. and, on the other hand, with Landsbanki Íslands hf. Certain assets of Burðarás, including shares in D. Carnegie & Co. AB, Intrum Justitia AB, Carrera Global Investments Ltd., Straumur Investment Bank Ltd. and Marel hf. and movable assets, became part of Landsbanki. Burðarás's operations, together with the company's other assets, were merged with Straumur. Upon the division of Burðarás, its shareholders received shares in Straumur and Landsbanki. For each ISK 1,000 nominal value of shares held in Burðarás, shareholders received newly issued shares of ISK 356.7465 nominal value in Landsbanki and shares of ISK 769.7454 nominal value in Straumur. Shareholders in Burðarás received shares totalling ISK 4,575,747,810 nominal value in Straumur in exchange for their shares of ISK 3,004,095,332 nominal value in Burðarás. The exchange ratio for shares in Straumur was thus 1.52317. Shareholders in Burðarás will receive shares totalling ISK 2,120,677,803 nominal value in Landsbanki in exchange for their shares of ISK 2,940,400,149 nominal value in Burðarás. The exchange ratio for shares in Landsbanki was thus 0.72122. The merger was fully completed at the end of September 2005. Newly issued shares by Landsbanki are in nominal value ISK 2,120,677,803 and following the share capital increase the total number of shares is now ISK 11,020,677,803 of nominal value.

In May 2005, Landsbanki established a branch office in the United Kingdom. The Bank's decision was prompted by the expanding scope of its activities in the UK, a trend which is expected to continue. Lárus

Welding is the branch manager of Landsbanki's Corporate Banking division. The London branch conducts two types of business: lending activities in the form of syndicated loans where Landsbanki acts as either a participant or lead arranger and, corporate advisory services.

In August 2005, Landsbanki London branch recruited three joint managing directors, Brent Osborne, Alan McLaren and David Morris, who were previously at GMAC Commercial Finance, to be in charge of a new unit called Landsbanki Commercial Finance. Landsbanki Commercial Finance will aim at writing deals of £3- £50 million. Landsbanki London Branch will continue to provide global structured finance, cash flow top-up and other leveraged facilities, as well as mezzanine finance in co-operation with its parent bank.

On 15 April 2005, Heritable Bank Ltd., a subsidiary of Landsbanki in the UK, acquired Key Business Finance Corporation plc (Key Business) in the UK. The acquisition is in line with Landsbanki's objectives of continued growth of Heritable Bank either by internal growth of existing operations, diversifying into new operations or through the mergers and acquisitions of other businesses. Key Business was founded in 1988 and specialises in providing finance to the legal profession in the UK. The loan book of Key Business is ISK 6 billion (£50 million) extending to 1,250 clients. Total assets of the Heritable Bank following this acquisition are ISK 53.5 billion (£450 million). Key Business is operated as an independent subsidiary of Heritable Bank Ltd.

Landsbanki increased its share capital by ISK 800 million nominal at the end of March 2005, which is in line with its strategy to maintain a strong capital ratio during the current growth period. The new shares were sold at a price of 14.25 ISK per share or ISK 11.4 billion at market value.

On 7 March 2005, Moody's Investors Service Limited ("Moody's") upgraded Landsbanki's long-term deposit and senior debt ratings to "A2" from "A3". The outlook on these ratings is stable. At the same time, Moody's also affirmed a stable outlook for the bank's financial strength rating ("FSR") of "C" and the "Prime-1" short-term deposit and debt ratings, with outlook changing to stable from positive.

In February 2005, Landsbanki increased its EMTN programme size from EUR 3.5 billion to EUR 5.0 billion, in July 2005, Landsbanki increased the size of the EMTN programme to EUR 7.5 billion and in December 2005, Landsbanki increased the size further to EUR 9.5 billion.

2003, 2004 and 2005— strategic direction following the conclusion of the privatisation process

The performance targets of the Issuer now require a return of 8-10 per cent. above risk-free yields on government bonds, which currently stand at 7 per cent. Based on the current interest rate level, the performance targets for Iceland are 15-17 per cent. after taxes. The risk-free rate in the UK currently stands at approximately 5 per cent., placing the performance targets for the Heritable Bank at 13-15 per cent.

The Issuer will focus on bringing its cost-income ratio below 55 per cent. through streamlining measures and increased economies of scale, resulting from rapid organic growth and strategic investments in new units. Improved economies of scale and distribution of risk will be achieved by cross-border expansion through the selective acquisition of overseas operations.

Comprehensive retail banking services will remain at the core of the Issuer's activities. The Issuer will continue to use its nationwide branch network and its position as the deposit institution with the highest deposit market share in Iceland to further increase its market share in the domestic market.

The Issuer will increase its participation in large investment-banking projects. This will be done by taking advantage of the combined strength and expertise of the Group, through investments with pre-defined exit strategies, securities brokerage, mutual funds and lending activities.

Part of Landsbanki's strategy is to invest in financial undertakings abroad and several potential opportunities were explored in 2004 and 2005. The Bank's international endeavours are based both on organic growth abroad and foreign investment. Prime emphasis is placed on investments in the UK, Ireland as well as elsewhere in Western Europe and in the world's financial centres. The Bank's objective is to improve its risk diversification and increase the share of foreign income in its total revenue.

Extensive effort has been devoted to mapping out a detailed international strategy, defining main objectives and singling out opportunities in individual markets. Part of this work has been carried out in consultation with leading international investment banks. Landsbanki is well placed to take the next step in its expansion abroad and will continue to seek investment opportunities, emphasising good returns and further diversification of risk.

Foreign activities will be increased, in particular in three key areas. Firstly, emphasis will be placed on increasing corporate banking and expanding Landsbanki's investment banking activities through the acquisition of specialised investment banks or securities houses. Activities will increase in London through organic growth and acquisitions of specialised financial undertakings.

Secondly, an acquisition of a bank with a sizeable balance sheet and stable income generation is envisaged to increase the variety and ensure adequate diversification of risk in the Bank's activities. In deciding on such an acquisition, the focus would be on a fairly sizeable bank with emphasis on corporate lending and a good cash flow, creating opportunities for increased investment banking activities.

Thirdly and finally, efforts will be devoted to expanding Landsbanki's establishments abroad and on other major financial markets, to support the Bank's growth internationally. A branch is being established in London, focusing on corporate advisory services and syndicated loans. Another objective is to expand Heritable Bank through organic growth and acquisitions of specialised financial undertakings.

Current Operations

Corporate Banking

The Issuer is the main lender to major industries in Iceland in terms of market share. Fisheries and fish processing industry has for long been the most important industry in Iceland, but over the last three decades the relative importance of the fishing industry has diminished.

The Issuer benefited from the privatisation and the advent of new strategic investors. During the past two years a large number of companies, both long-established and recent arrivals, were added to the Bank's clientele. 70 per cent. of companies listed on ICEX currently do substantial business with Landsbanki. For most of Iceland's 500 largest companies, Landsbanki is either their house bank or one of their two key banks. According to a Gallup survey in December 2004, Landsbanki's market share in corporate banking is 32 per cent. while that of other banks ranges from 19 per cent. to 26 per cent.

Considerable changes were made in 2004 in processing corporate lending with the aim of improving credit quality and the decision-making process. The regional organisation of branches has been abolished and the emphasis of Corporate Banking was adjusted to strengthen lending services in the branches and other services to larger and medium-sized companies. Among other things, the Issuer's Lending Supervision was transferred to the Legal Division and a new department, Branch Network Supervision, was established and expanded with added personnel. This department supervises corporate loans in co-operation with the branches and regularly conducts branch loan reviews.

In 2004, the Issuer began to participate in syndications of structured loans to Northern European corporates arranged by large foreign banks. Since then, the loan portfolio has grown substantially, and at 30 September 2005 it amounted to over ISK 20 billion. Borrowers include businesses in the UK, Germany, the Netherlands and France in retail, manufacturing, services and the chemical industry. Around 30 per cent. of the foreign loan portfolio is comprised of mezzanine financing.

The syndicated loans team also arranges and underwrites the debt financing of leveraged buyouts, often in co-operation with Corporate Advisory and Proprietary Trading. In such projects, Landsbanki provides mezzanine financing and/or senior loans in support of acquisitions, mergers and/or delistings. As an example of UK-based projects, the Bank underwrote mezzanine financing for Baugur Group's acquisition of Goldsmiths. The Bank also underwrote mezzanine financing and, together with Barclays Bank, jointly underwrote a senior loan for the acquisition by Baugur Group and Landsbanki of MK One. Landsbanki also played a key role in financing Baugur's offer for Big Food Group in 2004. The Bank intends to continue building up its syndicated loan portfolio and other activities in London to strengthen its presence abroad and increase its foreign income. The next step in its continuing development is further expansion of the Bank's corporate advisory services. The Landsbanki branch in London is an extension of Landsbanki's Corporate Division.

Retail Business

The Issuer's objective in the retail market is to maintain and expand its present retail customer base. The Issuer is the leading retail bank in Iceland, according to a Gallup poll at year-end 2004, with a market share of approximately 30 per cent., and operating 48 branches and service outlets. The Issuer will primarily focus on servicing and increasing the profitability of existing customers by offering innovative products. The Issuer places strong emphasis on customer satisfaction and providing freedom of choice between both products and service options.

The Issuer's retail customers are located throughout Iceland, with the heaviest concentration in the Reykjavik area. The Issuer has divided its retail customers into target groups on the basis of business volume and age. This enables the Issuer to meet the different requirements of each group of customers in relation to products, sales channels and advisory services.

The Issuer has developed a new range of products for its retail customers. Taking advantage of the deregulation and convergence of its insurance, banking and securities operations, the Issuer continues to develop its range of products. The Issuer aims to become a place of "one-stop-shopping" for its customers.

Housing Loans

The Issuer began to offer housing loans in February 1999. The Issuer was the first Icelandic bank to offer this type of service in competition with the HFF (Housing Financing Fund). The Issuer allocated fewer resources to this sector during 2000, 2001 and 2002 owing to more attractive returns in other sectors. During 2003 and 2004, the Icelandic banks expressed their interest in overtaking the operations of the Housing Financing Fund, as it was the opinion of the banks that the HFF was practising unfair competition. The bond issues of the SHF used to finance housing loans are government guaranteed, making it more difficult for the banks to fund housing loans on the same terms.

In January 2004, the Issuer commenced the offering of residential mortgage loans in foreign currencies. The loans consisted of four currencies, USD, EUR, CHF and YEN, based on variable interbank interest rates depending on the lending ratio. Minimum loans are the equivalent of ISK 2 million and lending will not exceed 60 per cent. of house market value. These loans can have terms as long as 30 years but are repayable at any time.

In August 2004, the Icelandic banks began offering mortgages at significantly lower rates than before, thereby increasing competition with HFF (Housing Financing Fund). Interest rates were as low as 4.2 per cent. to begin with but soon went down to 4.15 per cent., with maturities of 25 and 40 years. However, the most important aspect of the new housing loans was that their other terms were more in line with existing housing market conditions and consumer demands, whereas HFF terms were not. There is no ceiling on loan amount other than fire replacement value, and households can borrow up to 100 per cent. of the market value of the property. The introduction of these new housing loans has been well-received by households and as at the end of December 2004, Landsbanki had a total of ISK 30.5 billion in new mortgage loans. This development among the three large commercial banks led to changes in the terms offered by SHF. Towards the end of 2004, Landsbanki took the initiative in reducing this loan-to-value ratio to 90 per cent. and again in October 2005 down to 80 per cent. The Bank emphasises prudent financial services and advises its clients not to borrow more than 80 per cent. of the value of their homes.

Private Banking

In May 1999, the Issuer established a new private banking unit within its Asset Capital Management division engaging in custody and asset management for high net worth individuals who often require multinational financial services. The acquisition of a private banking unit in Luxembourg in 2003 meant that private banking is conducted both in Luxembourg and Iceland. Through this acquisition, the Issuer continues to increase and strengthen its international investment services to customers, particularly in asset management, private banking and securities trading. The acquisition of the private banking unit in Luxembourg also substantially strengthened the Icelandic part of the business. In October 2004, Private Banking was strengthened by making it a division of Landsbanki.

Internet Banking

Landsbanki offers two types of internet banking for its customers. Einkabanki, which is the internet banking for individuals (currently over 80 per cent. of the Bank's active customers are registered Einkabanki users), and Fyirtækjabanki, which is the internet banking solution for corporates and offers functions such as integration of transaction with accounting software, e.g. payrolls, disbursements and collections. The Issuer also provides a number of e-commerce services, including business-to-business solutions and domestic and international on-line trading. Landsbanki was the first company in Iceland to offer international securities trading on the Internet.

Partners

The Issuer has contracted with numerous companies in joint marketing efforts. There is extensive co-operation between the Issuer and Greidslumidlun hf., an issuer of VISA credit cards and VISA electronic debit cards.

Flugleidir hf. (Icelandair), the largest company in the Icelandic travel industry, is engaged in a number of marketing programmes with the Issuer and Greidslumidlun hf. The holder of a “Travel Savings Account”, for example, earns frequent flyer points with Icelandair. In addition, the holder of an Icelandair VISA card may earn frequent flyer points through use of the card.

Change of accounting policies from January 2005

The Issuer, as a listed company on the Iceland Stock Exchange, changed its accounting policies, from the beginning of 2005, to conform to International Financial Reporting Standards (“IFRS”) in preparing consolidated accounts.

Credit Ratings by Moody’s and Fitch

On 4 April 2006, Moody’s affirmed the deposit and debt ratings of Landsbanki Islands hf at “A2/P-1” with “stable” outlook. At the same time, the rating agency altered Landsbanki’s outlook to “negative” from “stable” for the bank’s financial strength ratings which is currently “C”. On March 2005, Moody’s upgraded the Bank’s deposit and senior debt ratings from “A3” to “A2” with “stable” outlook. At the same time Moody’s confirmed the Bank’s “C” rating for financial strength, and altered its outlook from “positive” to “stable”. Lastly, the agency confirmed Landsbanki’s short-term credit rating of “Prime-1”.

Fitch Ratings Ltd (**Fitch**) has also rated Landsbanki’s credit. On 23 February 2006, Fitch affirmed the ratings of Landsbanki unchanged at long-term ‘A’, short-term ‘F1’, individual ‘B/C’ and support ‘2’. The Issuer’s rating outlooks remains “stable” despite the revision of Iceland’s sovereign outlook to “negative” on 21 February 2006. In November 2005, Fitch Ratings upgraded Landsbanki’s individual rating to “B/C” from “C” and affirmed its other ratings; long-term “A”, short-term “F1” and support “2”. The rating outlook was “stable”. At the end of November 2005, Fitch upgraded Landsbanki’s individual rating to “B/C” from “C”. Furthermore, Fitch upgraded Landsbanki’s issue of non-cumulative undated capital tier 1 notes to “A-” from “BBB+”, leaving the notes one level below the long-term rating as compared to two levels before. Heritable Bank, one of Landsbanki’s subsidiaries in London, was assigned ratings of long-term “A”, short-term “F1” and support “1” by Fitch in February 2004, with outlook for the long-term rating as “stable”. These ratings were reaffirmed in September 2005.

IFRS — Basis of preparation

The condensed consolidated interim financial statements of Landsbanki for the nine months from 1 January to 30 September 2005 were prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting and are covered by IFRS 1, First-time Adoption of IFRS. The Bank’s consolidated annual financial statements for 2005 will be prepared in accordance with IFRS standards. The consolidated interim financial statements reflect the IFRS and interpretations issued and effective in October 2005. Other and different IFRS may be applicable at the end of 2005, when the first annual financial statements will be compiled in accordance with these standards.

The accounting policies prescribed by IFRS and followed in preparing the consolidated interim financial statements have been consistently applied retroactively to the comparison period of 2004, except where the Group has made use of special exemptions available under IFRS 1. The most important exemption which has been used is in connection with classification and measurement of financial instruments as provided for in standards 32 and 39 (IAS 32 and IAS 39). The Group will adopt these standards from 1 January 2005 and will not apply them retroactively.

Until 31 December 2004, Landsbanki’s consolidated financial statements were prepared in accordance with Generally Accepted Accounting Principles for financial institutions in Iceland (GAAP). The former accounting policies differ in certain aspects from IFRS. The comparative figures for 2004 were restated to accord with the latter, except where otherwise expressly stated.

Reconciliations and descriptions of the effect of the transition to IFRS on the Group’s equity and its net income and cash flows are provided in Note 4 to the condensed consolidated interim financial statements of Landsbanki for the nine months from 1 January to 30 September 2005. Those consolidated interim financial

statements have been prepared under the historical cost convention, having regard to the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value in profit or loss. The preparation of financial statements in accordance with IAS 34 requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying various accounting policies. Accounting assumptions and estimates of major significance are disclosed in particular in Note 3.

Corporate taxation and accounting law in Iceland

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

Sources of Funds

The Issuer's principal sources of funding are bond issuance and customer accounts, although other sources of funding include equity, subordinated debt and interbank borrowings. The table below sets out a breakdown of the Issuer's sources of funds as at 31 December 2003, 2004 and 2005:

	<i>31 Dec '03</i>	<i>31 Dec '04</i>	<i>31 Dec '05</i>
		<i>(ISK millions)</i>	
Capital			
Share capital and reserves	12,123.1	15,769.2	64,681.7
Retained earnings	10,258.8	22,246.7	45,377.4
Total capital	<u>22,381.9</u>	<u>38,015.9</u>	<u>110,059.1</u>
Borrowings			
Subordinated loans	13,089.7	22,552.2	49,074.4
Financial institutions	43,839.7	63,475.6	144,596.3
Customers' accounts	152,320.0	217,969.6	334,162.8
Funding	209,356.9	372,424.0	689,988.7
Other items	6,388.7	14,950.4	74,021.7
Total borrowings	<u>424,995.0</u>	<u>691,371.8</u>	<u>1,291,843.9</u>

Figures for 2005 are presented using IFRS

Capital

As at 31 December 2005, the share capital of the Issuer was ISK 11,021 million and its consolidated retained earnings were ISK 45,377 million (2004: ISK 22,246.7 million).

Subordinated Loans

Subordinated loans amounted to ISK 49,074.4 million as at 31 December 2005, as compared with ISK 22,552.2 million as at 31 December 2004. The subordinated loans are included with equity for the purposes of meeting the minimum capital ratio requirement of 8 per cent., pursuant to Article 84 of the Act on Financial Institutions, No. 161/2002. See "Capital Adequacy" below.

Deposits

As at 31 December 2005, the Issuer's total deposits amounted to 35 per cent. of the total retail deposits in all of Iceland's commercial banks and savings banks. As at 31 December 2004 the Issuer's total deposits amounted to 31.14 per cent. of the total retail deposits in all of Iceland's commercial banks and savings banks, and the highest market share in domestic deposits. Most of the Issuer's deposits bear interest at floating rates.

Other Funding

The Issuer issues bonds and short-term promissory notes in the Icelandic domestic market to investors to finance its activities. The maturities of the bonds issued generally range from two to ten years, but some are

up to 25 years. Promissory notes have generally been issued with maturities ranging from 30 days up to 90 days.

Lending

The Issuer has endeavoured to diversify its loan portfolio to minimise the risk in lending and the Issuer generally requires its customers to provide collateral. The collateral taken by the Issuer will depend on the circumstances, the main types of collateral comprising pledged deposits and securities, real estate and fishing vessels. Decisions regarding the adequacy of collateral are made as a part of the process by which the relevant loan is authorised.

Total lending by Landsbanki Group amounted to ISK 1,071.5 billion as of 31 December 2005, increasing by 74 per cent. from the beginning of the year, when it was ISK 614.2 billion. Corporate lending was ISK 745 billion, or 68.6 per cent. of the total, while household lending was ISK 245 billion, or 22.4 per cent. of total lending.

The increase is primarily in corporate lending to major clients through Landsbanki's Corporate Banking division and the Bank's London branch, as well as in housing mortgages in Iceland. By far the largest individual sector is services, which at the end of December 2005 accounted for over ISK 297.4 billion, or around 27.7 per cent. of the Bank's total loan portfolio.

Loans to foreign parties and lending by subsidiaries abroad totalled ISK 354 billion at the end of December 2005, or 33 per cent. of total lending, as compared to ISK 170 billion at the beginning of 2005, or 27 per cent. of the overall portfolio. The accompanying figure shows how the share of foreign borrowers in the Bank's loan portfolio has increased in recent years.

As at 31 December 2005, approximately 58 per cent. by principal amount of loans made by the Issuer were denominated in foreign currency and 42 per cent. were denominated in Icelandic króna.

Large exposures

Clients are defined as large exposures if their total obligations exceed 10 per cent. of Landsbanki's equity, in accordance with FME's Rules No. 531/2002 on large exposures incurred by financial undertakings. Landsbanki's management pay special attention to large lending exposures and the Board of Directors is regularly informed of such positions. At the end of December 2005, there were eight clients included in this classification, with total exposures of ISK 179 billion, or 128 per cent. of the equity of Landsbanki Group. According to the Rules, total large exposures of parties with obligations exceeding 10 per cent. of the Bank's equity may never exceed 800 per cent. of equity.

The maximum obligations of individual company groups authorised by the rules is 25 per cent. of the Bank's equity. All of Landsbanki's large exposures were within these limits at the end of December 2005.

Risk Management

The business of banking involves risk, and the role of Landsbanki's risk management is to ensure that this is kept within acceptable limits. Risk is defined as uncertainty concerning the Bank's future performance, assessed for each of its risk categories. In the Bank's own policy, risk is defined as "the measurable probability of a loss or of less-than-expected profit". Risk management is aimed at protecting the Bank's financial strength and maintaining its good reputation. In practice, it follows several main principles: safeguarding the Group's financial solidity; defining administrative risk; independent risk assessment; and the development of methods of assessing and measuring risk. Landsbanki protects its financial solidity by requiring adequate reward for the risk it takes.

This involves regular evaluation of the Bank's risk appetite, for instance, by reviewing risk limits. The Board of Directors lays down the general framework for risk-taking. Bank management ensures transparent and efficient risk management by placing it in the hands of four permanent committees: the Credit Committee, Asset and Liability Committee ("ALCO"), Operations Committee and Asset Management Committee. The most important of these are the Bank's Credit Committee, which takes decisions on its lending activities and ALCO, which deals with questions concerning Securities and Treasury.

Internal Audit ensures that the Bank's finances and financial management comply with Acts and Regulations and with decisions taken by the Board of Directors. The Internal Audit division also ensures that monitoring of accounting and financial management is satisfactory and that the Bank's general system of internal checks and controls. In addition, within the Bank, specific departments supervise the Bank's risk taking and ensure

that the risks involved are in line with the Bank's strategy. The Bank's Credit Control division assesses the Bank's credit risk on an on-going basis, and Risk Management evaluates the risk levels of Securities and Treasury. Branch Management provides back-up for decision making in the Bank's branch network by co-ordinating projects and procedures for the branches and compiles and publishes the Branch Manual.

The role of middle management is to ensure that risk management strategies are implemented, procedures are properly documented and updated, and that the Bank's employees adhere to its regulations and procedures. Responsibility for operational risk within the Bank's subsidiaries rests with the management of those subsidiaries and for the parent company with the managing directors of each division.

Risk monitoring involves ensuring that total risk is always kept within defined and acceptable limits, and that the Bank possesses the technology and expertise to assess and limit its overall risk level. Landsbanki measures its risk exposure according to the varying nature of the risk, i.e. counterparty risk, market risk, operational risk and risk arising from a mismatch of assets and liabilities.

The principal responsibility of the Risk Management Department is to ensure that the risk exposure of the Issuer is at all times contained within defined and approved limits and that the Issuer remains at all times capable of calculating and limiting its risk exposure, both in its entirety and in respect of individual operating exposures. The principal risk exposures of the Issuer are credit risk, market risk, liquidity risk and operational risk.

The management of credit risk is central to the Issuer's management process and is carried out at both the transaction and portfolio levels. A Credit Policy Committee conducts the Issuer's credit process. The Credit Policy Committee, subject to approval of the Board of Directors, establishes all credit policies for the Issuer, approves underwriting standards and concentration limits and grants credit approval authority. The Credit Policy Committee also keeps the Board of Directors informed on portfolio quality, the portfolio's risk profile, problem loans and credit policy issues.

The Credit Policy Committee allocates the key resources required, establishes the overall risk capacity, sets portfolio profile targets at the corporate level and reviews individual credit decisions that pose unusual or potentially material risks to the Issuer. The Credit Policy Committee's responsibilities include maintaining sound credit processes and standards and reviewing exceptions to core credit policies. The Credit Policy Committee reviews and approves all commitments above ISK 1,000 million per account, and individual commitments above ISK 100 million.

A Credit Committee in the corporate finance department has the authority to approve commitments up to ISK 1,000 million per account and individual commitments up to ISK 100 million. Managers in the corporate finance department (at least two) have the authority to approve commitments up to ISK 500 million per account, and individual commitments up to ISK 50 million. Account managers with at least one manager in the department have the authority to approve commitments up to ISK 500 million per account and individual commitments up to ISK 10 million. Account managers are involved in the origination and underwriting process and are responsible for ensuring adherence to risk policies and underwriting standards.

The manager of the credit analysis department with one of his account managers has the credit authority for loans that are above the branch managers' limit but up to ISK 100 million per account with individual commitments up to ISK 20 million.

A specialised personal loans department handles the loans to individuals that are above the branch managers' limit.

All transactions or product offerings require approval by managers with the requisite credit limit. Credit authority is delegated by the Executive Committee to line management. More specifically, branch managers can have four different credit authorities, A, B, C and D, depending on the size of the branch and the experience of the branch manager. The highest one (A) is ISK 50 million per account with individual commitments up to ISK 10 million (with a maximum of ISK 8 million to individuals).

The Credit Policy Committee and the Credit Committee in the corporate finance department can also grant credit authority beyond the ISK 50 million limit to branch managers, on a case-by-case basis, in respect of larger accounts, as warranted. Branch managers are involved in the origination and underwriting process and are responsible for ensuring adherence to risk policies and underwriting standards.

All loans exceeding ISK 10 million are reviewed and evaluated by the corporate finance department, which submits recommendations to the Credit Committee. The corporate finance department also provides analytical support to credit management at the branch level, as required.

An independent credit control function, at staff level, monitors compliance by individual units with the Issuer's credit policies, works to ensure that credit due diligence and credit administration meet acceptable standards and is responsible for the effectiveness of the loan review process.

This is done by monitoring daily loan approvals and making enquiries when that is thought necessary. The department monitors and evaluates individual customers that are in default (overdue). The department visits branches and evaluates adherence to risk policies and underwriting standards as well as the quality of loans. A detailed report is made of the credit status of each branch. The department makes regular statistical analysis on the Issuer's loan portfolio and makes reports of the quality of the loan portfolio and its development.

The market risk of the Issuer is the risk of adverse deviation in the mark-to-market positions held in the Issuer's trading portfolio. Trading activities are undertaken both to meet the investment and risk management requirements of the Issuer's customers and to increase profits through proprietary trading. The Issuer trades in a variety of fixed-income securities, equities and foreign exchange instruments as well as derivatives. Two further components of market risk are interest rate risk and currency risk. Interest rate risk is the risk of a deterioration of profits through adverse interest rate movements. The Issuer manages the sensitivity of its earnings to interest rate movements by following established policy guidelines prepared by the Issuer's asset and liability management committee (see "Asset and Liability Management"). Currency risk is the risk of a deterioration of profits through adverse exchange rate movements. Active currency-risk activities are restricted to the Securities and Treasury Division, each acting within defined internal limits. Also, the Issuer operates within the limits set by the Central Bank.

Liquidity planning and management are necessary to ensure that the Issuer maintains the ability to fund its operations efficiently and to meet its current and future obligations such as its loan commitments and deposit payments. Liquidity is maintained by maturity management and by the ability of the Issuer to quickly liquidate assets, primarily securities.

Operational risk is the risk of the failure of the Issuer's computer hardware and software products. The Issuer has developed a detailed plan to address any technological problems with its internal computer systems.

Provisioning Process

Provisions for credit losses are based upon management's estimate of the amount necessary to maintain the reserves at an adequate level, considering evaluations of individual credits and concentrations of credit risk, net losses charged to the reserve, changes in the quality of the credit portfolio, levels of non-accrual loans and leases and current economic conditions, as well as changes in the size and character of the credit risks and other relevant factors. The reserve for credit losses comprises specific and general provisions and is deducted from the corresponding balance sheet items. It is available for future charge-offs of extensions of credit.

Specific provisions are earmarked to offset losses on loans to customers deemed to be at particular risk as a result of deteriorating financial strength, or when concern exists as to the ultimate collectability of principal or interest. General provisions are provisions that are not specifically allocated or restricted to any individual loan, or group of loans, but created to absorb general lending risk inherent in the portfolio. The reserve is increased by the provision for credit losses and by recoveries of items previously charged off, and is decreased as credits are charged off. A charge-off occurs once a probability of loss has been determined, with consideration given to such factors as the customer's financial condition, underlying collateral and guarantees.

Provisions for impairment

Provisions are made to a fund for impairment, to cover the risk incurred in Landsbanki's lending operations. Loans and other obligations are assessed in terms of the risk of loss. Based on this assessment, provisions are made for impairment losses and expensed against the relevant balance sheet item.

Provisions to cover impairment are determined by applying an impairment test to loans which fulfil specific requirements indicating an increased risk. The evaluation takes into consideration the future cash flow of individual loans or loan portfolios. If this proves to be less than the payback value of the loan on the date of settlement, the difference is expensed as a provision against impairment. Assessment involves, firstly, a detailed examination and assessment of the risk parameters of all loans by the Bank exceeding a specified amount. Secondly, all the Bank's other lending is divided into buckets with the same or similar risk

parameters. In this manner, the quality of all the Bank's loans is regularly evaluated and provisions to cover impairment determined.

Impairment provisions and final write-offs

Provisions to cover impairment during 2005 amounted to ISK 6,197 million or 0.58 per cent. of outstanding loan stock at the end of the period. Contributions for 2004 amounted to ISK 4,485 million, or 0.73 per cent. of outstanding loans at the end of 2004. Final write-offs during 2005 were ISK 1,998 million, as compared with ISK 3,611 million the previous year.

Provisions to cover impairment were equivalent to 1.23 per cent. of loans granted at the end of December 2005, and 1.34 per cent. of this same figure at year-end 2004. Provisions were 2.25 per cent. and 2.96 per cent. of loans and guarantees granted at the end of 2003 and 2002 respectively.

Default development

At the end of December 2005, Landsbanki's total defaults amounted to ISK 5,744 million, or around 0.72 per cent. of its total lending. At year-end 2004, total loans in default (one day or more overdue) were around 1.1 per cent. of total Group loans, as compared to 3.4 per cent. at year-end 2003 and 4.9 per cent. at year-end 2002.

Defaults have been decreasing in the past two years, both in absolute terms and as a percentage of total loans outstanding. Defaults vary depending on the type of loan and the nature and location of the branch. Defaults are highest, for example, for Landsbanki branches in the capital region on loans to households and small businesses, and proportionally lowest for Corporate Banking on exchange rate-linked loans to large corporations. Lower defaults can be partly attributed to positive economic developments and, in part, to extensive efforts to eliminate bad credit problems. The summary below shows Landsbanki's default situation and how this has developed since 2000. Defaults are classified according to length of time in arrears.

Market Risk

Market risk is the uncertainty to which future earnings are exposed as a result of changes in the value of portfolios of financial instruments. This risk is a consequence of trading and investing in the interest rate, foreign exchange and equity markets. Financial products that expose the Issuer to market risk include securities, forwards, swaps and options.

Asset and Liability Management

The Issuer has an asset and liability management committee ("ALCO") which generally meets weekly and consists of 10 members. The ALCO's objectives include controlling liquidity risk and asset allocation, monitoring market risk and approving the market risk measurement methodology, evaluating funding strategies and managing profitability and growth with the specific purpose of increasing shareholder value. It is the policy of the Issuer to match the maturities of its assets and liabilities.

Interest Rate Policy

Interest rates are set so as to cover the cost of funds in the market, operational costs and to generate an acceptable return.

Deposits and loans of the Issuer are generally based on floating interest rates, consisting of a base rate and a margin. The Issuer can and does vary the base rate in accordance with market conditions. The margins on fixed rate loans are subject to review in accordance with specific margin review clauses incorporated in the loan agreements, generally at three or five year intervals. ISK-denominated loans which exceed a term of five years are inflation-indexed.

The Issuer's general policy is to match the fixed rate loans in its loan portfolio with fixed rate funding. This applies particularly to fixed rate mortgage lending, representing a material part of the Issuer's fixed rate lending, which is funded with fixed rate bank bonds.

Foreign Currency Policy

The maximum trading limits for the foreign exchange traders are set by the Central Bank of Iceland. The total open position in foreign currencies may not exceed a maximum of 30 per cent. of the Issuer's total Tier I and Tier II capital. In addition, the open position in any one currency cannot exceed 15 per cent. of total Tier

I and II capital, except for positions in US dollars where it may not exceed 20 per cent. Depending on market conditions, the ALCO is able to impose stricter limits. The Issuer's policy is to hedge all foreign exchange derivative contracts.

Overseas subsidiaries

Heritable Bank Ltd.

In the second half of 2000, the Issuer continued its international expansion with the purchase of a 70 per cent. share in Heritable Bank in London. Following the acquisition, the Issuer continued to increase and strengthen its international services to customers. In 2002, the Issuer increased its stake in Heritable Bank to a total of 99.0 per cent., and then to 100.0 per cent. in 2003. In 2003, the Issuer granted Heritable Bank a full guarantee of all its obligations, as Heritable Bank is a deposit taking institution.

Heritable Bank was established in Glasgow in 1877 for the purpose of financing residential housing. The bank was listed on the Glasgow Stock Exchange until 1956, when it was privatised and its headquarters moved to London. The bank was located at Berkeley Square until the beginning of 2003, when it moved to Hill Street, in Mayfair, in the heart of London.

Heritable Bank specialises in consultancy and residential development financing. Heritable Bank's plan is to maintain and strengthen its current operations. Housing development financing has been boosted by the Issuer's participation in Heritable Bank's loans, enabling the Issuer to engage more effectively in niche markets. Of particular note has been the bank's success in attracting new customers to add to its strong existing base, with which it maintains significant levels of repeat business. Future strategy lies in the diversification of its activities into other areas of banking in the UK. The strategy will concentrate on carefully selected niche opportunities, backed by experienced management teams, and developed through a combination of start-ups and acquisitions.

In 2004, Heritable Bank continued to perform strongly in its core business of financing residential property developments in the UK. A number of new initiatives were launched to strengthen the business as a platform for future growth. In 2003, Heritable Bank commenced raising wholesale deposits from UK companies and local authorities. Consistent with the overall Group objective of expanding the deposit base, Heritable Bank obtained a Fitch credit rating during 2004.

Heritable Bank has seen a strong growth in assets since the diversification strategy was implemented in early 2003 when the assets amounted to £100m. Total assets at the end of September 2005 amounted to £551m with a strong growth in the old established property development finance business amounting to £200m. The specialist residential mortgage business that commenced in the third quarter of 2003 has seen the book grow to £251m with 60 per cent. of the mortgages for buy to let investment purpose and the balance being owner occupied. In April 2005, the bank acquired Key Business Finance Corporation that specialises in providing short term finance to the legal profession. In July 2005, an experienced team was recruited to start a small ticket asset finance business and the book had grown to £7m at September month end. Customer deposits of the Bank amounted to £431m at the end of September 2005. At the end of 2005, Heritable bank has 66 employees and nearly 8,000 customer accounts.

Landsbanki Luxembourg S.A.

Landsbanki Luxembourg S.A. is a wholly owned subsidiary of Landsbanki. In May 2003, Landsbanki Íslands hf. acquired all shares in Búnadarbanki International S.A. from Búnadarbanki Íslands hf. and the name was subsequently changed to Landsbanki Luxembourg S.A. The acquisition of a bank in Luxembourg was an important milestone in the ongoing strategy of expanding the international presence of the Landsbanki Group. Located in spacious and bright premises on 85-91 Route de Thionville in Luxembourg, the bank offers private banking, wealth management and other banking service facilities. Besides serving Iceland, the bank is involved in business in Scandinavia and Northern Europe, offering institutions financing and balance sheet management services. Landsbanki Luxembourg S.A. has at present 50 employees.

The Bank has two income areas: On the one hand, it provides specialised private banking services for high-net-worth individuals. On the other hand, it has developed products offered to targeted investor groups, taking into consideration the regulatory environment of their home country. Originally its lending activities were aimed, in particular, at smaller Nordic credit institutions but as the Bank has developed more extensive business contacts and a broader client base, this lending has decreased. The Bank's lending today generally takes one of three routes: loans to private banking clients for securities trading (Lombard); mortgages to purchase real estate in the Nordic countries, so-called K/S loans; and refinancing loans for real estate purchases in France and Spain, secured with a mortgage in the property or in funds under management. All

the Bank's loans are extremely well secured; defaults and credit losses are negligible. At year-end 2005, total assets under management consisted of EUR 3,800 million and the Bank's total assets amounted to EUR 2,670 million. Employees of Landsbanki Luxembourg and Lex Life & Pension are currently 64.

Teather & Greenwood

Teathers is a UK independent stockbroker specialising in institutional stockbroking and corporate finance advisory services in the small and mid-cap sectors and has a large-cap institutional agency business. Teathers is also active in the closed-end funds sector. The Teathers Group provides clients with a fully integrated service spanning corporate finance advice and execution, equities research, institutional sales and market making. In March 2005, it employed 119 people in offices in London and Edinburgh and was adviser to 114 companies, including 40 investment funds.

For the year ended 30th April, 2004, Teathers reported a profit on ordinary activities before tax of £1,336,000 (2003: loss £6,761,000) on turnover of £18,793,000 (2003: £18,745,000). Fully diluted earnings per share were 2.1 pence (2003: loss per share 21.8 pence). For the six months ended 31 October 2004, turnover from continuing activities was £9,625,000 (2003: £9,760,000) and profits before tax increased by approximately 47 per cent. to £860,000 (2003: £585,000). Fully diluted earnings per share had grown by 87.5 per cent. to 1.5 pence.

Landsbanki, with limited domestic growth opportunities, the expansion of its operations overseas is a strategic priority. The focus of Landsbanki's strategy is to achieve diversification of income, whilst broadening sector and geographic coverage and the generation of recurring revenues. Landsbanki's expansion goals also include achieving economies of scale with a positive impact on operational costs and funding, and the acquisition of high quality financial institutions in order to achieve growth in Europe. Landsbanki views the acquisition of an established and reputable broking franchise in the UK such as Teathers as an excellent opportunity to progress its international expansion strategy.

Landsbanki intends to contribute significantly to the growth of Teathers through providing Teathers' clients with access to Landsbanki's broader range of corporate and investment banking products and services, including structured finance. Landsbanki intends to provide the capital required to support Teathers' management in delivering its ambitious plans for growth.

Kepler Equities

On 5 September 2005, Landsbanki announced that it has reached an agreement to acquire Kepler Equities SA (Kepler), a European securities company, previously known as the Julius Bär Brokerage. Initially Landsbanki will acquire 81 per cent. of the total shares for a consideration of EUR 76.1 million (ISK 5,846 million), valuing Kepler at total EUR 94 million (ISK 7,220 million). Landsbanki will acquire the remaining shares, currently held by employees, over a five-year period through an earn-out arrangement. Kepler's net asset value is EUR 59.8 million and the purchase price-to-book ratio is 1.57. The sellers are Lightyear, a US private equity house, Bank Julius Bär in Switzerland and Kepler's employees.

Kepler is a leading continental European securities company, providing research-based institutional brokerage and securities placement. The company has operations in Amsterdam, Frankfurt, Madrid, Milan, Paris and Zürich, and a dedicated sales team in New York through a service agreement with Bank Julius Bär. Kepler provides local research coverage of over 430 European companies, has over 800 institutional clients and a total of 240 employees.

This acquisition represented a unique opportunity for Landsbanki to achieve pan-European presence through one acquisition. It furthermore provides Landsbanki with a strong platform for future growth in corporate and investment banking, access to secondary trading in key European markets, and makes a strong strategic fit with Teather & Greenwood.

Merrion Capital

A 50 per cent. stake in Merrion Capital was acquired by Landsbanki in November 2005.

Established in 1999, Merrion is a leading independent stockbroking and corporate finance firm in Ireland. Merrion employs 75 people. Currently 70 per cent. of its shares are held by staff and 30 per cent. by a New York based investment bank, Allen & Company Inc. Merrion has been profitable since its inception and is expected to generate pre-tax profits of between €7 – 7.5 million in 2005.

Merrion Capital is a young and dynamic force in the Irish financial services market and has a strong reputation for quality. In stockbroking, Merrion has an international reputation for the quality and independence of its research and sales teams. In the most recent Finance Magazine Survey, Merrion won the major categories of Best Salespersons, Best Analyst, Most Objective Research, and Best Website. In Corporate Finance, Merrion has advised on over fifty corporate finance transactions, with a combined value of about €12 billion. Merrion has been involved in many of the largest and most notable transactions in the Irish market, including the take-private of Jefferson Smurfit, the IPO of Eircom, (both €3.5 billion enterprise value deals) and the sale of ACC Bank by the Irish Government. Merrion has been involved in the Irish Finance Magazine's "Deal of the Year" on two occasions in the last 4 years. The company has a 5–10 per cent. share in its various markets.

Competition

The principal competitors to the Issuer in the Icelandic domestic market are Íslandsbanki hf., Kaupthing Bank and the savings banks, while competition from foreign banks remains limited. Other domestic competitors include Straumur and the State Housing Fund.

Capital Adequacy

Article 84 of the Act on Financial Undertakings, No. 161/2002, requires an 8 per cent. minimum risk weighted capital ratio according to the European Union Capital Adequacy Directive standards. The capital ratio of the Issuer Group was 13.1 per cent. at 31 December 2005. Total capital and reserves, together with subordinated loans, amounted to ISK 139,709.5 million as at 31 December 2005, of which ISK 126,635.3 million consisted of Tier I capital. The Issuer's capital adequacy ratio objective is about 10 per cent. However, during the current year organic growth and international acquisitions of Landsbanki management feels that is prudent to maintain a strong capital ratio.

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

Management

The Annual Shareholders' Meeting elects the Board of Directors which consists of five members and five alternates for the following year. The Board of Directors is in charge of the general supervision of the operations of the Issuer and its specific tasks include:

- appointing the Group Managing Director and Chief Executive Officer of the Issuer and the senior manager of the Issuer's Internal Auditing department and confirming the appointment of Managing Directors and the Alternate Group CEO,
- confirming proposals of Management regarding the main elements in the administration of the Issuer, defining the Issuer's policy regarding interest rates and service charges and establishing rules for the credit process.

On 22 April 2003, the Board of Directors of the Issuer appointed Sigurjón Th. Árnason as Joint Group Managing Director and Chief Executive Officer of Landsbanki to work with Halldór J. Kristjánsson. Sigurjón Th. Árnason is responsible for the Corporate Banking, Securities and Treasury divisions and Halldór J. Kristjánsson is responsible for the International Banking, Capital Management and Retail Banking divisions.

The current Chief Executive Officers and Managing Directors of the Issuer and of key subsidiaries of the Issuer are:

Halldór J. Kristjánsson	Joint Group Managing Director and CEO
Sigurjón Th. Árnason	Joint Group Managing Director and CEO
Haukur Thór Haraldsson	Finance and Operations CFO
Brynjólfur Helgason	International Banking, Alternate CEO
Mark Sismey-Durrant	CEO of Heritable Bank
Gunnar Thoroddsen	CEO of Landsbanki Luxembourg
Stefán H. Stefánsson	Asset Management

Gudmundur Gudmundsson	IT
Ingólfur Gudmundsson	Private Banking
Hermann Jónasson	Sales and Marketing
Elín Sigfúsdóttir	Corporate Banking
Yngvi Örn Kristinsson	Securities and Treasury
Ársaell Hafsteinsson	Legal Department and Compliance
Atli Atlason	Human Resources
Stéphane Michel	CEO of Kepler Equities
Nick Stagg	CEO of Teather and Greenwood
John Conroy	CEO of Merrion Capital

The current Board of Directors comprises:

Björgólfur Gudmundsson (Chairman)
Kjartan Gunnarsson (Vice Chairman)
Thorgeir Baldursson
Thór Kristjánsson
Gudbjörg Matthíasdóttir

The business address of each of the Chief Executive Officers, Managing Directors and members of the Board of Directors is Landsbanki Íslands hf., Austurstraeti 11, 155 Reykjavik, Iceland.

None of the directors hold executive office. Kjartan Gunnarsson is on the board of Heritable Bank. Thorgeir Baldursson is on the Board of SP-Fjármögnun. Halldór J. Kristjánsson is on the board of Greidslumidlun hf. (VÍSA), Heritable Bank Ltd. and Landsbanki Luxembourg S.A. Sigurjón Th. Árnason is on the board of Hömlur hf., Heritable Bank Ltd., Landsbanki Luxembourg S.A. and Landsafl hf.

There are no potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests or duties.

Financial Markets in Iceland

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

Until the end of 1999, the Icelandic banking system consisted of three investment banks, Kaupthing, Samvinnusjóður and FBA (The Icelandic Investment Bank), four commercial banks and 26 savings banks. On 2 April 2000, the proposed merger between The Icelandic Investment Bank and Íslandsbanki hf. was approved by the Board of Directors and the merger became effective as of 2 June 2000. Two of the commercial banks that have traditionally been majority state-owned (the Issuer and Búnaðarbanki) have now been or are being fully privatised; one is a public limited company (Íslandsbanki) and one is owned by the savings banks and operates as their central banking institution (Icebank). The state-owned banks were transformed into public limited companies as of the beginning of 1998. In the second half of 1998 new shares amounting to 15 per cent. of total equity were publicly offered in each bank. A year later the privatisation process continued and at the end of 2001 the Issuer was 68.29 per cent. state-owned and Búnaðarbanki was 51.8 per cent. state-owned. The privatisation of Búnaðarbanki is expected to be completed in 2003. The funding of the commercial and savings banks is mainly based on deposits, but they also issue in the domestic capital market and are regular borrowers in foreign markets. While the investment credit funds that now have merged into FBA have provided long-term funds to industries, the commercial and savings banks have traditionally been the main source of short and medium term credit in Iceland. The total assets of the banking system amounted to around ISK 854 billion at the end of 2000, which is 127.9 per cent. of GDP.

In January 1998, four state-owned investment funds merged into two separate entities, FBA and the New Business Venture Fund. The former is now a public company and has merged into Íslandsbanki, but the latter will remain as a state owned provider of soft loans and venture capital Nysköpunarsjóður Atvinnulífsins. In June 2000 a new bank, Frjalsi Fjarfestingarbani, was formed when Samvinnusjóður and Fjarvangur, a brokerage firm, merged. Just before the end of 2000, Kaupthing purchased Frjalsi Fjarfestingarbani. In early 2001 Kaupthing purchased the remaining shares of Frjalsi Fjarfestingarbani. In January 2002, a commercial banking licence was issued to Kaupthing, which subsequently has changed its name to Kaupthing Bank hf. On 1 January 2003 Kaupthing Bank and Búnaðarbanki merged, creating the largest bank in Iceland in terms of total assets and market capitalisation.

A new Housing Financing Fund (www.ils.is) was established at the beginning of 1999. The new fund is based on legislation approved by the Parliament in June 1998, which is aimed at rationalising the existing state housing fund system. The Regional Development Institute will remain a state-owned institution. The Housing Financing Fund used to be by far the largest provider of financing for residential housing in Iceland but with the competition from the banks in market share has shrunk to below 50 per cent. There is an ongoing debate about the future of the Fund, centring around its structure and ownership and function.

Six domestic securities houses are currently operating in Iceland. Four of them operate mutual funds, of various kinds, including funds which invest partly or solely in foreign securities. Two leasing companies have operated in Iceland for a number of years and are now an integral part of the financial market.

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

At the beginning of 1999, the Bank Inspectorate of the Central Bank of Iceland and the Insurance Supervisory Authority were merged into a new independent entity, the Financial Supervisory Authority (www.fme.is). The field of supervision covered by the new entity is the whole range of financial institutions and insurance companies and pension funds.

The Central Bank (www.sedlabanki.is) 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. As of 1 April 2003, the use of reserves as collateral in payments systems will be limited to half the negotiated collateral amount. The purpose of this limitation is to ensure that credit institutions have sufficient margin on the reserve requirement account to meet fluctuations in their liquidity

positions. At the end of March 2001 the Central Bank of Iceland, at the suggestion of, among others, the International Monetary Fund, abolished the currency target fluctuation bands of the króna. Instead, the Central Bank adopted inflation targeting as the framework of monetary policy and full instrument independence was given to the Central Bank for reaching the target. This was a logical extension of the development towards greater exchange rate flexibility and a closer focus on price stability, which began in 1995.

The Iceland Stock Exchange (www.icex.is) operates under new legislation adopted in 1998, that required the Exchange to be converted into a limited liability company, abolished its monopoly on exchange activities but at the same time gave it increased scope to grow and offer new services. Currently there are 19 members, including one foreign entity, of the Exchange. Among securities listed on the exchange are stocks of 48 companies and approximately 446 issues of government securities, bonds and bills, primarily by credit institutions. All news items relating to the stock exchange, including all Landsbanki press releases, are found on the web at news.icex.is. In the autumn of 2000, the Iceland Stock Exchange joined NOREX, a joint project of the Nordic stock exchanges. This represented an important step toward facilitating access to the Icelandic stock market for foreign investors. One of the main benefits from the NOREX Alliance is the SAXESS trading system, which is used by all NOREX participants.

For banks outside of Italy to be able to issue and sell bonds and papers to Italian investors, The Bank of Italy has requested to have a notification from the respective financial authorities confirming the relevant banks' functionality in its home market. The process of this notification to the Bank of Italy and their notification of its receipt is called mutual recognition. This process has been completed for the Icelandic banks.

Taxation

Iceland

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of the Notes and Coupons. They may not apply to certain classes of person such as dealers. Prospective holders of the Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

1. There are no taxes or other governmental charges payable under the laws of Iceland or any authority of or in Iceland in respect of the principal of or interest on the Notes by a holder who is not a resident of Iceland or in respect of any amount payable under the Programme Agreement, the Agency Agreement or the Deed of Covenant.
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 any time of the death of the holder or the transfer of the Notes, such holder or transferor is not a resident of Iceland.
3. The Issuer is not required by the current laws of Iceland to make any deduction or withholding from any payment of principal or interest due to non-Icelandic tax residents or to become due under the Notes or from any amount payable under the Programme Agreement, the Agency Agreement or the Deed of Covenant.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 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.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

(i) *Non-resident holders of Notes*

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-residents holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

However, under the Luxembourg laws of 21 June 2005 (the "Laws"), implementing the Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "Territories"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which are resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be

assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

(ii) *Resident holders of Notes*

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

However, under the Luxembourg law of 23 December 2005 (the “Law”) payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

Subscription and Sale

The Dealers have, in an amended and restated programme agreement dated 20 April 2006 the “Programme Agreement”), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”) and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Iceland

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will not offer Notes to the public in Iceland, except in compliance with the Icelandic Act on Securities Transactions (No.33/2003), as amended, and any applicable laws or regulations of Iceland.

The Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months will be offered in the Netherlands in accordance with the Securities Transactions Supervision Act 1995 (“*Wet toezicht effectenverkeer 1995*”).

Italy

The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to professional investors (“*operatori qualificati*”), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended; or
- (ii) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993 (the “Banking Act”), as amended; and
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (c) in accordance with any other applicable laws and regulations.

France

Each of the Dealers and the Issuer has represented and agreed that:

- (i) it has only made and will only make an offer of Notes to the public (*appel public à l'épargne*) in France in the period beginning (i) when a prospectus in relation to those Notes has been approved by the *Autorité des marchés financiers* (“AMF”), on the date of such publication or, (ii) when a prospectus has been approved in another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, all in accordance with articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF, and ending at the latest on the date which is 12 months after the date of such publication; or
- (ii) it has only made and will only make an offer of Notes to the public in France (*appel public à l'épargne*) and/or it has only required and will only require the admission to trading on Euronext Paris S.A. in circumstances which do not require the publication by the offeror of a prospectus pursuant to articles L.411-2 and L.412-1 of the French *Code monétaire et financier*; and
- (iii) otherwise, it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Offering Circular or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

General Information

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 17 February 2000 and a resolution of the Group Managing Directors and Chief Executive Officers of the Issuer dated 28 April 2000. This update was authorised by resolutions of the Board of Directors of the Issuer dated 2 November 2005 and a resolution of the Group Managing Directors and Chief Executive Officers of the Issuer dated 10 April 2006.

Listing of Notes on the Luxembourg Stock Exchange

Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange has allocated the number 12378 to the Programme for listing purposes. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC).

Documents available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (i) the articles of association (with an English translation thereof) of the Issuer;
- (ii) the audited financial statements of the Issuer in respect of the financial years ended 31 December 2004 and 2005 (with an English translation thereof) in each case together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis the Issuer does not currently prepare non-consolidated accounts;
- (iii) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer (with an English translation thereof) in each case together with any audit or review reports prepared in connection therewith. The Issuer currently prepares unaudited consolidated interim accounts on a quarterly basis;
- (iv) the Programme Agreement, the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Offering Circular;
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (vii) in the case of each issue of Notes admitted to trading on the Luxembourg Stock Exchange regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or material change

There has been no significant change in the financial or trading position of the Issuer, and there has been no material adverse change in the financial position or prospects of the Issuer, since 31 December 2005.

Litigation

Neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Issuer and its subsidiaries, taken as a whole.

Auditors

The auditors of the Issuer are PricewaterhouseCoopers hf, Chartered Accountants and Registered Auditors and members of The Institute of State Authorised Public Accountants in Iceland, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in Iceland for each of the two financial years ended on 31 December 2005. The auditors of the Issuer have no material interest in the Issuer.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any assets underlying any Notes constituting derivative securities.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its affiliates in the ordinary course of business.

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