

## OFFERING CIRCULAR



KAUPTHING BANK

**KAUPTHING BANK HF.**

*(incorporated in Iceland as a public limited company)*

**€8,000,000,000**

### **Euro Medium Term Note Programme**

Under this €8,000,000,000 Euro Medium Term Note Programme (the “**Programme**”), Kaupthing Bank 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). Prior to the date of this Offering Circular, the Issuer issued Notes under the Programme using an English spelling of its Icelandic legal name, Kaupthing Bunardabanki hf.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €8,000,000,000 (or its equivalent in other currencies calculated as described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “**Summary 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 purchase such Notes.

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular 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 pricing supplement (the “**Pricing Supplement**”) which, with respect to Notes to be listed on the Luxembourg Stock Exchange, will be delivered to the Luxembourg Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes.

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 (in the case of Notes intended to be listed on the Luxembourg Stock Exchange) a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

The Programme is rated by Moody’s Investors Service Limited (“**Moody’s**”). Senior Notes issued under the Programme may be rated or unrated. Where an issue of Senior 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.

#### **Arranger**

**Credit Suisse First Boston**

#### **Dealers**

|                                      |   |
|--------------------------------------|---|
| <b>Banca IMI</b>                     | <b>Barclays Capital</b>                     |
| <b>Credit Suisse First Boston</b>    | <b>Daiwa Securities SMBC Europe</b>         |
| <b>Deutsche Bank</b>                 | <b>Dresdner Kleinwort Wasserstein</b>       |
| <b>Handelsbanken Capital Markets</b> | <b>IXIS Corporate &amp; Investment Bank</b> |
| <b>Kaupthing Bank</b>                | <b>Nordea</b>                               |
| <b>SEB Merchant Banking</b>          |   |

The date of this Offering Circular is 17th December, 2004

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information which is material in the context of the issuance and offering of Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

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

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.

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, the 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 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 United Kingdom, Japan and Iceland, see “*Subscription and Sale*”.

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

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In connection with the issue and distribution of any Tranche of Notes, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement (or any person acting for him) may over-allot 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 not otherwise prevail for a limited period after the issue date. However, there may be no obligation on the stabilising manager or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published audited non-consolidated annual financial statements and the most recently published audited annual consolidated financial statements (if any) of the Issuer and, if published later, the most recently published interim non-consolidated financial statements and the most recently published interim consolidated financial statements (if any) of the Issuer; and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuer from time to time,

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

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its offices set out at the end of this Offering Circular. In addition, such documents will be available, free of charge, from the principal office in Luxembourg of Banque Générale du Luxembourg S.A. (the “**Luxembourg Listing Agent**”) for Notes listed on the Luxembourg Stock Exchange.

The Issuer will, in connection with the listing of the Notes on the Luxembourg Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer which is not reflected in this Offering Circular, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of the Notes to be listed on the Luxembourg Stock Exchange.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

## 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 below. 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 Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under “*Form of the Notes*” below.

This Offering Circular and any supplement will only be valid for listing Notes on the Luxembourg Stock Exchange during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €8,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) the euro equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the euro equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the relevant Notes, described under “*Form of the Notes*”) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## SUMMARY OF THE PROGRAMME

*The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. 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:               | Kaupthing Bank hf.  |
| Description:          | Euro Medium Term Note Programme   |
| Arranger:             | Credit Suisse First Boston (Europe) Limited   |
| Dealers:              | Banca IMI S.p.A.<br>Barclays Bank PLC<br>Credit Suisse First Boston (Europe) Limited<br>Daiwa Securities SMBC Europe Limited<br>Deutsche Bank AG London<br>Dresdner Bank Aktiengesellschaft<br>IXIS Corporate & Investment Bank<br>Kaupthing Bank hf.<br>Nordea Bank Danmark A/S<br>Skandinaviska Enskilda Banken AB (publ)<br>Svenska Handelsbanken AB (publ)<br><br>and any other Dealers appointed in accordance with the Programme Agreement. |
| Certain Restrictions: | Each issue of Notes denominated in a currency 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 “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Offering Circular.        |

### Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “Subscription and Sale”.

|                                     |  |
|-------------------------------------|--|
| Issuing and Principal Paying Agent: | Deutsche Bank AG   |
| Programme Size:                     | Up to €8,000,000,000 (or its equivalent in other currencies calculated as described under “ <i>General Description of the Programme</i> ”) 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.   |
| Redenomination:  | The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 4.  |
| Maturities:  | Such maturities 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 “ <i>Form of the Notes</i> ”.   |
| 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"> <li>(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</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.</li> </ul> <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: | <p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked 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</p>   |



|                             |  |
|-----------------------------|--|
|                             | 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:                 | <p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (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 and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Pricing Supplement 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 Pricing Supplement.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see “<i>Certain Restrictions – Notes having a maturity of less than one year</i>” above.</p> |
| 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 near equivalent in other currencies), see “ <i>Certain Restrictions – Notes having a maturity of less than one year</i> ” above.  |
| 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 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.  |
| Negative Pledge:            | The terms of the Notes will contain a negative pledge provision as further described in Condition 3.   |
| Cross Default:              | The terms of the Notes will contain a cross default provision as further described in Condition 10.  |
| Status of the Senior Notes: | The Senior Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, 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 Subordinated Notes will be subordinated as described in Condition 2(b).  |
| Rating:               | The Programme is rated by Moody's. Senior Notes issued under the Programme may be rated or unrated. Where an issue of Senior 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:              | <p>Application has been made for Notes issued under the Programme to be listed on the Luxembourg Stock Exchange. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series.</p> <p>Unlisted Notes may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).</p> |
| Governing Law:        | The Notes will be governed by, and construed in accordance with, English law, except the provisions of Condition 2(b) 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 United Kingdom, Japan, Italy and Iceland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see " <i>Subscription and Sale</i> ".  |

## 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 Pricing Supplement, 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 depository (the “**Common Depository**”) 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 a 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 Pricing Supplement and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Pricing Supplement), 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 Pricing Supplement 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 10) 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 14 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 Pricing Supplement.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. 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 28th April, 2004 and executed by the Issuer.

## Applicable Pricing Supplement

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

[Date]

### KAUPTHING BANK HF.

#### Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the €8,000,000,000 Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 17th December, 2004. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular.

*[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 Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

*[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 sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]*

1. Issuer: Kaupthing Bank 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) Series: [ ]  
(ii) Tranche: [ ]
5. (i) Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]  
(ii) Net proceeds [ ]
6. Specified Denominations: [ ]  
*(The minimum denomination of a Note shall not be less than €1,000 or its near equivalent in other currencies)*

7. (i) Issue Date: [ ]
- (ii) Interest Commencement Date: [ ]
8. Maturity Date: *[Fixed rate – specify date/  
Floating rate – Interest Payment Date  
falling on or nearest to [specify month]]*
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]*
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]
- (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, i.e. if the Notes  
are subordinated or are to be listed on a  
stock exchange outside the European  
Economic Area)*
14. Listing: [Luxembourg/specify other/None]
15. Method of distribution: [Syndicated/Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16. **Fixed Rate Note Provisions** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining  
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 5(a))*

|       |  |   |
|-------|--|---|
| (ii)  | Interest Payment Date(s):  | [[ ] in each year up to and including the Maturity Date]/[specify other]<br>(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<br>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon<br>NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration<br>NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA)] |
| (vii) | Other terms relating to the method of calculating interest for Fixed Rate Notes:               | [None/Give details]   |
| 17.   | <b>Floating Rate Note Provisions</b>   | [Applicable/Not Applicable]<br>(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:  | [ ]<br>(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 TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- Relevant Screen Page: [ ]  
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (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/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
30E/360  
Other]  
(See Condition 5 for alternatives)
- (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: [ ]
- 18. **Zero Coupon Note Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [ ] per cent. per annum
- (ii) Reference Price: [ ]
- (iii) Any other formula/basis of determining amount payable: [ ]
- (iv) Day Count Fractions in relation to Early Redemption Amount and late payment: [Conditions 7(e)(iii) and 7(j) apply/specify other]  
(Consider applicable day count fraction if not U.S. dollar denominated)

19. **Index Linked Interest Note Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
  - (ii) Calculation Agent responsible for calculating the interest due: [ ]
  - (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [ ]
  - (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: [ ]
20. **Dual Currency Interest Note Provisions** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
  - (ii) Calculation Agent, if any, responsible for calculating the interest payable: [ ]
  - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
  - (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

#### **PROVISIONS RELATING TO REDEMPTION**

21. **Issuer Call:** [Applicable/Not Applicable]  
(If not applicable, delete the remaining sub-paragraphs 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)*
22. Investor Put: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs 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)*
23. Final Redemption Amount of each Note: [[ ] per Note of [ ] Specified Denomination/specify other/see Appendix]
24. 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 7(e)): [ ] per Note of [ ] Specified Denomination

#### **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 17(iii) and 19(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]

## DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]
33. If non-syndicated, name of relevant Dealer: [ ]
34. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]
35. Additional selling restrictions: [Not Applicable/give details]

## OPERATIONAL INFORMATION

36. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
37. Delivery: Delivery [against/free of] payment

|  |     |
|--|-----|
| 38. Additional Paying Agent(s) (if any): | [ ] |
| ISIN:                                    | [ ] |
| Common Code:                             |     |
| (insert here any other relevant codes)   | [ ] |

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## [LISTING APPLICATION]

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the €8,000,000,000 Euro Medium Term Note Programme of Kaupthing Bank hf.]

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: .....  
*Duly authorised*

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6, 7 (except Condition 7(b)), 11, 12, 13, 14 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 16, they will not necessitate the preparation of a supplement to this Offering Circular. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, a supplement to this Offering Circular will be prepared, if appropriate.

## 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 relevant stock exchange or other relevant authority (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 Pricing Supplement 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 Pricing Supplement (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 Pricing Supplements 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 Kaupthing Bank 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 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 28th April, 2004 and made between the Issuer, Deutsche Bank AG London 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 Pricing Supplement, 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 Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements 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 these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "**applicable Pricing Supplement**" are to the Pricing Supplement (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 28th April, 2004 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (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 Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement 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 Pricing Supplement which are applicable to them. The statements in these Terms and 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 Pricing Supplement shall have the same meanings where used in these Terms and 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 Pricing Supplement, the applicable Pricing Supplement 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 Pricing Supplement.

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 upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

This Note may also be a Senior Note or a Subordinated Note, as indicated in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and 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 Pricing Supplement.

## **2. STATUS OF THE SENIOR NOTES AND SUBORDINATION**

### **(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 3) 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) Subordination**

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 No. 161/2002 (the “**Act**”) of the Icelandic Parliament, and rank *pari passu* and ratably and without any preference among themselves and accordingly, on the insolvency or 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 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 the refund of any share capital and/or establishment funds (*hlutafe eda stofnfe*) and/or comparable capital and reserves (*sambaerilegt eigid fe*) 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 these provisions). The provisions of this Condition 2(b) shall be governed by, and construed in accordance with, Icelandic law.

### 3. NEGATIVE PLEDGE

So long as any of the Notes, Receipts or Coupons remains outstanding the Issuer undertakes that it will not and that it will procure that none of its 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 indemnify in respect of any Relevant Indebtedness unless (a) all amounts payable by it under the Notes, Receipts and Coupons are equally and ratably 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 these 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 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 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;

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

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

#### 4. REDENOMINATION

##### (a) *Redenomination*

Where redenomination is specified in the applicable Pricing Supplement 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 14, 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 into euro in the denomination of euro 0.01 with a principal amount for each Note and Receipt equal to the principal 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 into euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and 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 principal 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; and
- (vii) if the Notes are Floating Rate Notes, the applicable Pricing Supplement will specify any relevant changes to the provisions relating to interest.

(b) *Definitions*

In these 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.

## 5. 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 Pricing Supplement, 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 Pricing Supplement, amount to the Broken Amount so specified.

As used in these Terms and 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 5(a):

- (i) if “Actual/Actual (ISMA)” is specified in the applicable Pricing Supplement:
  - (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 Pricing Supplement) 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 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 Pricing Supplement, 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 these Terms and 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 prior to, and ending 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, 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 Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, 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 Pricing Supplement 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 these Terms and 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 Pricing Supplement and (x) if there is no numerically corresponding day on 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 5(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 these Terms and 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 London and any Additional Business Centre specified in the applicable Pricing Supplement; 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 London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, 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 Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (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 Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; 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 Pricing Supplement.

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 Pricing Supplement 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 Pricing Supplement) 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 Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

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

If the applicable Pricing Supplement 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 Pricing Supplement 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 5(b):

- (i) if “Actual/365” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (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 Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Pricing Supplement, 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 Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 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 Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 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 and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the first day of the relevant Interest Period. 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 14. 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 5(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 Pricing Supplement.

(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 Pricing Supplement.

(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 14.

**6. 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 Sydney and Auckland, 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 8.

(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 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) 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 9) 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;
  - (B) London;
  - (C) any Additional Financial Centre specified in the applicable Pricing Supplement;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, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand

dollars shall be Sydney or Auckland, 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 these Terms and 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 8;
- (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 7(e)); 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 these Terms and 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 8.

## **7. 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 Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

The Notes may 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 14, 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 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) 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.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) 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 Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; 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 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 Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. 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 14 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 14 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 Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 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 Pricing Supplement, such Note on the Optional Redemption Date and at the 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, if this Note is in definitive form, 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 this 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 shall have occurred and be 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 10.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 10, 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 Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, 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:

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

where:

"**RP**" means the Reference Price;

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

“**y**” 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 Pricing Supplement.

(f) *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 (e) above.

(g) *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 Pricing Supplement.

(h) *Purchases*

The Issuer or any Subsidiary of the Issuer may 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. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(i) *Cancellation*

All Notes which are redeemed 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 and any Notes purchased and cancelled pursuant to paragraph (h) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(j) *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 10 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 (e)(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 14.

## 8. 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 duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the 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:

- (i) 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 a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (ii) 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 6(e)); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (A) “**Tax Jurisdiction**” means Iceland or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes, Receipts and Coupons; and
- (B) “**Relevant Date**” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the 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 14.

## 9. 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 8) 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 6(b) or any Talon which would be void pursuant to Condition 6(b).

## 10. EVENTS OF DEFAULT

### (a) *Events of Default relating to Senior Notes*

If any one or more of the following events (each an “**Event of Default**”) shall occur with respect to any Senior Note:

- (i) if default is made in the payment of any principal, premium (if any) or interest due in respect of the Notes or any of them and the default continues for a period of three days in the case of principal or premium (if any) and seven days in the case of interest; or
- (ii) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring the same to be remedied; or
- (iii) if any borrowed money of the Issuer or any of its Principal Subsidiaries is not paid when due or becomes (whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same) due and payable by reason of any default (however described) prior to the date when it would otherwise have become due or any creditor of the Issuer or any of its Principal Subsidiaries becomes entitled to declare any such Borrowed Money due and payable by reason of any default (however described) or any facility or commitment available to the Issuer or any of its Principal Subsidiaries relating to Borrowed Money is withdrawn, suspended or cancelled by reason of any default (however described) of the company concerned, provided that, for the purposes of this sub-clause (iii), the Borrowed Money must, when aggregated with all other Borrowed Money to which any part of this Condition 10(a)(iii) applies, exceed 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 of its Principal Subsidiaries, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders; or
- (v) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of the Noteholders, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (vi) if (A) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or 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 of its Principal Subsidiaries or, as the case may be, in relation to the whole or a part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) the same is not discharged within 14 days; or
- (vii) if the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition,

reorganisation or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

then any 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 Notes held by the holder to be forthwith due and payable whereupon the same shall become forthwith due and payable at their Early Redemption Amount (as described in Condition 7(e)), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of this Condition:

***“Principal Subsidiary”*** at any time shall mean a Subsidiary of the Issuer inter alia:

- (A) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than five per cent. of the consolidated gross revenues, or, as the case may be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries; or
- (B) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately before the transfer is a Principal Subsidiary,

all as more particularly defined in the Agency Agreement.

A report by the Auditors 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 Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

(b) *Enforcement relating to Subordinated Notes*

- (i) If the Issuer fails to meet its obligations under the Subordinated Notes, any Noteholder may, at its own discretion and without further notice, institute proceedings in Iceland for the compulsory winding-up of the Issuer in accordance with Act No. 161/2002 on Financial Undertakings.
- (ii) Any Noteholder 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 the Subordinated Notes shall become due and payable at their Early Redemption Amount together with interest accrued to the date of repayment, without presentment, demand, pretext or other notice of any kind.

## 11. **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.

## **12. 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 undertakes that it will ensure that it maintains 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 other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 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 6(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 14.

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.

## **13. 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 9.

## **14. 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 the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange (or any other relevant authority) on which the Notes are for the time being listed or by which they have been admitted to listing. 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 or are admitted to listing by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. 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.

## **15. 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. Such a meeting may be convened by the Issuer or Noteholders holding not less than five 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 the 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 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 14 as soon as practicable thereafter.



## 16. 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.

## 17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

### (a) *Governing law*

The Agency Agreement, the Deed of Covenant, the Notes (other than Condition 2(b)), the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law. Condition 2(b) 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 appoints Kaupthing Limited of 135-137 New Bond Street, London W15 2TG, England as its agent for service of process, and undertakes that, in the event of the Kaupthing Limited ceases so to act or ceases to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### (d) *Waiver of immunity*

The Issuer hereby irrevocably and unconditionally waives with respect to 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 and appointed an agent for service of process 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 its general corporate purposes.

## CAPITALISATION

### Capitalisation of the Issuer

The following table sets forth the capitalisation of the Issuer as at 30th September, 2004.

|                                   | <i>Kaupthing<br/>Bank<br/>30/09/04<br/>(ISK millions)</i> |
|-----------------------------------|---|
| <b>Equity</b>                     |   |
| Share capital .....               | 5,487   |
| Other equity .....                | 90,401  |
| <b>Borrowing</b>                  |   |
| Issued Bonds .....                | 792,283   |
| Loans .....                       | 115,114   |
| Deposits .....                    | 209,742   |
| <b>Subordinated Loans</b>         |   |
| Tier I .....                      | 14,589  |
| Tier II .....                     | 54,783  |
| <b>Total capitalisation</b> ..... | <u><u>1,282,399</u></u>                                   |

Notes:

- (1) Save as disclosed in note (2) below, there has been no material change in the capitalisation of the Issuer since 30th September, 2004.
- (2) Following authorisation being given by a shareholders' meeting, on 13th October, 2004, the board of directors of the Issuer increased the Issuer's share capital by ISK 1,100,000,000 shares. As at 13th October, 2004, the authorised and issued share capital of the Issuer was ISK 6,606,856,400 in nominal amount, fully paid up and comprising 660,685,640 ordinary shares.

## DESCRIPTION OF THE ISSUER

### Introduction

The Issuer, is an Icelandic bank offering comprehensive retail and investment banking services to individuals, companies and institutional investors. It is the largest bank in Iceland and a leading player in all key areas of the Icelandic financial market. It has the highest market capitalisation on the Iceland Stock Exchange. The activities of the Issuer and its subsidiaries (together, the “**Group**”) in Iceland are divided into retail banking and investment banking but internationally its focus is on investment banking. The Issuer is one of the ten largest banks in the Nordic countries and aims to be one of the leading investment banks in the region.

The Issuer was created in its present form by the merger of two of Iceland’s foremost banks, Kaupthing Bank and Bunadarbanks Islands hf., both of which enjoyed a strong market position in Iceland. Bunadarbanks Islands dates back to 1929, when the Icelandic parliament, the Althing, passed a law on the founding of Bunadarbanks Islands. At the beginning of 1998 Bunadarbanks Islands hf. became a limited liability company, and the government began to sell its holdings in the bank. The bank was privatised in stages and this process was completed at the beginning of 2003. Bunadarbanks Islands hf. was listed on the Main List of the Iceland Stock Exchange hf. on 17th December, 1998.

Kaupthing hf. was established by eight Icelanders in 1982, at the same time as the free capital market was launched in Iceland. Kaupthing hf. later became an investment bank and changed its name to Kaupthing Bank in 2002. In September 2000, Kaupthing Bank hf. was listed on the Iceland Stock Exchange and, in December 2002, Kaupthing Bank hf. was listed on the Stockholm Stock Exchange (Stockholmsbörsen).

In May 2003, Kaupthing Bank hf. and Bunadarbanks Islands hf. merged under the name Kaupthing Bank hf. Kaupthing Bank hf. took over the assets and liabilities of Bunadarbanks Islands, hf. and shareholders in Bunadarbanks Islands hf. received 48.23 per cent. of the total share capital in Kaupthing Bank hf. in exchange for their shares.

In recent years, the Issuer has strengthened its position abroad by acquiring financial companies and establishing subsidiaries. The most important developments so far have been the acquisition of the Swedish bank, JP Nordiska AB (now Kaupthing Bank Sverige AB), and the recent acquisition of the Danish bank FIH Erhvervsbank AS. JP Nordiska AB was acquired in 2002 which significantly strengthened the Issuer’s position in the Nordic countries, an area which the Bank defines as its home market. FIH Erhvervsbank A/S is a Danish corporate lending bank which has a nine per cent. market share in lending to corporates in Denmark. The bank was acquired in the autumn of 2004 and its acquisition doubled the balance sheet of Kaupthing Bank (see further “Recent Developments” below).

The Issuer has six core business areas: Retail Banking; Corporate Banking; Asset Management and Private Banking; Corporate Finance; Capital Markets and Treasury. It also has ancillary divisions such as Risk Management, IT, Finance, and Sales and Marketing.

At the end of 2003, the Issuer had operations in ten countries, including all of the Nordic countries and two of the world’s main business centres, London and New York. Its main subsidiaries are Kaupthing Bank Sverige in Sweden, Kaupthing Bank Luxembourg, Kaupthing Sofi Oyj and Norvestia in Finland, FIH Erhvervsbank A/S in Denmark, Kaupthing Føroyar in the Faroe Islands, Kaupthing New York, Handsal Asset Management in Switzerland, Kaupthing Ltd in the United Kingdom, Kaupthing Norge in Norway, Lysing and Althjóða líftryggingafélagid in Iceland. At the end of September 2004, the number of the Group’s full-time equivalent staff was 1,535.

The Issuer and its subsidiaries are members of seven stock exchanges in Europe and the United States. Trading in their shares accounted for a combined total of 4.05 per cent. of the equities

turnover in the Nordic stock exchanges in 2003. As at 31st December, 2003, the Group's assets under management totalled ISK 405 billion, and its assets in custody amounted to ISK 607 billion.

### **Recent developments**

Following the Issuer's acquisition of the Danish bank FIH Erhvervsbank A/S ("**FIH**") in the autumn of 2004, the Issuer's subsidiary in Denmark, Kaupthing Bank A/S, will be restructured and transferred to the Faroese savings bank, Føroya Sparikassi P/F, which already holds 25 per cent. of Kaupthing Bank A/S. Before transfer of the remaining 75 per cent. of the shares, Kaupthing Bank A/S will transfer certain of its activities to FIH. The share and asset transfers have been agreed in a non-binding letter of intent.

FIH will acquire three divisions from Kaupthing Bank A/S: Investment Banking, Private Banking and Brokerage. The lending operation of Kaupthing Bank A/S will remain in the bank, and thus become a part of Føroya Sparikassi P/F's Danish activities. At the same time Kaupthing Bank will purchase 49 per cent. of the share capital in Kaupthing Føroyar Virðisbraevameklarafelag P/F from Føroya Sparikassi P/F, which means that all share capital in Kaupthing Føroyar will be owned by the Issuer.

The aforementioned letter of intent contains provisos based on the results of a due diligence review and the approval of the boards of directors of FIH and the Issuer. The board of directors of Føroya Sparikassi P/F has already approved the transaction. The transaction is not expected to have a significant effect on the results of Kaupthing bank hf. The Issuer's profit from the sale is expected to be approximately ISK 400 million. The transfers are expected to be in place in January 2005.

On 26th November, 2004, the Issuer announced that its subsidiary, Kaupthing Bank Luxembourg S.A., had acquired all of the shares in PFA Pension Luxembourg. The seller was the leading Danish pension company PFA Pension. PFA Pension Luxembourg S.A. is, amongst other things, a supplier of unit linked policies to both corporate and private individuals.

The purpose of the acquisition was to increase Kaupthing Bank Luxembourg S.A.'s client base in Private Banking as well as to expand the business by offering insurance products to its existing clients. PFA Pension Luxembourg S.A. has an equity capital of DKK 45 million and a portfolio of unit-linked products amounting to DKK 375 million.

The acquisition is expected to be completed in January 2005 following approval from the Commissariat aux Assurances, the Luxembourg Regulatory Insurance Body.

### **Legal Status and Legislative Background**

The Issuer is a public limited company incorporated in Iceland and operating under Icelandic law. It is registered with the registrar of companies in Iceland and its registration number is 560882-0419. The registered office of the Issuer is at Borgartún 19, 105 Reykjavík, Iceland. The operations of the Issuer are subject to the provisions of Act no. 2/1995 on Public Limited Companies and Act no. 161/2002 on Financial Undertakings. The Issuer is subject to the supervision of the Icelandic Financial Supervisory Authority.

Under the Issuer's constitutional documents, it has two legal names, Kaupthing Bunadabanki hf. and Kaupthing Bank hf. Prior to 28th April, 2004, the Issuer issued Notes under the Programme using the legal name Kaupthing Bunadabanki hf. On and after 28th April, 2004, the Issuer has used the legal name Kaupthing Bank hf. for all purposes under the Programme, since it became the policy of the Issuer to use the legal name Kaupthing Bank hf. abroad instead of the English spelling of the Icelandic legal name, Kaupthing Bunadabanki hf.



## SOURCES OF FUNDS

The Issuer's principal sources of funding are customer deposits and foreign borrowing. Other sources of funding include capital markets and financial institutions.

The table below provides a breakdown of the Group's sources of funds as at 30th September, 2004 and 31st December, 2003:

|   | <b>30/09<br/>2004</b> | <b>31/12<br/>2003</b> |
|---|-----------------------|-----------------------|
|   | <i>(ISK millions)</i> |                       |
| Equity .....                                    | 95,888                | 45,929                |
| Minority interest in subsidiaries' equity ..... | 10,505                | 10,603                |
| Subordinated loans .....                        | 69,372                | 10,704                |
| Deposits .....                                  | 209,742               | 182,497               |
| <b>Core funding</b> .....                       | 385,507               | 249,733               |
| Borrowings .....                                | 907,397               | 210,645               |
| Credit institutions .....                       | 149,295               | 79,267                |
| Other liabilities .....                         | 71,391                | 17,278                |
| Provision for tax liabilities .....             | 7,949                 | 1,646                 |
| <b>Finance in the market</b> .....              | 1,136,032             | 308,836               |
| <b>Total funds</b> .....                        | 1,521,539             | 558,569               |

The composition of the Group's funding has changed significantly in recent years as the Issuer's business has moved from primarily serving individuals, small businesses and clients in the agricultural sector to serving larger corporations in the domestic and Nordic markets. As a result, intermediation of foreign funds has grown rapidly which in turn has led to an increased share of borrowing as a source of funds.

## Equity

As at 30th September, 2004 the equity of the Issuer was ISK 95,888 million.

The table below sets out the 10 largest shareholders of the Issuer as of 30th September, 2003:

|  | Shares     | %     |
|--|------------|-------|
| Meidur ehf. ....                             | 93,503,110 | 17.0% |
| Egla ehf. ....                               | 59,915,226 | 10.9% |
| Arion hf v/vidskiptavina-Safnreikningur .... | 42,279,849 | 7.7%  |
| Eignarhaldsfelagid Sveipur ehf. ....         | 24,777,585 | 4.5%  |
| Vatryggingafelag Islands hf. ....            | 24,304,701 | 4.4%  |
| Lifeyrissjodur verslunarmanna ....           | 24,112,748 | 4.4%  |
| Eyrir fjarfestingafelag ehf. ....            | 11,765,200 | 2.1%  |
| Lifeyrissjodir Bankastraeti 7 ....           | 11,725,652 | 2.1%  |
| Lifeyrissjodurinn Framsyn ....               | 9,462,041  | 1.7%  |
| Lifeyrissjodur sjomanna ....                 | 9,380,118  | 1.7%  |

## Subordinated Loans

The Issuer has issued Tier 1 and Tier 2 subordinated loans in both the domestic and international markets. The Issuer's capital adequacy ratio at 30th September, 2003 was 9.6 per cent. The Issuer's Tier 1 ratio at 31st December, 2003 was 12.1 per cent. The Issuer's Tier 1 ratio at 30th September, 2004 was 7.2 per cent.

The breakdown of subordinated loans issued by the Issuer and the Group as at 30th September, 2004 is as follows:

|   | Tier | Currency | Interest<br>at start | Interest<br>changes | Interest<br>after<br>change     | Payment<br>date | Book<br>value<br>30/09<br>2004 |
|---|------|----------|----------------------|---------------------|---------------------------------|-----------------|--------------------------------|
| <i>(ISK millions)</i>                           |      |          |                      |                     |                                 |                 |                                |
| Issued 1998 .....                               | 2    | ISK      | 6.3%                 |                     |                                 | 2004            | 198                            |
| Issued 2000 .....                               | 2    | ISK      | 6.0%                 | 2005                | 7.5%                            | 2010            | 1,182                          |
| Issued 2000 .....                               | 2    | ISK      | 6.0%                 | 2005                | 7.5%                            | 2010            | 242                            |
| Issued 2000 .....                               | 2    | ISK      | 7.0%                 | 2007                | 9.0%                            | 2012            | 2,056                          |
| Issued 2001 .....                               | 2    | ISK      | 6.0%                 | 2006                | 7.5%                            | 2011            | 118                            |
| Issued 2001 .....                               | 1    | ISK      | 8.7%                 | 2011                |                                 | Perpetual       | 1,198                          |
| Issued 2001 .....                               | 2    | ISK      | 8.0%                 | 2006                | 10.0%                           | 2011            | 1,373                          |
| Issued 2002 .....                               | 2    | ISK      | 6.0%                 | 2007                | 7.5%                            | 2012            | 930                            |
| Issued 2002 .....                               | 2    | ISK      | 7.5%                 | 2009                | 10.0%                           | 2014            | 1,331                          |
| Issued 2004 .....                               | 2    | ISK      | 5.4%                 | 2009                | 7.4%                            | 2014            | 1,865                          |
| Issued 2002 .....                               | 2    | EUR      | 3.3%                 | 2007                | 5.8%                            | 2012            | 438                            |
| Issued 2004 .....                               | 2    | EUR      | 3.3%                 | 2009                | 3 mth.<br>Euribor<br>+ 165 bps. | 2014            | 26,135                         |
| Issued 2004 .....                               | 1    | EUR      | 5.9%                 | 2014                | 3 mth.<br>Euribor<br>+ 245 bps. | Perpetual       | 13,189                         |
| <b>Subordinated loans parent .....</b>          |      |          |                      |                     |                                 |                 | <b>50,255</b>                  |
| <b>Subordinated loans of subsidiaries .....</b> |      |          |                      |                     |                                 |                 | <b>19,117</b>                  |
| <b>Subordinated loans consolidated .....</b>    |      |          |                      |                     |                                 |                 | <b>69,372</b>                  |

## Capital Adequacy

According to the provisions of Art. 84 and 85 of the Law no. 161/2002 on Financial Undertakings, a bank's subordinated loans and equity capital, after subtraction of the book value of shares held in other financial institutions, may not at any time fall below 8.0 per cent. of its risk-adjusted asset base, as defined by law. The risk-adjusted asset base of a bank is comprised of total assets as well as guarantees issued and calculated risk factors after the deduction of various figures in the balance sheet, according to the rules of the Financial Supervisory Authority. At 30th September, 2004, the Issuer complies with all statutory ratios in accordance with the provisions of Art. 28 and 83 of the Act on Financial Undertakings. Together with subordinated loans, total capital and reserves amounted to ISK 108,566 million as at 30th September, 2004 of which ISK 81,234 million consisted of Tier 1 capital. It is the Issuer's policy to seek to maintain a 11 per cent. capital ratio for the Group with a minimum Tier 1 ratio of 8 per cent.

The table below sets out information in relation to the Issuer's capital and capital adequacy ratio as at 30th September, 2004 and 31st December, 2003 calculated according to Icelandic law:

|  | <b>30/09<br/>2004</b> | <b>31/12<br/>2003</b> |
|--|-----------------------|-----------------------|
|  | <i>(ISK millions)</i> |                       |
| Tier 1: Capital recorded in the Financial Statements ..... | 81,234                | 50,337                |
| Tier 2: Subordinated Loans .....                           | 40,617                | 9,532                 |
| Deductions according to Art. 85 of Act No. 161/2002 .....  | (13,285)              | (1,197)               |
|  | <u>108,566</u>        | <u>58,672</u>         |
| Risk-adjusted asset base.....                              | 1,136,508             | 414,355               |
| Capital Adequacy Ratio .....                               | 9.6%                  | 14.2%                 |

## Deposits

As at 30th September, 2004, the Issuer had approximately 260,000 deposit accounts, including current accounts, savings accounts and currency accounts. As at the same date, the Issuer's total deposits amounted to 25 per cent. of the total deposits in all of Iceland's commercial banks and savings banks. The deposits from customers are well diversified, with a majority of the customers having relatively low deposits. Deposit accounts bear interest at a floating rate.

The table below sets out a breakdown of the Issuer's deposits as at 31st December in each of the years indicated:

|                                      | <b>2003</b>           | <b>2002</b>    |
|--------------------------------------|-----------------------|----------------|
|                                      | <i>(ISK millions)</i> |                |
| Deposits on demand .....             | 103,432               | 80,270         |
| Time deposits.....                   | 79,065                | 84,300         |
| <b>Total</b> .....                   | <u>182,497</u>        | <u>164,570</u> |
| <b>Savings deposits by maturity</b>  |                       |                |
| Up to 3 months .....                 | 36,274                | 59,556         |
| Over 3 months and up to 1 year ..... | 20,999                | 11,520         |
| Over 1 year and up to 5 years.....   | 16,797                | 11,476         |
| Over 5 years .....                   | 4,995                 | 1,748          |
| <b>Total</b> .....                   | <u>79,065</u>         | <u>84,300</u>  |

## Other Funding

Both the Icelandic domestic money market and the Icelandic interbank market (Reibor Market) have evolved in recent years with the interbank market becoming the most important market for the Issuer's short-term treasury operations. In 2001, a new forward (SWAP) inter-bank market was established, thereby giving Icelandic banks additional products for use in their treasury operations.

The total outstanding bonds and notes issued by the Group amounted to ISK 792,283 million at 30th September, 2004.

The following table sets out a breakdown of the Issuer's borrowings from bonds and notes issued, as well as borrowings from other credit institutions, as at 30th September, 2004 and 31st December, 2003. The Group's borrowings in foreign currency, international syndicated loans and private placements generally have maturities from 2 to 5 years.

|                    | <b>30/09<br/>2004</b> | <b>31/12<br/>2003</b> |
|--------------------|-----------------------|-----------------------|
|                    | <i>(ISK millions)</i> |                       |
| Bonds issued ..... | 792,283               | 150,424               |
| Loans .....        | 115,114               | 60,221                |
| <b>Total</b> ..... | <b>907,397</b>        | <b>210,645</b>        |

## Uses of Funds

The table below sets out a breakdown of the Issuer's uses of funds as at 30th September, 2004 and 31st December, 2003 in each of the years indicated:

|   | <b>30/09<br/>2004</b> | <b>31/12<br/>2003</b> |
|---|-----------------------|-----------------------|
|   | <i>(ISK millions)</i> |                       |
| Cash and amounts from credit institutions .....     | 140,062               | 50,545                |
| Loans to customers .....                            | 954,266               | 327,019               |
| Mortgages foreclosed .....                          | 1,768                 | 1,962                 |
| Lease contracts .....                               | 98,054                | 22,014                |
| Bonds and other fixed-income securities.....        | 174,632               | 80,832                |
| Shares and other variable-income securities.....    | 71,335                | 50,327                |
| Shares in associated and affiliated companies ..... | 8,443                 | 2,926                 |
| Other assets.....                                   | 72,979                | 22,944                |
| <b>Total assets</b> .....                           | <b>1,521,539</b>      | <b>558,569</b>        |

The predominant lending activity of the Issuer is making loans to private individuals and an extensive range of corporate customers.

Securities held by the Issuer consist of trading securities and investment securities. Investment securities are marketable securities which the Issuer's management has made a formal decision to hold for more than one year. Trading securities include all other securities.

Marketable securities and corporate shares were ISK 254 billion at 30th September, 2004 (market value). Of this amount, bonds were ISK 174.6 billion, shares ISK 71.3 billion and shares in associated and affiliated companies were ISK 8.4 billion. The Issuer has entered into derivative agreements with a nominal amount of ISK 52.6 billion relating to these bonds and ISK 27.2 billion relating to these shares.

The Issuer provides services to all sectors of the economy and has sought to establish a diversified portfolio of marketable securities and loans in order to minimise its lending risks. The Issuer

believes that its portfolio of loans and marketable securities is well distributed between economic sectors.

The table below sets out the breakdown of the Issuer's total loans and marketable securities by customer categories as at 30th September, 2004:

|                         | <b>30/09<br/>2004</b> |
|-------------------------|-----------------------|
| Industry .....          | 28.3%                 |
| Services .....          | 26.6%                 |
| Real estate .....       | 16.9%                 |
| Individuals .....       | 11.8%                 |
| Trade .....             | 10.3%                 |
| Holding companies ..... | 5.0%                  |
| Transportation .....    | 1.2%                  |
|                         | <u>100.0%</u>         |

The table below sets out a breakdown by remaining maturity of the Group's loans to customers and leasing agreements amounting in aggregate to ISK 349,033 million as at 31st December, 2003:

|                                      | <b>2003</b>           | <b>2002</b>    |
|--------------------------------------|-----------------------|----------------|
|                                      | <i>(ISK millions)</i> |                |
| On demand .....                      | 21,177                | 22,139         |
| Up to 3 months .....                 | 122,160               | 81,960         |
| Over 3 months and up to 1 year ..... | 58,196                | 48,502         |
| Over 1 year and up to 5 years .....  | 117,105               | 89,576         |
| Over 5 years .....                   | 30,395                | 25,126         |
|                                      | <u>349,033</u>        | <u>267,303</u> |

## **Risk Management**

The Issuer faces various types of risks related to its business as a financial institution, which arise from its day to day operations. The most significant of these risks are listed below. Management devotes a significant portion of its time to the management of risk. Effective risk management involves the identification of the significant risks, the quantification of the Issuer's exposure to these risks and taking appropriate action to limit these risks including constantly monitoring them. Among other risk management techniques, the Issuer has established a range of limits, has sought to ensure that these limits are complied with and has sought to quantify its exposures to different risks. It is management's responsibility to identify where established limits have been exceeded and to take the appropriate action. The Issuer has documented these responsibilities and limits.

### **Approval and Revision of Risk Policy**

The Issuer's Risk Policy has been adopted and approved by its Board of Directors. It is reviewed and revised at least annually. Amendments or minor changes can be made more frequently but each change needs the approval of the Issuer's chief executive officers (CEOs) before it is effective and then needs to be approved by the Board of the Issuer as soon as practicable thereafter.

### **Credit Risk and Collateral Management**

Credit risk is managed on a Group-wide level by the Group Credit Committee and the Group Credit Manager (or Head of Credit Risk). The role of the Credit Manager is to manage the process and

make sure all the requirements set out by the Credit Committee such as requirements on documentation and collateral are satisfied. The Credit Manager monitors collateral quality on a daily bases and reacts to any deficiencies identified. Collateral is valued based on haircuts, which are different for each asset class depending on its estimated liquidation quality. The collateral system integrates loan, foreign exchange and derivative information with custody data and the values of pledged securities in the clients' portfolios and calculates the collateral value daily.

Credit and collateral risk is managed on a local level in the Issuer's subsidiaries according to the same rules and in accordance with any further requirements of local regulation. The local credit committees and credit managers receive their credit limits from the Group Credit Committee and all larger credits require approval from the Group Credit Committee.

## **Monitoring**

At least twice a year the risk management department submits to the Board of Directors an overview of at least the 10 largest credits of the Issuer. The overview includes long- and short-term obligations, stock holdings, collateral and major financial information. At least twice a year a list of the largest credits in doubt is also presented to the Board of Directors.

## **Market Risk Management**

### *Market Risk Limits*

Position limits and any changes to them are proposed by the Issuer's Head of Trading and accepted by the Issuer's Head of Risk Management (Head of Risk) and reviewed by the CEOs. Each position limit size is based on, among other things, underlying liquidity, the Issuer's risk appetite as well as legal limitations on individual positions stipulated by relevant authorities. The Head of Risk maintains a document detailing current limits and a journal of changes to them. Final approval of all position limits is required from the CEOs. All trades outside of position limits are prohibited and the penalty will be decided by Head of Risk and paid by the relevant Trading Department from its profit and loss account. The penalty amount is, in general, based on the profit or loss generated by the unauthorised trades and is twice that amount or 1 per cent. per day of the limit overrun, whichever is larger. Disputes on breaches of position limits or amounts can be referred to the CEOs. All violations of this risk policy need to be documented in the journal maintained by Head of Risk and made available to the CEOs.

### *Risk Monitoring*

The Issuer monitors the different risks incurred carefully. The different types of risks (excluding credit risk) are specified below. The overall responsibility of complying with the established limits lies with the Board of Directors. Management is, however, responsible for the day-to-day routines aimed at controlling the different risk parameters. The positions are continuously monitored against the limits where possible and otherwise daily.

## **Risk Models**

Risk models employed are position based (risk limits), volatility based (i.e. based on the volatility of market variables and their related co-variance) and scenario based (i.e. based on a prescribed scenario which is likely to cause severe drawdown in profits).

Risk measures are generated by proprietary systems that utilise counter party and market data and trade databases generated and used by the Issuer's trade systems. Additionally the risk management systems are augmented by a number of third party solutions.



## **Risk Reporting**

### *Intra-Day Reports*

All trades and intra-day profit or loss is reported continuously to the Head of Risk through a position monitoring system. The Head of Risk appoints a person and a backup person whose responsibility it is to monitor the intra-day positions and alert the Head of Risk to any deviations or exceptions observed.

### *Daily Reports*

The Issuer's Risk Management sends a daily report on profit and loss and turnover to the Head of Risk, Head of Trading and the CEOs.

### *Monthly Reports*

The Risk Management department sends a monthly risk assessment report to the Head of Trading, the CEOs and the Board of Directors detailing volatility based and scenario based measures such as Value-at-Risk, Earnings-at-Risk and stress tests based on current position limits.

### *Quarterly Reports*

The Head of Trading sends a quarterly report to the Head of Risk and the CEOs on activities, profit and loss and general observations on the market and his view on future prospects for the trading operations.

## **Types of Risks**

### *Security market risk*

Trading departments are only permitted to trade certain listed stocks on certain exchanges within prescribed limits and in some cases on an intra-day basis only.

### *Currency risk*

Currency risk is the risk associated with fluctuations in assets and liabilities denominated in different currencies due to movements in exchange rates. Currency risk is controlled by the Issuer's Treasury, is subject to limits and is estimated using the risk models described above.

### *Interest rate risk*

Interest rate risk arises due to the maturity or interest rate reset periods of assets and liabilities not coinciding. Fluctuations in market interest rates cause fluctuations in interest income. Short to medium term interest risk is controlled by the Issuer's Treasury using limits on mismatch in expected in- and outgoing payments as well as limits on interest rate sensitivity of overall interest bearing assets and liabilities. The Issuer's Trading Department is responsible for positions in long term bonds and interest rate risk is further controlled using position limits and estimated using various risk models as described above.

### *Liquidity risk*

The Issuer is subject to the risk of being unable to repay its depositors on demand, or as and when due, through holding insufficient cash or near-cash assets. This risk is measured by constant monitoring of liquidity ratios. The Issuer's Treasury is responsible for maintaining liquidity by maintaining a sufficiently high ratio of liquid assets and available funding to near term liabilities and possible payment outflows. The liquidity measures are calculated at the end of each trading day and monitored by the Head of Risk and reported to the CEOs.

### *Operational risk*

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human and system error, or from external events that affect the Issuer's operations. These operational risks are monitored through a system of internal control set up at different levels in the Group (including daily controls, supervisory controls and management controls).

## PROVISIONS AND NON-PERFORMING LOANS

The Issuer evaluates non-performing loans according to the rules of the Financial Supervisory Authority, which are based on EU Directive no. 554/1994 regarding rules on the annual accounts of commercial banks. Non-performing loans amounted to ISK 7,438 million as at 30th September, 2004 and ISK 6,584 million at 31st December, 2003. The table below sets out a breakdown of the Group's non-performing loans as at 30th September, 2004 and 31st December, 2004:

|   | <b>30/09<br/>2004</b> | <b>31/12<br/>2003</b> |
|---|-----------------------|-----------------------|
|   | <i>(ISK millions)</i> |                       |
| Loans with specific provision for losses..... | 18,810                | 7,149                 |
| Specific provision for losses .....           | (14,554)              | (5,465)               |
| Total .....                                   | 4,256                 | 1,684                 |
| Other non performing loans .....              | 3,182                 | 4,900                 |
| <b>Total non-performing loans .....</b>       | <b>7,438</b>          | <b>6,584</b>          |

Coverage for the Group's non-performing assets as at 30th September, 2004 and 31st December, 2004 is as follows:

|  | <b>30/09<br/>2004</b> | <b>31/12<br/>2003</b> |
|--|-----------------------|-----------------------|
|  | <i>(ISK millions)</i> |                       |
| Total non-performing loans .....                         | 7,438                 | 6,584                 |
| Specific provisions for losses.....                      | 14,554                | 5,465                 |
| Mortgages foreclosed .....                               | 1,768                 | 1,962                 |
| Total non-performing assets.....                         | 23,760                | 14,011                |
| Specific provision for losses .....                      | 14,554                | 5,465                 |
| General provisions .....                                 | 3,643                 | 2,836                 |
| Mortgages foreclosed .....                               | 1,768                 | 1,962                 |
| Total provision .....                                    | 19,965                | 10,263                |
| <b>Total provision/Total non-performing assets:.....</b> | <b>84.0%</b>          | <b>73.2%</b>          |

Provisions for losses on the loan portfolio have been made each year by the Issuer to meet the estimated risk attached to these assets. These provisions do not represent a final write-off. Certain risk factors are evaluated in addition to a regular contribution for this purpose. The Issuer uses specific provisions as well as general provisions to meet the general risk of lending operations.

The table below sets out changes in the Issuer's provisions as at 30th September, 2004 and 31st December, 2003:

The changes in provisions are as follows:

|  | 01/01/2004<br>- 30/09/<br>2004 | 01/01/2003<br>- 31/12<br>2003 |
|--|--------------------------------|-------------------------------|
|  | <i>(ISK millions)</i>          |                               |
| Balance at beginning of year .....   | 8,301                          | 5,764                         |
| Provision for losses during the period .....   | 2,844                          | 3,894                         |
| Exchange rate difference on the translation of foreign subsidiaries .....                      | (109)                          | 25                            |
| Actual losses during the period .....  | (3,427)                        | (1,402)                       |
| Paid-in previously written off .....   | 51                             | 20                            |
| Disposals during the period .....  | —                              | —                             |
| Taken over from the merger with FI-Holding A/S.....  | 10,537                         | —                             |
| Balance at end of period .....   | 18,197                         | 8,301                         |
| Provision for losses on loan portfolio as a percentage of loans and<br>guarantees issued ..... | 1.5%                           | 2.40%                         |

### Board of Directors of the Issuer

The Issuer's Board of Directors consists of nine members and nine alternates.

#### *Board*

Sigurdur Einarsson – Born 1960 • Executive Chairman of Kaupthing Bank • Cand. Polit from the University of Copenhagen • Joined Kaupthing Bank in 1994.

Hjorleifur Thor Jakobsson – Born 1957 • Vice Chairman of the Board • Elected 2003 • CEO of Oliufelagid ehf.

Asgeir Thoroddsen – Born 1942 • Elected 2003 • Attorney to the Supreme Court.

Bjarnfredur H. Olafsson – Born 1967 • Elected 2003 • Attorney to the District Court.

Brynja Halldorsdottir – Born 1957 • Elected 2004 • CFO of BYKO.

Finnur Ingolfsson – Born 1954 • CEO of Vatryggingafelag Islands hf. • Elected 2003.

Gunnar Pall Palsson – Born 1961 • Elected 2001 CEO of Commercial Workers' Union of Reykjavik (VR).

Peter Gatti – Born 1947 • Elected 2003 • Managing Director of Hauck & Aufhauser Privatbankiers KGaA.

Tommy Persson – Born 1948 • Elected 2002 • CEO of Lansforsakringar AB • Other directorships: Chairman of the Swedish Insurance Federation and the Swedish Insurance Employers' Association. • Chairman of EurAPCO AG. • Board member of Eureka BV.

#### *Senior Management*

The Issuer has two Chief Executive Officers each of which is appointed by the Board of Directors.

Hreidar Mar Sigurdsson – CEO

Born 1970 • Business Studies graduate from University of Iceland • Joined Kaupthing Bank in 1994.

Solon R. Sigurdsson – CEO

Born 1942 • Joined Bunadarkbanki Islands hf. in 1983.

### **Managing Directors of the Issuer**

Armann Thorvaldsson – Managing Director of Corporate Finance.

Born 1968, a History graduate with an MBA from Boston University. He has been with Kaupthing Bank since 1994.

Bjarki H. Diego – Managing Director of Corporate Banking.

Born 1968, Graduated in Law from the University of Iceland in 1993, LL.M from University of London in 1999 • He has been with Kaupthing Bank since 2000.

Fridrik Halldorsson – Managing Director of Retail Banking.

Born 1959, BA in Business Administration, Senior Manager Treasury Bunadarkbanki 1992-1999. Deputy Managing Director of Retail Banking since 2002-2003.

Gudny Arna Sveinsdottir – Managing Director of Finance and Accounting.

Born 1966, a Business Studies graduate with an MS from the University of Uppsala in Sweden. She has been with Kaupthing Bank since 2001.

Hafliði Kristjánsson – Managing Director of Marketing and Sales.

Born 1962, a Psychology graduate with an MIBS from the University of South Carolina. He has been with Kaupthing Bank since 1997.

Ingi Orn Geirsson – Managing Director of Information Technology.

Born 1951, a Business Administration and Computer Science graduate from the University of Lund. He has been with Bunadarkbanki since 1985.

Ingolfur Helgason – Managing Director of Capital Markets.

Born 1967, a Business Studies graduate from the University of Iceland. He has been with Kaupthing Bank since 1993.

Kristin Petursdottir – Managing Director of Treasury.

Born 1965, a Business Studies graduate with an MS in International Business from the Norwegian School of Management in Bergen. She has been with Kaupthing Bank since 1997.

Kristján Arason – Managing Director of Privat Banking.

Born 1961, a Business Studies graduate from University of Iceland. He has been with Kaupthing Bank since 2001.

Dr. Steingrímur P. Karason – Managing Director of Risk Management.

Born 1968, an Engineering graduate with an ScD in Mechanical Engineering from MIT in Boston. He has been with Kaupthing Bank since 1997.

Thorarinn Sveinsson – Managing Director of Asset Management.

Born 1967, a MSc in Engineering from Massachusetts Institute of Technology (MIT). He has been with Kaupthing Bank since 1999.

## AUDITORS' REPORT

To the Board of Directors of Kaupthing Bank hf.

We have reviewed the Consolidated Balance Sheet of Kaupthing Bank hf. and its subsidiaries as of 30 September 2004 and the related Profit and Loss Account and Statement of Cash Flows for the nine months then ended. All information included in these Interim Accounts is the representation of the management of Kaupthing Bank hf.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data and ratios. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Interim Accounts taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the Interim Accounts in order for them to be in conformity with generally accepted accounting principles in Iceland.

Reykjavik, 27 October 2004

Sigurdur Jonsson  
**KPMG Endurskodun hf.**



## Profit and Loss Account – The Group

|  | 01/01<br>2004-<br>30/09<br>2004 | 01/01<br>2003-<br>30/09<br>2003 | 01/01<br>2003-<br>31/12<br>2003 | 01/01<br>2002-<br>31/12<br>2002 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|  | (ISK millions)                  |                                 |                                 |                                 |
| <b>Interest income</b>                             |                                 |                                 |                                 |                                 |
| Interest from credit institutions .....            | 972                             | 1,957                           | 2,173                           | 2,093                           |
| Interest on loans to customers .....               | 26,249                          | 16,042                          | 22,245                          | 18,781                          |
| Interest on bonds and fixed-income securities .... | 2,251                           | 1,484                           | 1,861                           | 2,598                           |
| Other interest income .....                        | 2,386                           | 2,503                           | 3,369                           | 2,713                           |
|  | 31,858                          | 21,986                          | 29,648                          | 26,185                          |
| <b>Interest expenses</b>                           |                                 |                                 |                                 |                                 |
| Interest on loans from credit institutions .....   | 2,088                           | 4,425                           | 5,724                           | 6,139                           |
| Interest on deposits.....                          | 5,849                           | 5,343                           | 7,221                           | 6,811                           |
| Interest on borrowings .....                       | 9,924                           | 4,338                           | 5,435                           | 5,242                           |
| Interest on subordinated loans .....               | 1,519                           | 680                             | 938                             | 807                             |
| Other interest expenses .....                      | 289                             | 94                              | 206                             | 188                             |
|  | 19,669                          | 14,880                          | 19,524                          | 19,187                          |
| <b>Net interest income</b> .....                   | 12,189                          | 7,106                           | 10,124                          | 6,998                           |
| <b>Other operating income</b>                      |                                 |                                 |                                 |                                 |
| Dividends from shares and other holdings .....     | 3,638                           | 1,005                           | 1,101                           | 507                             |
| Fee, commissions and other service charges ....    | 9,766                           | 7,537                           | 11,125                          | 7,089                           |
| Fees and commissions paid .....                    | (1,681)                         | (940)                           | (1,442)                         | (865)                           |
| Trading gains .....                                | 10,335                          | 6,947                           | 10,044                          | 5,900                           |
| Miscellaneous operating income.....                | 167                             | 644                             | 828                             | 1,783                           |
|  | 22,225                          | 15,193                          | 21,656                          | 14,414                          |
| <b>Net operating income</b> .....                  | 34,414                          | 22,299                          | 31,780                          | 21,412                          |
| <b>Other operating expenses</b>                    |                                 |                                 |                                 |                                 |
| Salaries and related expenses .....                | 8,588                           | 7,315                           | 10,110                          | 6,505                           |
| Other operating expenses.....                      | 6,090                           | 5,138                           | 7,028                           | 5,193                           |
| Depreciation of fixed assets .....                 | 1,786                           | 960                             | 1,355                           | 757                             |
|  | 16,464                          | 13,413                          | 18,493                          | 12,455                          |
| Provision for possible loan losses.....            | (2,844)                         | (2,722)                         | (3,894)                         | (2,794)                         |
| Net profit before taxes.....                       | 15,106                          | 6,164                           | 9,393                           | 6,163                           |
| Income tax.....                                    | (3,027)                         | (1,085)                         | (1,486)                         | (764)                           |
| Minority interest.....                             | (374)                           | 0                               | (387)                           | (36)                            |
| <b>Net profit for the period</b> .....             | 11,705                          | 5,079                           | 7,520                           | 5,363                           |

## Balance Sheet – The Group

|  | 30/09<br>2004  | 31/12<br>2003 |
|--|----------------|---------------|
|  | (ISK millions) |               |
| <b>Assets</b>  |                |               |
| <b>Cash and amounts due from credit institutions</b>       |                |               |
| Cash and balances on call with the Central Bank .....      | 43,585         | 771           |
| <b>Amounts due from credit institutions</b>                |                |               |
| Reserve requirements on deposits at the Central Bank ..... | 1,286          | 2,717         |
| Balances with other credit institutions .....              | 95,191         | 47,057        |
|  | 140,062        | 50,545        |
| <b>Loans</b>   |                |               |
| Loans to customers .....                                   | 954,266        | 327,019       |
| Lease agreements/settlements .....                         | 98,054         | 22,014        |
| Mortgages foreclosed .....                                 | 1,768          | 1,962         |
|  | 1,054,088      | 350,995       |
| <b>Market securities and corporate shares</b>              |                |               |
| Bonds and other fixed-income securities .....              | 174,632        | 80,832        |
| Shares and other variable-income securities.....           | 71,335         | 50,327        |
| Shares in associated and affiliated companies .....        | 8,443          | 2,926         |
|  | 254,410        | 134,085       |
| <b>Other assets</b>  |                |               |
| Goodwill .....   | 36,112         | 5,948         |
| Fixed assets .....   | 5,238          | 5,441         |
| Other assets.....  | 24,456         | 8,638         |
| Deferred income tax assets .....                           | 6,358          | 2,086         |
| Prepaid expenses and accrued income .....                  | 815            | 831           |
|  | 72,979         | 22,944        |
| <b>Total assets</b> .....                                  | 1,521,539      | 558,569       |

## Balance Sheet – The Group

|   | 30/09<br>2004    | 31/12<br>2003  |
|---|------------------|----------------|
|   | (ISK millions)   |                |
| <b>Liabilities and equity</b>                   |                  |                |
| Balances due to credit institutions .....       | 149,295          | 79,267         |
| <b>Deposits</b>                                 |                  |                |
| Demand deposits .....                           | 94,540           | 103,432        |
| Time deposits .....                             | 115,202          | 79,065         |
|   | 209,742          | 182,497        |
| Borrowings .....                                | 907,397          | 210,645        |
| <b>Other liabilities</b>                        |                  |                |
| Sundry liabilities .....                        | 60,478           | 13,701         |
| Accrued expenses and pre-collected income ..... | 10,913           | 3,577          |
|   | 71,391           | 17,278         |
| Deferred tax liability .....                    | 7,949            | 1,646          |
| Subordinated loans .....                        | 69,372           | 10,704         |
| Minority interest in subsidiaries equity .....  | 10,505           | 10,603         |
| <b>Equity</b>                                   |                  |                |
| Share capital .....                             | 5,487            | 4,384          |
| Share premium .....                             | 61,809           | 23,304         |
| Accrued stock options .....                     | 285              | 316            |
| Retained earnings .....                         | 28,307           | 17,925         |
|   | 95,888           | 45,929         |
| <b>Total liabilities and equity .....</b>       | <b>1,521,539</b> | <b>558,569</b> |

## **ICELANDIC TAXATION**

### **1. Icelandic Taxation**

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, Receipts and/or Coupons. They may not apply to certain classes of person such as dealers. Prospective holders of the Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

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

### **2. EU Savings Directive**

On 3rd June, 2003, the European Council of Economics and Finance Minister adopted a Directive on the taxation of savings income. Under the Directive Member States will (if equivalent measures have been introduced by certain non-EU countries) be required, from 1st July, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria will instead be 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).

## SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement (the “**Programme Agreement**”) dated 28th April, 2004, 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 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 Pricing Supplement.

### **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) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of the period of six months from the issue date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

- (ii) in relation to any Notes having a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (iii) 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 FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (iv) 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.

### ***The Republic of 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 any documentation 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 1st 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 24th February, 1998 (the “Financial Services Act”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th 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 1st September, 1993 (the “Banking Act”), as amended;
- (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 filled 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 compliance with any other applicable laws and regulations.

### ***Iceland***

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to 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) and any applicable laws or regulations of Iceland.

### ***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 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 Pricing Supplement.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 13th June, 2003. The update and increase in the amount of the Programme was duly authorised by a resolution of the Board of Directors of the Issuer dated 27th March, 2004. The further increase in the amount of the Programme has been duly authorised by a resolution of the Board of Directors of the Issuer dated 23rd November, 2004.

### Listing of Notes

Application has been made to list Notes issued under the Programme on the Luxembourg Stock Exchange. A legal notice relating to the Programme and the constitutional documents of the Issuer are being lodged with the Luxembourg trade and companies register (*Registre de Commerce et des Sociétés, Luxembourg*) where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated the number 12730 to the Programme for listing purposes.

### Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available free of charge from the registered office of the Issuer and from the specified offices of the Paying Agents for the time being in London and 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 year ended 31st December, 2003 and of each of Kaupthing Bank hf. and Bunadarbanki Islands hf. in respect of the financial years ended 31st December, 2002 and 2001;
- (iii) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer (with an English translation thereof);
- (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 Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note 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 listed Notes 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. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

**Significant or Material Change**

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or the Issuer and its subsidiaries, taken as a whole, since 30th September, 2004 and there has been no material adverse change in the financial position or prospects of the Issuer or the Issuer and its subsidiaries, taken as a whole, since 31st December, 2003.

**Litigation**

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

**Auditors**

The auditors of the Issuer are KPMG Endurskodun hf., who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in Iceland for the financial year ended on 31st December, 2003.

The auditors of Bunadarbanki Islands hf. were Deloitte & Touche hf., who audited Bunadarbanki Islands hf.'s accounts, without qualification, in accordance with generally accepted auditing standards in Iceland for each of the three financial years ended on 31st December, 2002 and 2001.

The auditors of Kaupthing hf. were KPMG Endurskodun hf., who audited Kaupthing hf.'s accounts, without qualification, in accordance with generally accepted auditing standards in Iceland for each of the three financial years ended on 31st December, 2002 and 2001.

**THE ISSUER**

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