



GLITNIR BANKI HF.

September 22, 2009

Dear stakeholder:

On behalf of the Resolution Committee (the "Resolution Committee") of Glitnir banki hf. (the "Old Bank" or "Glitnir"), I am pleased to report that after many months of effort, the Resolution Committee, working closely with its advisers, has reached an understanding with Islandsbanki hf. (the "New Bank" or "Islandsbanki") and the Ministry of Finance of Iceland (the "Ministry of Finance") regarding the form of the compensation instruments (the "Instruments") that may be issued by the New Bank to the Old Bank. These discussions also have included Iceland's Financial Supervisory Authority (the "FME"), which has passed upon the capital adequacy and other regulatory matters relating to the New Bank.

The informal committee of the creditors ("ICC") of the Old Bank, together with advisers to certain of its members, have participated in a number of discussions relating to, and in the negotiations concerning, the New Bank and the form of the Instruments. Various ICC members have expressed their support for the arrangements described herein.

The Instruments will be held by the Old Bank and will be among the principal assets of the Old Bank. The creditors of the Old Bank will have an interest in the Instruments through their claim on the Old Bank. The creditors may have an opportunity at a later stage to hold interests in the Instruments directly.

The purpose of this information memorandum is to describe the process undertaken by the Resolution Committee and its discussions with stakeholders in reaching an agreement regarding the form of the Instruments. This information memorandum also describes the limited materials that were made available to the Resolution Committee and its advisers during these discussions. Finally, the information memorandum sets out a summary, based only on information made available to the Resolution Committee and not independently verified by the Resolution Committee, of the business and financial condition of the New Bank.

We are not soliciting any vote or indication of interest from, or on behalf of, the stakeholders. Claims by stakeholders must be filed by November 26, 2009 in order to be considered by the Winding-Up Board of the Old Bank. The Resolution Committee is not authorized to consider any claim. For information regarding the claims process, please see www.glitnirbank.com. Stakeholders will have an opportunity to ask questions regarding the matters discussed herein at the open meeting of creditors of the Old Bank on September 22, 2009. Thank you very much for your attention to this matter.

Sincerely,

Arni Tomasson
Chairman of the Resolution Committee of Glitnir Banki hf.,
on behalf of the Resolution Committee of Glitnir Banki hf.

The information in this information memorandum is not complete and may be changed. This information memorandum is not an offer to sell these instruments and we are not soliciting an offer to buy these instruments in any jurisdiction where the offer or sale is not permitted.

NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A "RELEVANT MEMBER STATE"), WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE (THE "RELEVANT IMPLEMENTATION DATE") WE HAVE NOT MADE AND WILL NOT MAKE AN OFFER OF SECURITIES WHICH ARE THE SUBJECT OF THE OFFERING CONTEMPLATED BY THIS INFORMATION MEMORANDUM TO THE PUBLIC IN THAT RELEVANT MEMBER STATE EXCEPT THAT WE MAY, WITH EFFECT FROM AND INCLUDING THE RELEVANT IMPLEMENTATION DATE, MAKE AN OFFER OF SUCH SECURITIES TO THE PUBLIC IN THAT RELEVANT MEMBER STATE AT ANY TIME:

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- (B) TO ANY LEGAL ENTITY WHICH HAS TWO OR MORE OF (1) AN AVERAGE OF AT LEAST 250 EMPLOYEES DURING THE LAST (OR IN THE CASE OF SWEDEN, LAST TWO) FINANCIAL YEAR(S); (2) A TOTAL BALANCE SHEET OF MORE THAN €43,000,000; AND (3) AN ANNUAL NET TURNOVER OF MORE THAN €50,000,000, AS SHOWN IN ITS LAST (OR IN THE CASE OF SWEDEN, LAST TWO) ANNUAL OR CONSOLIDATED ACCOUNTS;
- (C) TO FEWER THAN 100 NATURAL OR LEGAL PERSONS (OTHER THAN QUALIFIED INVESTORS AS DEFINED IN THE PROSPECTUS DIRECTIVE) SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT DEALER(S) NOMINATED BY THE ISSUER FOR ANY SUCH OFFER; OR
- (D) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE,
- (E) PROVIDED THAT NO SUCH OFFER OF SECURITIES REFERRED TO IN (A) TO (D) ABOVE WILL REQUIRE US TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE OR SUPPLEMENT A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE.

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IN CIRCUMSTANCES WHICH ARE EXEMPTED FROM THE RULES ON SOLICITATION OF INVESTMENTS PURSUANT TO ARTICLE 100 OF THE ITALIAN FINANCIAL SERVICES ACT AND ARTICLE 34-*TER*, FIRST PARAGRAPH, OF CONSOB REGULATION NO. 11971.

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(II) IN COMPLIANCE WITH ARTICLE 129 OF THE ITALIAN BANKING ACT, AS AMENDED, AND THE IMPLEMENTING GUIDELINES OF THE BANK OF ITALY, AS AMENDED FROM TIME TO TIME, PURSUANT TO WHICH THE BANK OF ITALY MAY REQUEST INFORMATION ON THE ISSUE OR THE OFFER OF INSTRUMENTS IN THE REPUBLIC OF ITALY; AND

(III) IN COMPLIANCE WITH ANY OTHER APPLICABLE LAWS AND REGULATIONS OR REQUIREMENT IMPOSED BY CONSOB OR OTHER ITALIAN AUTHORITY.

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AT ANY TIME, TO LEGAL ENTITIES WHICH ARE AUTHORISED OR REGULATED TO OPERATE IN THE FINANCIAL MARKETS (INCLUDING, CREDIT INSTITUTIONS, INVESTMENT FIRMS, OTHER AUTHORISED OR REGULATED FINANCIAL INSTITUTIONS, INSURANCE COMPANIES, UNDERTAKINGS FOR COLLECTIVE INVESTMENT AND THEIR MANAGEMENT COMPANIES, PENSION AND INVESTMENT FUNDS AND THEIR MANAGEMENT COMPANIES, COMMODITY DEALERS) AS WELL AS ENTITIES NOT SO AUTHORISED OR REGULATED WHOSE CORPORATE PURPOSE IS SOLELY TO INVEST IN SECURITIES; AND

AT ANY TIME, TO CERTAIN NATURAL PERSONS OR SMALL AND MEDIUM-SIZED ENTERPRISES (AS DEFINED IN THE LUXEMBOURG LAW DATED 10 JULY 2005 ON PROSPECTUSES FOR SECURITIES IMPLEMENTING THE PROSPECTUS DIRECTIVE INTO LUXEMBOURG LAW) RECORDED IN THE REGISTER OF NATURAL PERSONS OR SMALL AND MEDIUM-SIZED ENTERPRISES CONSIDERED AS QUALIFIED INVESTORS AS HELD BY THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER AS COMPETENT AUTHORITY IN LUXEMBOURG IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE.

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NEITHER THE GUERNSEY FINANCIAL SERVICES COMMISSION NOR THE STATES OF GUERNSEY POLICY COUNCIL TAKE ANY RESPONSIBILITY FOR THE FINANCIAL SOUNDNESS OF THE ISSUER OR FOR THE CORRECTNESS OF ANY OF THE STATEMENTS MADE OR OPINIONS EXPRESSED WITH REGARD TO IT.

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THIS DOCUMENT DOES NOT CONSTITUTE AN INVITATION OR OFFER TO SELL OR THE SOLICITATION OF AN INVITATION TO BUY ANY INTEREST IN THE INSTRUMENTS. THE INSTRUMENTS DESCRIBED HEREIN WILL NOT BE ISSUED, EXCHANGED OR TRANSFERRED IN CONTRAVENTION OF APPLICABLE LAW.

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INFORMATION FOR U.S. STAKEHOLDERS

IN THE UNITED STATES, THIS DOCUMENT IS BEING FURNISHED TO KNOWN CREDITORS SOLELY TO EXPLAIN THE PROCESS THAT THE RESOLUTION COMMITTEE HAS UNDERTAKEN, AS WELL AS TO EXPLAIN THE FEATURES OF THE INSTRUMENTS. THIS DOCUMENT IS PERSONAL TO EACH CREDITOR AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON OR TO THE PUBLIC GENERALLY TO SUBSCRIBE FOR ANY INTEREST IN THE INSTRUMENTS. THIS INFORMATION MEMORANDUM DOES NOT CONSTITUTE AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES.

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Certain information in the sections entitled “Background of the Proposal” and the “Icelandic Economy” has been taken from publications by the National Economic Institute, the Icelandic Ministry of Finance (the “Ministry of Finance”) and the Central Bank of Iceland (the “Central Bank”). We confirm that such information has been accurately reproduced and that, so far as we are aware and are able to ascertain from information published by such sources, no facts have been omitted that would render the reproduced information inaccurate or misleading.

We have not authorized any person to give any information or to make any representation not contained in or not consistent with this information memorandum or any other information supplied in connection with the Instruments and, if given or made, such information or representation must not be relied upon as having been authorized by us or by any of our advisers.

Neither this information memorandum nor any other information supplied in connection with the Instruments (1) is intended to provide the basis of any credit or other evaluation or (2) should be considered as a recommendation by us or by our advisers that any recipient of this information memorandum or any other information supplied in connection with the Instruments or the claims process should make any investment decision or determination regarding the Instruments or the New Bank.

Each stakeholder contemplating filing a claim against the Old Bank should make its own independent investigation of the financial condition and affairs of the New Bank, and its own determination concerning the New Bank’s creditworthiness. Neither this information memorandum nor any other information supplied in connection with the Instruments or the claims process constitutes an offer or invitation by or on our behalf or by or on behalf of our advisers to any person to subscribe for, or to purchase, interests in the Instruments.

The delivery of this information memorandum will not in any circumstances imply that the information contained herein concerning the Old Bank or the New Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Old Bank, the New Bank or the Instruments is correct as of any time subsequent to the date indicated in the document containing the same.

This information memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this information memorandum may be restricted by law in certain jurisdictions. We do not represent that this information memorandum may be lawfully distributed 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 distribution or offering of any interest in the Instruments. No action has been taken to permit any offering of interests in the Instruments in any jurisdiction where such action for that purpose is required.

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UBS Securities LLC (“UBS”) is acting as financial and capital markets adviser to the Resolution Committee of Glitnir in connection with certain matters covered in this information memorandum and to no one else, and will not be responsible to anyone other than the Resolution Committee (whether or not a recipient of this information memorandum) for providing the protections offered to clients of UBS nor for providing advice in relation to any matters set out in this information memorandum. Any parties evaluating

the information set out herein are recommended to seek their own financial and other professional advice as they consider appropriate.

FORWARD-LOOKING STATEMENTS

This information memorandum contains forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include:

- Financial projections and estimates and their underlying assumptions;
- Statements regarding the potential realizable value of assets, including the Instruments;
- Statements regarding the impact of regulatory initiatives on operations;
- Statements regarding plans, objectives and expectations relating to future operations and services;
- Statements regarding market share;
- Statements regarding general industry and macroeconomic growth rates and performance relative to them; and
- Statements regarding future performance.

Forward-looking statements generally are identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates” and similar expressions. Forward-looking statements are based on current plans, estimates and projections, and, therefore, you should not place too much reliance on them. Forward-looking statements speak only as of the date they are made.

Neither the Old Bank nor the New Bank undertakes any obligation to update any forward-looking statement in light of new information or future events. Forward-looking statements involve inherent risks, and uncertainties, most of which are difficult to predict and generally are beyond the control of the Old Bank or the New Bank, as the case may be. We caution you that a number of important factors could cause actual results or outcomes to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, among other factors:

- Business, political or economic conditions in Iceland and the other countries in which the Old Bank and the New Bank operate may differ from those expected;
- Changes in interest rates and foreign exchange rates may adversely affect business;
- Credit, market and liquidity risks may adversely affect credit ratings and cost of funds;
- Systemic risk among financial institutions may adversely affect the Old Bank and the New Bank;
- Increases in loan losses or allowances for loan losses may adversely affect Old Bank and New Bank;
- Actions undertaken by the International Monetary Fund (the “IMF”) or other entities;
- Ratings actions relating to the sovereign debt of Iceland;
- Changes in laws and regulations may adversely affect the business and operations of banks in Iceland generally;
- Changes in accounting policies and practices, as may be adopted by regulatory agencies and the International Accounting Standards Board, may affect expected financial reporting; and

- The Old Bank and the New Bank may not manage the risks involved in the foregoing as well as anticipated.

If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, actual results may be materially different from those expressed or implied by such statements. Neither the Old Bank nor the New Bank undertakes any obligation to update any forward-looking statement to reflect subsequent circumstances or events.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Financial statements and other financial information for the banks is presented in Icelandic krona, unless otherwise specified. In this information memorandum, references to “ISK”, “Icelandic krona”, “krona” or “krónur” refer to the currency of Iceland. References to “U.S. dollars”, “U.S.\$”, “USD” and “\$” refer to the currency of the United States of America, references to “NOK” refer to the currency of Norway, references to “Sterling” and “£” refer to the currency of the United Kingdom, and references to “euro”, “EUR” 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.

Certain numerical information and other amounts and percentages presented in this information memorandum may not total due to rounding. In addition, certain figures in this information memorandum have been rounded to the nearest whole number.

References in this information memorandum to:

- The “European Union” or “EU” are to Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The Netherlands and the United Kingdom.
- The “European Economic Area” or “EEA” are to the European Union, Iceland, Liechtenstein and Norway.
- The “Nordic countries” are to Denmark, the Faroe Islands, Finland, Iceland, Norway and Sweden.
- “Northern Europe” are to the Baltic states (Estonia, Latvia and Lithuania), the Benelux countries (Belgium, Luxembourg and The Netherlands), Germany, Ireland, the Nordic countries and the United Kingdom.
- “Scandinavia” are to Denmark, Finland, Norway and Sweden.

SUMMARY OF THE PROPOSAL

This section provides a summary of the proposal only. You are urged to read the “Description of the Instruments” section for a complete understanding of the proposal.

Outline of the Proposal

On July 18, 2009 and as amended periodically thereafter, the Resolution Committee and the formal negotiating committee (which includes members of the ICC and its advisers) reached an agreement with the Icelandic government regarding the initial capitalization of Islandsbanki and the compensation alternatives to be made available to the Old Bank. As we discuss under “Background of the Proposal—Summary Timeline of Meetings and Process to Date,” there were a number of subsequent meetings and discussions between the parties during which the proposal was modified and improved. The agreement reached generally comprises either 95% share capital ownership in Islandsbanki or a set of bonds plus an option for the purchase of share capital of Islandsbanki. It was agreed that the Icelandic government would subscribe for a majority shareholding in Islandsbanki (the “Subscription”), thereby capitalizing Islandsbanki on August 14, 2009 with an estimated ISK 65 billion.

The Icelandic government capitalization was made pending the completion of the joint capitalization or alternative capitalization alternatives. Following a shareholder meeting of Islandsbanki, the Icelandic government capitalized the bank on August 14, 2009 with ISK 65 billion of Tier 1 capital in the form of Icelandic government bonds, giving Islandsbanki a core Tier 1 ratio of approximately 12%. On September 13, 2009, the Resolution Committee signed definitive agreements related to the joint capitalization and alternative capitalization alternatives. Under these agreements, the Resolution Committee has been granted a period until September 30, 2009 at which point it will notify the Icelandic government whether to complete the joint capitalization arrangement or remain bound by the alternative capitalization arrangement.

There will be no changes to the status of depositors under Icelandic law as a result of these arrangements. Islandsbanki believes it will, through the capitalization and further liquidity support that forms part of the arrangements, be in a strong liquidity position.

Alternatives

There are two alternative compensation structures:

- A structure involving Glitnir holding 95% of the equity shares in Islandsbanki (the “Joint Capitalization”); and
- A structure involving Glitnir holding secured debt instruments issued by Islandsbanki and an equity option granted by the Ministry of Finance over 90% of the shares in Islandsbanki (the “Alternative Capitalization”).

The Resolution Committee must determine by September 30, 2009 which alternative it will accept.

If the Resolution Committee accepts the Joint Capitalization, the Icelandic government will provide an ISK 25 billion liquidity facility. If the Resolution Committee accepts the Alternative Capitalization, the Icelandic government will continue to provide the ISK 65 billion of equity.

The Joint Capitalization Option

Joint Capitalization Agreement

The arrangements are set out in a Joint Capitalization Agreement (“JCA”) entered into between the Ministry of Finance and Glitnir on September 13, 2009. The principal features of the JCA are as follows:

- Upon completion of the JCA, Islandsbanki will transfer to Glitnir Icelandic government bonds (which were transferred to it by the Icelandic government in consideration for the capitalization by the Icelandic government referred to above) in consideration for cancelling the bonds that would have been issued under the Alternative Capitalization.
- Glitnir will use the Icelandic government bonds to acquire from the Icelandic government 9.5 billion ordinary shares in Islandsbanki, representing 95% of Islandsbanki’s issued share capital.
- During the period between the parties signing the JCA and its completion, the Ministry of Finance will give various covenants as to the way in which Islandsbanki’s business will be conducted and will agree that a director nominated by Glitnir is appointed to the board of Islandsbanki. During such period, certain matters, including material disposals or changes in business, will require the consent of Glitnir or such director.
- The Ministry of Finance will provide capital of ISK 25 billion through 10-year Tier 2 capital instruments denominated in euros issued by Islandsbanki. These notes cannot be redeemed by Islandsbanki until five years after their issuance or earlier with the consent of the FME.
- The Ministry of Finance, Islandsbanki and Glitnir will enter into a shareholders’ agreement giving the Ministry of Finance certain rights in respect of its minority holding.
- Glitnir undertakes to maintain term deposits amounting to at least the equivalent of ISK 25 billion at Islandsbanki for a period of 15 months from the date of the JCA.
- The JCA is governed by Icelandic law with the exclusive jurisdiction of the Icelandic courts.
- The Icelandic government will make available to Islandsbanki an ISK 25 billion liquidity facility.

Shareholders’ Agreement

The Shareholders’ Agreement referred to above will remain in force for a period of two years but will terminate earlier upon the Icelandic government ceasing to hold the Tier 2 instrument referred to above. Its principal terms include:

- Islandsbanki covenants to ensure that its business and affairs are conducted in a proper and efficient manner consistent with the Shareholders’ Agreement and its Articles and consistent with an agreed business plan.
- The Ministry of Finance will have the ability to appoint one director to the Board of Directors of Islandsbanki who will be appointed to Islandsbanki’s remuneration committee;
- Certain matters, including amendments to the Articles of Islandsbanki or its subsidiaries, new share issuances or a material change to accounting policies will require the consent of the Ministry of Finance.

- During the period that the Shareholders' Agreement is in force, the Ministry of Finance must approve the acquisition by any one shareholder other than Glitnir of more than 33.2% of the voting rights in Islandsbanki, including an acquisition by way of distribution of the shares by Glitnir to its creditors.
- If Glitnir sells a stake of more than 33.2% in Islandsbanki, Glitnir will have a drag along right requiring the Icelandic government to accept any offer from the purchaser on the same terms and conditions (including the purchase price) as the selling shareholder. In relation to any such sale by Glitnir, the Icelandic government also has tag-along rights enabling it to require the proposed transferee to have made a written offer to the Icelandic government to purchase all ordinary shares held by it on the same terms and conditions (including the purchase price) as the selling shareholder).
- The Icelandic government will have veto rights in respect of payments of dividends for three years from the date of the JCA and in respect of Islandsbanki entering into any transactions with Glitnir or its affiliates other than transactions made in the ordinary course of business and on the same terms offered to other customers of Islandsbanki. The Icelandic government will not, however, exercise its right of veto in respect of dividend payments to the extent these do not exceed the payments of principal and interest that would have been made under Bond A, Bond B and Bond C over the same period if the ACA had completed as described below. Any such dividend must however be made by Islandsbanki in compliance with requirements of Icelandic law and capital adequacy requirements.
- Any party to whom shares in Glitnir are transferred during the period the Shareholders' Agreement is in force, including any creditor to whom such shares are distributed, must sign a deed of adherence to the Shareholders' Agreement.
- The Shareholders' Agreement is governed by Icelandic law with the exclusive jurisdiction of the Icelandic courts.

The Alternative Capitalization Option

Alternative Capitalization Agreement

The arrangements are set out in an Alternative Capitalization Agreement ("ACA") to be entered into between the Ministry of Finance and Glitnir. The principal features of the ACA are as follows:

- Pursuant to a Bond Issue Agreement ("BIA") to be entered into between Glitnir and Islandsbanki, Islandsbanki agrees to issue Bond A, Bond B and Bond C to Glitnir upon the completion of the ACA.
- Bond A has an aggregate principal amount of EUR 346,182,012 (being the euro equivalent of ISK 52 billion as at October 2008).
- Bond B and Bond C will initially not have a principal amount inserted but will be transferred to an Escrow Agent pending the revaluation mechanism described below (the principal amount, if any, to be inserted in Bond C will be valued on March 31, 2010 and the principal amount, if any, to be inserted in Bond B will be valued on March 31, 2012).
- The final maturity date of all the Bonds will be October 2015. Principal in respect of the Bonds will be payable in 12 equal quarterly instalments commencing on January 15, 2013.
- All of the Bonds will have the benefit of security to be granted by Islandsbanki as set out further below.
- In addition to the Bonds, the Ministry of Finance will also issue an equity option instrument to Glitnir under which the holder has the option to purchase, for cash, ordinary shares in Islandsbanki up to 90% of its issued share capital.

Bond B/Bond C Revaluation

The principal features of the revaluation mechanism for Bond B and Bond C are as follows:

- There will be two determination dates: one on March 31, 2010 and the other on March 31, 2012. The concept of the revaluation is to reflect increases/decreases in Islandsbanki's equity from January 1, 2009 to the financial year ended December 31, 2011. This includes changes in the fair value of the assets held on the balance sheet (whether or not actually accounted for on a fair value basis) subject to certain adjustments. The profit surplus that will be used to determine the principal amount of Bond B and Bond C is determined by deducting from any such increase in equity a benchmark return on the original capital (referencing a rate of interest equal to that payable on government bonds held by Islandsbanki plus 4%) and multiplying that difference by 90%.
- Islandsbanki will calculate the revaluation amounts on the basis of audited financial information. Glitnir may appoint an independent valuation agent to verify the calculations. If no agreement can be reached, the matter can be referred to the courts.
- The interim determination of the principal amount of Bond C on March 31, 2010 will be made by reference to the financial statements for the year ended December 31, 2009. This will include a valuation of Islandsbanki's assets as conducted by Islandsbanki's management under IFRS following discussions with its Board of Directors and Glitnir according to an agreed protocol which will assess how the key data used in the valuation of these loans as at January 1, 2009 has changed in the period up to December 31, 2009.
- The maximum amount by which the interim valuation of Bond C can be written up in 2010 is ISK 17 billion. The relevant amount will be inserted by the Escrow Agent into Bond C which will be released from escrow to Glitnir. If the revaluation amount is zero or a negative amount, Bond C will be cancelled. Interest will accrue on the principal balance of Bond C with effect from January 1, 2010.
- The determination of the principal amount of Bond B on March 31, 2012 will be made by reference to the financial statements for the year ended December 31, 2011 and will again relate to the period commencing on January 1, 2009. The maximum amount by which Bond B can be written up is ISK 80 billion although there must be deducted from such amount, the principal amount of Bond C. Again, the relevant amount will be inserted by the Escrow Agent into Bond B which will be released from escrow. Interest will accrue on the principal balance of Bond B with effect from January 1, 2012.
- If there is an event of default or early redemption event for Bond B or Bond C, the valuation mechanism is accelerated.

General Terms of the Bonds

Other than the principal amount, repayment schedule and the revaluation mechanism, the terms and conditions of Bond A, Bond B and Bond C are the same. This includes the following:

- Interest payable quarterly at EURIBOR plus 3% with a step-up in the margin to 4% after October 15, 2011.
- Payments are to be made in euros. However in circumstances where Islandsbanki has tried in good faith to get the relevant euros for a period of at least 10 business days but has failed to do so, it may make payments in ISK subject to the terms of a currency indemnity.
- The bondholder can elect to redeem the Bonds following a reorganisation of Islandsbanki or the Icelandic government ceasing to hold more than 50% of the voting shares of Islandsbanki.

- There are events of default on a failure to pay (with a three day grace period), breach of material covenants (with a 30-day cure period), insolvency events and a cross default provision. Islandsbanki is also providing a number of covenants in relation to matters such as restrictions on disposals of assets, payments of dividends and borrowings.
- The bonds are freely transferrable but are in the form of Icelandic domestic bonds governed by Icelandic law with the jurisdiction of the Icelandic courts. Glitnir will have the right to require that the Bonds be converted into euro denominated secured Eurobonds with market standard provisions for such bonds assuming they are listed on the London, Luxembourg or Dublin stock exchanges and contain materially the same commercial terms as Bond A, Bond B and Bond C. Glitnir also has the right to convert the Bonds into term deposits at Islandsbanki with the same maturity date as the Bonds.

Bond A, Bond B and Bond C are secured by pledges over a pool of assets intended to have a coverage ratio of 140% as against the secured amounts. If the coverage ratio falls below 140% Islandsbanki is required to pledge additional assets to restore the ratio to 140% within 14 days (if it falls below 120%, the ratio must be restored to 120% within 7 days and 140% within 14 days). Islandsbanki has the right to withdraw or substitute pledged assets subject to certain conditions, including maintenance of the minimum coverage ratio.

If Islandsbanki becomes subject to a winding-up, bankruptcy, appointment of a winding-up committee or any other procedure in relation to Islandsbanki that would result in Islandsbanki paying deposits as defined in the Act on Financial Undertakings (an “Insolvency Event”), Islandsbanki and the holders of Bond A, Bond B and Bond C will use their reasonable efforts to ensure that the administrator (or equivalent official) calculates the depositors’ recovery ratio and distributes the proceeds from the enforcement of the pledge agreements to enable such proceeds together with the other assets of Islandsbanki to be distributed *pari passu* between the bondholders and depositors. The bondholder is obliged to release sufficient pledged assets to make protected depositors’ recovery equal to the bondholders’ recovery. If such administrator does not wish to have pledged assets released from the bondholder for distribution or calculate the recovery ratio of depositors, the bondholder will not be limited as specified above. If the bondholder enforces the pledge agreements on other grounds than an Insolvency Event, these provisions do not apply unless Islandsbanki becomes subject to an Insolvency Event within 90 days of the bondholders’ enforcement of the pledge agreement.

Pledge Agreements

Bond A, Bond B and Bond C are secured by pledges over a pool of assets. This asset pool is required to be maintained at a ratio of 140% as against the secured amounts. Islandsbanki has the right to withdraw or substitute pledged assets subject to certain conditions, including maintenance of the minimum coverage ratio.

In the event of an insolvency (or similar event) of Islandsbanki, Islandsbanki and the holders of Bond A, Bond B and Bond C will use their reasonable efforts to ensure that the administrator (or equivalent official) calculates the depositors’ recovery ratio and distributes the proceeds from the enforcement of the pledge agreements to enable such proceeds together with the other assets of Islandsbanki to be distributed *pari passu* between the bondholders and depositors. If the bondholder enforces the pledge agreements on other grounds than those specified above, these provisions do not apply unless Islandsbanki becomes subject to such an event within 90 days of the bondholders’ enforcement of the pledge agreement.

Equity Option

In relation to the equity option, the principal features are as follows:

- The holder has the option to purchase ordinary shares in the capital of Islandsbanki of up to 90% of the share capital owned by the Icelandic government.
- The option is granted by the Icelandic government.

- The purchase price is based on a return on the initial government investment based on the risk free rate plus 5%.
- The option may be exercised within a one month period after publication of Islandsbanki's annual financial statements for 2010, 2011, 2012, 2013 and 2014. It can become exercisable earlier upon a listing of the shares on an internationally recognized stock exchange, an initial public offering of not less than 50% of the shares of any class or a change of control.

Questions and Answers

This section provides brief questions and answers regarding a number of areas that may be of interest to stakeholders. Stakeholders should read this information memorandum in its entirety. Additional information about many of these matters is also provided on our website. The information contained in this section, in this information memorandum and on our website should not be construed as legal advice. To the extent that we describe or discuss specific actions taken by the Icelandic government, you should refer to the various websites of the Icelandic government and the FME for the official releases and disclosures. To the extent that we describe or summarize any legal proceedings or any legislation or regulation, please note that these are summaries only and our summaries are qualified in their entirety and reference is made to the full text of the proceeding, legislation or regulation, as the case may be.

Questions and Answers About the Information Memorandum

Why are we providing you with this information memorandum?

The purpose of this information memorandum is to describe the process undertaken by the Resolution Committee (together with its advisers) and the Resolution Committee's discussions with stakeholders in reaching an agreement with the New Bank and the Ministry of Finance regarding the form of the Instruments. As we discuss herein, the Resolution Committee, in reaching an agreement regarding the form of the Instruments, has not reached an agreement regarding, nor made a determination as to, the valuation of the Instruments.

To whom is this information memorandum directed?

The Resolution Committee is making this information memorandum available to stakeholders of the Old Bank.

Are stakeholders being asked to vote or to take any other action in response to this information memorandum?

No. The Resolution Committee is not requesting that stakeholders take any action in response to this information memorandum. Stakeholders may register to attend the open meeting of creditors of the Old Bank and may raise any questions regarding the matters discussed herein at the meeting. Creditors are required to complete a claims form and follow the claims process.

When will the open creditors' committee meeting take place?

The meeting will take place on September 22, 2009. Additional details regarding the meeting are available at www.glitnirbank.com. The agenda for the meeting is provided on the website. Registration for the meeting is available online through the website.

Is court approval of the settlement required?

No court approval is being sought or is required for the Resolution Committee to enter into these arrangements. The Resolution Committee is authorized to do so by legislation. Stakeholders may seek to take legal action to challenge any of the proposed arrangements. Stakeholders are urged to contact an Icelandic lawyer in order to apprise themselves of their rights of action.

Are stakeholders required to file a claim?

Yes. There is a formal claims process that is set forth as a matter of Icelandic law. The claims process is discussed briefly in this information memorandum under "Icelandic Law Relating to the Moratorium, Claims Process and Winding-Up Board—Claims Process." Additional information on the claims process is available on our website at www.glitnirbank.com.

Who prepared this information memorandum?

This information memorandum has been prepared by the Resolution Committee based only on information that has been made publicly available or information that was made available to it for this purpose. There is limited publicly available information regarding the New Bank. Much of the information that is available about the Old Bank is incomplete or required the Moratorium Administrator (as defined below) or the Resolution Committee, as the case may be, to make assumptions regarding realizable values or other assumptions about economic performance. There is no audited financial information available for the Old Bank. In reviewing this information memorandum, you should note that the Resolution Committee has not independently verified the information that has been included herein.

Did the Resolution Committee and its advisers have access to information regarding the New Bank?

As discussed herein under “The New Bank,” the information that was made publicly available regarding the New Bank was limited. In addition, certain information about the New Bank was made available only subject to certain strict confidentiality undertakings, to a limited group for a limited period of time. That information about the New Bank did not include audited financial statements and the information that was shared regarding the New Bank also reflected a number of management judgments as well as other assumptions. You should not, as a result, place undue reliance on the accuracy or completeness of the information regarding the New Bank provided herein.

Is the balance sheet information for the Old Bank and the New Bank published by the IMF accurate?

Recently, the IMF published limited balance sheet information for the Old Bank and the New Bank. The balance sheet information is not audited and represents preliminary information only. You should not place undue reliance on the accuracy of that information.

Are the Statements of Assets and Liabilities of the Old Bank audited?

No. The Statements of Assets and Liabilities of the Old Bank are not audited and as such are not complete. We have reproduced a portion of the Statements of Assets and Liabilities here for your reference. The full copies with the explanatory notes are available on our website.

Is the Resolution Committee making a recommendation regarding the Instruments or any other matter?

The Resolution Committee is providing this information memorandum to stakeholders. Stakeholders are encouraged to attend the open creditors’ meeting. Stakeholders are encouraged to review the materials contained herein as well as the other information made publicly available on our website. Stakeholders also are urged to consult with their own advisers regarding their claims and regarding their legal remedies. Various members of the ICC have expressed their support for the arrangements described herein.

Will creditors have access to additional information about the Old Bank or the New Bank?

Additional information about the Old Bank has been published on our website. The New Bank has not publicly released additional information for creditors to evaluate. As noted above, the Resolution Committee and its advisers were given access to limited information about the New Bank.

Questions and Answers About the Discussions Regarding the Instruments

How were the terms of the Instruments negotiated?

The Icelandic government established a process for negotiation of the form and terms of the Instruments.

Who participated in the negotiations regarding the Instruments?

The Resolution Committee together with its advisers participated in this process, with representatives of the Ministry of Finance and its advisers. Members of the ICC and their advisers also participated in the process as part of a formal negotiating committee.

What was the starting point regarding the value of the Instruments?

Pursuant to its decision of October 14, 2008, as amended, the FME agreed that following a valuation of the assets and liabilities transferred from the Old Bank to the New Bank, the New Bank would issue a financial instrument to the Old Bank (and creditors of the Old Bank) in return for that transfer. However, the creditors' interest in those assets may have been impaired through subordination of their rights and claims to the prior interest of depositors. In the subsequent negotiations that took place between the parties in 2009, the Icelandic government's starting point for the compensation was that it should equal the difference between the fair value of the transferred assets and liabilities, as determined by the New Bank's management and the UK limited liability partnership of Deloitte & Touche LLP ("Deloitte") with reference to the timing of the transfer as of October 15, 2008.

Subsequent FME decisions amending the October 14, 2008 decision acknowledged that the financial instrument to be issued by the New Bank is a complicated instrument and more extensive than previously presumed and that more time was needed to finalize conclusive terms for the financial instrument, due to the scope and nature of the settlement. The Icelandic government also recognized that reasonable consultations must take place with the Resolution Committee and representatives of the creditors to the extent possible.

Did the Icelandic government identify its concerns regarding the process for negotiating the Instruments?

In connection with discussing and negotiating the Instruments, the Icelandic government and its advisers noted that the Icelandic government needed to ensure that the New Bank was appropriately structured and well capitalized and that governance and other similar issues at the New Bank were addressed in order to ensure the future viability of the bank. In addition, the Icelandic government and its financial adviser have publicly commented that the amount of the compensation to be paid should be limited by the fair value of the New Bank's assets.

What steps were taken by the Icelandic government and the New Bank prior to the discussions?

The New Bank together with its advisers prepared a fair valuation of the New Bank's assets, in accordance with its interpretation of the principles of IFRS 39, for the purposes of establishing the New Bank's opening balance sheet, and a pro-forma business plan based on the assumptions inherent in the fair valuation, and worked with the FME to address the capital requirements of the New Bank.

What information was shared with the participants?

The participants in the negotiation process were allowed access to certain more detailed information about the New Bank to the extent that they and their advisers agreed to strict confidentiality undertakings. However, information provided about the New Bank did not include audited financial statements and was incomplete.

Where can I learn about the negotiation process undertaken regarding the Instruments?

The Icelandic government has made a number of public announcements regarding the process. The Resolution Committee provides herein a summary of the major milestones in the process.

Has any adviser provided a fairness opinion or other recommendation?

No. A fairness opinion or a formal recommendation will not be provided in connection with this transaction.

Who will hold the Instruments?

The Instruments will be held by the Old Bank and will constitute significant assets of the Old Bank. Effectively, through the Instruments, the Old Bank may have the majority equity in stake or may have a significant debt claim on the New Bank. The Old Bank also may distribute interests in the Instruments to the creditors of the Old Bank. For more information, see “Icelandic Law Relating to the Moratorium, Claims Process and Winding-Up Board—Winding-Up Board.”

What is the purpose of the Instruments?

As explained in greater detail herein, the FME took control of the Old Bank on October 7, 2008. On October 15, 2008, the Icelandic government formed the New Bank, which is wholly-owned by the Icelandic government. At the time that the FME split the Old Bank into two entities, the FME essentially divided the assets and liabilities of the Old Bank. The Old Bank retains all the foreign assets and liabilities not transferred to the New Bank. The New Bank took over the Old Bank’s deposits in Iceland, together with the assets relating to the Old Bank’s Icelandic operations, including loans and other claims. As consideration for the transfer to the New Bank of such assets, pursuant to its October 14, 2008 decision, as amended, the FME agreed that the New Bank would issue to the Old Bank a “compensation instrument,” which was to be valued and structured at a later date, after the valuation of the assets and liabilities transferred to the New Bank and negotiation of the terms of the compensation instrument. The Instruments are the compensation instrument.

Will the Instruments be listed or traded on any securities exchange?

The Instruments will not be listed or traded on any securities exchange. However, provision has been made under the ACA for the bond Instrument to be listed in Eurobond form at a later date at the option of the Resolution Committee, acting as a stakeholder.

How will the Old Bank protect the value of the Instruments and ensure that the New Bank maximizes the value of its assets?

The New Bank will be led by its own management team and will be independent of the Old Bank. With the Joint Capitalization option, Glitnir will own 95% of the equity of the New Bank and the shareholders’ agreement, with a limited term, will limit certain of the New Bank’s discretion with respect to certain decisions. For example, the New Bank will covenant to conduct its business consistent with the terms outlined in the New Bank’s business plan. Under the Alternative Capitalization option, the New Bank will make certain affirmative covenants regarding restrictions on the disposition of assets, payment of dividends and borrowings. However, there can be no assurance that the Old Bank will be able to enforce these covenants, nor can there be any assurance that the Old Bank will have adequate remedies to address violations of any of these covenants.

Are there any restraints on the New Bank declaring dividends under the Joint Capitalization option?

As noted above and as more fully described under “Description of the Instruments,” the parties will enter into a shareholders’ agreement. Pursuant to the terms of the shareholders’ agreement, there will be a number of limitations imposed on the New Bank’s management, which are similar to the restrictions in respect of the bonds issued under the Alternative Capitalization option.

Are there any restrictions on the Old Bank selling its equity interests in the New Bank?

Under the JCA, during the period during which the shareholders’ agreement is in force, the Ministry of Finance must approve the acquisition by any shareholder other than the Old Bank of more than 33.2% of the voting rights of the New Bank, including an acquisition by way of distribution of the shares by the Old Bank to the creditors of the Old Bank. There are also certain drag-along and tag-along rights. The terms of the shareholders’ agreement are discussed under the “Description of the Securities.”

Under the Joint Capitalization option, is the Old Bank subject to any operating constraints in respect of the New Bank?

Under the Joint Capitalization option, the shareholders' agreement protects the rights of the Ministry of Finance as a minority holder of the New Bank. For so long as the shareholders' agreement remains in effect, the Ministry of Finance has the ability to appoint one director to the Board of Directors of the New Bank and certain matters, including amendments to the organizational or constitutive documents of the New Bank, will require the consent of the Ministry of Finance.

Under the Joint Capitalization option, can the Old Bank merge the New Bank with or into another bank?

Yes. However, a fundamental transaction would require the approval of the Ministry of Finance.

Are there restrictions on transactions between the Old Bank and the New Bank?

There are restrictions on affiliated or interested transactions.

Questions and Answers about the Old Bank and the New Bank

Why was the Old Bank split up?

At the time that the FME intervened to take control of the Old Bank, it was not clear that the Old Bank was insolvent. The Icelandic government has noted that it intervened in order to prevent liquidity issues from escalating and in order to stabilize the local Icelandic banking sector and to protect local depositors. At the time of the split, the FME made a preliminary assessment regarding asset quality. Large provisions were made in both the Old Bank and the New Bank to bring loan values in line with expected market values. Following the split, an international audit firm conducted a second valuation.

Did the Old Bank and its advisers consider a reorganization of the Old Bank?

Yes. The financial advisers to the Resolution Committee reviewed the assets and liabilities that remained with the Old Bank and assessed and discussed with the Resolution Committee "good bank, bad bank" structures, asset protection schemes and other alternatives.

Who holds the equity of the New Bank?

The New Bank is wholly-owned by the Icelandic government.

Does the Resolution Committee of the Old Bank exercise any control over the New Bank?

Currently, the Resolution Committee of the Old Bank has no control whatsoever over the New Bank.

Has the New Bank disclosed the debt forgiveness and other restructuring or recapitalization measures that it has taken to date?

Islandsbanki has made available on its website all relevant information about the restructuring and decision making process within the New Bank, as well as information regarding how the New Bank assists both corporate and individual customers. There has been limited public disclosure regarding the amounts or number of loans that have gone through debt forgiveness, restructuring or recapitalization, but this information has been made available to the Resolution Committee and its advisers.

Questions and Answers Regarding the Capitalization and Business of the New Bank

How was a determination made regarding the initial capitalization of the New Bank?

On July 18, 2009 and as amended periodically thereafter, the Resolution Committee and the formal negotiating committee reached an agreement with the Icelandic government regarding the initial capitalization of Islandsbanki and the compensation alternatives to be made available to the Old Bank, the JCA or the ACA. It was agreed that the Icelandic government would enter into the Subscription and the Icelandic government would capitalize Islandsbanki on August 14, 2009 thereby capitalizing Islandsbanki with an estimated ISK 65 billion. It is expected that the instruments under either compensation agreement will be held by the Old Bank under the control of the Resolution Committee on behalf of the creditors.

Who will own the “equity” of the New Bank?

On completion of the JCA, the Old Bank will own 95% of Islandsbanki and the Icelandic government will reduce its capital commitment substantially. The Icelandic government will continue to support the capital of Islandsbanki with ISK 25 billion in the form of a high quality Tier 2 capital instrument. In addition, the Icelandic government will have the right to nominate a Board member of Islandsbanki. The Icelandic government also will provide bonds which the New Bank can use as collateral against the ISK 25 billion of liquidity support from the Central Bank.

If the JCA is not completed, the ACA will remain in place and the Icelandic government will continue to own 100% of the share capital of Islandsbanki. Under this agreement, the Old Bank will receive a set of bond instruments to be issued by Islandsbanki and an option to purchase 90% of the Icelandic government’s share capital in Islandsbanki subject to the Icelandic government earning a hurdle return rate on its equity investment. The option over Icelandic government equity will be exercisable between 2011 and 2015.

The Instruments will be held by the Old Bank under the control of the Resolution Committee on behalf of the creditors.

Has the FME expressed a view regarding the adequacy of the capitalization of the New Bank?

The FME released a statement noting that it had reviewed the business plan and capital adequacy (ICAAP) (discussed in “The New Bank—Regulatory Capital” herein) prepared by the New Bank and carried out stress testing procedures to evaluate the adequacy of the proposed capitalization structure and liquidity position of the New Bank. The FME noted that, based on assumptions that prospective asset transfer prices and capitalization levels are correctly represented in the New Bank’s business plan, the FME would approve the New Bank as a financial undertaking fit to hold a banking license, subject to the satisfaction of other conditions. The Icelandic government conditionally capitalized the bank on August 14, 2009 with ISK 65 billion of Tier 1 capital in the form of Icelandic government bonds, giving Islandsbanki a core Tier 1 ratio of approximately 12%. However, there can be no assurance that the New Bank will continue to be adequately capitalized or that it will be able to withstand continued deterioration in the domestic economy.

Questions and Answers Regarding the Resolution Committee

Why was a Resolution Committee appointed to manage the affairs of the Old Bank? What is the role of the Resolution Committee?

The Resolution Committee was appointed to oversee the realization of the assets retained within the Old Bank and to distribute payments to the remaining creditors. In addition, the Resolution Committee is responsible for managing the day-to-day business and affairs of the Old Bank.

Why was the appointment of a Resolution Committee the best option for the Old Bank and its creditors?

The appointment of a Resolution Committee has helped maximize asset realization for creditors, as well as helped coordinate communication between creditors and other stakeholders.

Has the Resolution Committee appointed any advisers?

Yes. The Resolution Committee appointed various advisers to assist it. We discuss these appointments under “Advisers.”

There have been reports in the press that the Old Bank is, or may be, considering selling its assets quickly at low values, often referred to as “fire sales.” What is the Resolution Committee’s approach to asset sales?

The Old Bank intends to maximize the value of its assets. It has not, and does not intend to, conduct any “fire sale” of its assets. The Old Bank intends to pursue a carefully considered strategy to maximize the value of its assets in light of prevailing market conditions. We discuss the process undertaken by the Resolution Committee under “Background of the Proposal.” We discuss recent events at the Old Bank under “The Old Bank—Recent Transactions.” The Old Bank does not believe that asset sales in the current market environment are advisable. However, under certain limited circumstances, particular regulatory factors affecting some overseas assets have required asset sales.

Questions and Answers About the Winding-Up Board

What is the Winding-Up Board?

On May 12, 2009, the District Court of Reykjavik appointed a Winding-Up Board for Glitnir (the “Winding-Up Board”). The Winding-Up Board will handle certain administrative aspects of the winding-up proceedings and make decisions regarding the recognition of individual claims and report on these decisions in the list of claims. Under the Bankruptcy Act, there are a number of additional requirements applicable to the Winding-Up Board and the claims process. Following the creditors’ meetings that have been held by the Winding-Up Board, the Winding-Up Board has authorization to pay the claims recognized in part or in full, subject to certain additional requirements.

How will the claims against Glitnir be ranked?

The claims against Glitnir will generally be ranked as follows:

- assets and interests in the assets of the bank will be delivered to a third party if the third party proves his entitlement;
- claims on the estate resulting from a contract concluded after the Act on Financial Undertakings No. 161/2002 (the “Act”) came into effect or claims arising after the reference date as a result of measures approved by the Moratorium Appointee;
- claims secured by a collateral or other security interest in Glitnir’s assets, to the extent they can be settled by sale of the relevant assets and any income derived from them;
- priority claims, including various wage claims and claims on deposits;
- unsecured claims (in other words, all other debts not included in the above categories); and
- deferred claims.

What is the cut-off point for interest and costs on priority claims and unsecured claims?

The cut-off point for interest and costs on priority claims and unsecured claims is April 22, 2009. Accordingly, interest and costs on such claims accruing after the entry into force of the Act will be deferred claims.

Questions and Answers About the Moratorium

What is the Moratorium?

On November 21, 2008, the Old Bank applied to a District Court of Reykjavik for a moratorium (the “Moratorium”) pursuant to the Icelandic Act and Financial Undertakings. This Moratorium was granted on November 24, 2008.

Did this change the status of the Old Bank?

Apart from the effects of the Moratorium described below, the legal status of the Old Bank has not been affected. The Old Bank continues to be licensed and supervised by the FME in Iceland to the extent necessary to enable it to continue its day-to-day operations and to manage and dispose of its assets.

How does the Moratorium affect creditors of the Old Bank?

The principal effect of the Moratorium is that creditors are prohibited from bringing legal proceedings in respect of any claim they may have against the Old Bank. There are certain limited exceptions to this principle. Any legal proceeding that was brought against the Old Bank prior to the Moratorium was stayed until the Moratorium comes to an end. During the Moratorium, the disposal of assets by the Old Bank is generally prohibited unless necessary for its day-to-day operations as discussed below or to achieve a reorganization of the Old Bank’s finances.

Why did the Old Bank file for Moratorium?

The Moratorium provides the Old Bank with time in which it can assess its financial condition, consider strategic alternatives and maximize the value of its assets. Without the Moratorium, there would be a risk of hostile litigation and seizure of assets by individual creditors, which would make it more difficult for the Old Bank to collect and manage its assets. This would likely destroy asset values for the majority of the creditors of the Old Bank.

What is the process?

The Moratorium was initially granted for a period of 12 weeks on November 24, 2008 and was extended on February 19, 2009 by the District Court of Reykjavik. Extensions may be granted for successive periods not exceeding nine months provided that the Moratorium may not extend beyond two years from the date of the original order. Steinunn Guðbjartsdóttir, a supreme court attorney and former member of the Resolution Committee has been appointed as administrator of the Moratorium (the “Moratorium Administrator”).

What role do creditors have during the Moratorium?

Creditors have an active role during the Moratorium. Following the initial order issuing the Moratorium, a creditors’ meeting was required to be held in order to allow creditors to express their views concerning the Old Bank’s plans during the Moratorium. Creditors also are entitled to attend all hearings of the District Court of Reykjavik in respect of any application to extend the Moratorium period. At such hearings, creditors may seek to oppose an extension of the Moratorium. Creditors can also seek to challenge the Moratorium by making a motion to the District Court of Reykjavik asserting that the legal grounds for the Moratorium no longer exist.

What effect has the Moratorium had on customers of the Old Bank?

Subject to the supervision of the Moratorium Assistant referred to above, the Old Bank has been able to continue with its normal day-to-day operations while it formulates a strategy intended to maximize the value of its assets.

What is the effect of the Moratorium outside of Iceland?

The Moratorium has been granted and has taken effect in Iceland. In addition, because Iceland is a member of the European Economic Area and is a credit institution within the meaning of the EC Directive on Reorganization and Winding-up of Credit Institutions (the “EU Directive”), the Moratorium was automatically recognized as a “reorganization measure” throughout the EU and the three additional EEA states (Iceland, Norway and Liechtenstein). This means that the courts in such member states are, subject to certain exceptions, including in relation to employment contracts and certain security and set-off rights, required to give effect to the Moratorium and apply the prohibition on creditors bringing legal proceedings against the Old Bank, including postponing any existing creditor actions. Similarly, neither creditors nor the authorities in such member states are permitted to apply to put the Old Bank into local insolvency, bankruptcy, administration, winding-up or similar proceedings.

In relation to jurisdictions outside of the EEA where it has material assets, the Old Bank has taken the necessary action to seek recognition of the Moratorium. For more information, see “The Old Bank—Moratorium.”

What effect does the Moratorium have on existing rights of set-off held by creditors?

The Icelandic government passed a Bill of Legislation on April 15, 2009 to amend the Act, which came into effect on April 22, 2009 (the “Bill of Legislation”). The Bill of Legislation includes new rules regarding the winding-up proceedings for Icelandic financial institutions. As a result of a temporary provision in the bill, all the principal rules of the winding-up proceedings apply to the Old Bank whether the Moratorium is in effect or not. Set-off rights held by a creditor are addressed under the Bankruptcy Act (Article 100).

Does the Moratorium affect the New Bank?

The Moratorium does not affect the New Bank.

Questions and Answers Concerning the ICC and Creditor Communications

What has been done to consult with creditors and what happens next?

Deloitte was engaged to assist the Old Glitnir Resolution Committee to set up the ICC representing a broad cross section of financial institutions, international deposit holders and other creditors. ICC members were asked to enter into strict confidentiality undertakings. As discussed in “Background of the Proposal—Background on the Proposal Undertaken by the Resolution Committee and its Financial Adviser,” the Resolution Committee, with the assistance of Deloitte and its other advisers, has consulted with the ICC on the Resolution Committee’s plans for realizing the assets of the Old Bank and making payments to creditors. Members of the ICC have participated in the formal negotiating committee addressing the Instruments.

Who are members of the ICC and how were they selected?

The identity of the members of the ICC is confidential. Members were proposed by the Resolution Committee on the basis of size and type of debt, as well as geography. As a result, the members represent a broad cross-section of the Old Bank’s global creditor base.

The ICC has no formal powers, and its role is purely consultative. Members of the ICC are not remunerated and do not benefit from any special treatment in respect of any claim which its members may have against the Old Bank.

DESCRIPTION OF THE INSTRUMENTS

The description below is a summary of the material terms of the Instruments and is not complete. As discussed below, the Resolution Committee and its advisers are not passing upon or expressing a view regarding the valuation of the Instruments.

Background

On July 18, 2009, Glitnir's Resolution Committee reached an agreement with the Icelandic government with respect to the initial capitalization of Islandsbanki and the compensation alternatives to be made available to Glitnir. This agreement was amended on July 31, 2009 and the structure was modified during the course of documenting the agreement. Further changes to the structure were agreed in heads of terms entered into between the Ministry of Finance and Glitnir dated August 14, 2009 and September 4, 2009.

At a shareholders' meeting of Islandsbanki held on August 14, 2009, the Icelandic government committed to capitalize Islandsbanki on the basis of the proposed compensation agreements. At the meeting, the Ministry of Finance, on behalf of the Icelandic Treasury, subscribed for ISK 65 billion of Tier 1 capital in the form of government bonds, giving Islandsbanki a core Tier 1 ratio of approximately 12% and raising Islandsbanki's capital to ISK 65 billion. The Icelandic government transferred ISK 64,225,003,500 Icelandic Treasury bonds due 2018 (having previously provided ISK 775 million of capital) issued to Islandsbanki in consideration for the subscription of 9.225 billion newly issued ordinary shares in the capital of Islandsbanki.

Glitnir's Resolution Committee must determine by September 30, 2009 which of the compensation alternatives it will accept. The two alternative structures are (1) a structure involving Glitnir holding 95% of the equity shares in Islandsbanki referred to as the "Joint Capitalization" and set out in a Joint Capitalization and Subscription Agreement entered into between the Ministry of Finance and Glitnir on September 13, 2009 (the "JCA") and (2) a structure involving Glitnir holding debt instruments issued by Islandsbanki and having the benefit of an equity option granted by the Ministry of Finance over 90% of the ordinary shares in Islandsbanki. This is referred to as the "Alternative Capitalization" and is set out in an Alternative Capitalization Agreement entered into between the Ministry of Finance and Glitnir on September 13, 2009 (the "ACA"). As we discuss below, both alternatives permit Glitnir to benefit from potential upside associated with Islandsbanki, its performance and financial condition, the loan book and performance of loans, and from improvements (if any) in general economic conditions in Iceland.

Icelandic Government Liquidity and Capital Support

Upon signing of the JCA, the Icelandic government has agreed to make available to Islandsbanki a liquidity facility through Central Bank repo arrangements or otherwise in an amount up to ISK 25 billion.

Joint Capitalization Alternative

Joint Capitalization Agreement

The Icelandic government currently owns 100% of the issued share capital of Islandsbanki. The principal features of the JCA are as follows:

- (a) upon completion of the JCA, Islandsbanki will transfer to Glitnir Icelandic government bonds (which were transferred to it by the Icelandic government in consideration for the capitalization referred to above). Such bonds will have an aggregate amount equal to value that Bond A (described below) would have had it if issued on such date, together with accrued and unpaid interest;
- (b) Glitnir will use the Icelandic government bonds to acquire from the Icelandic government 9.5 billion ordinary shares in Islandsbanki, representing 95% of its issued share capital;

- (c) Glitnir will waive all rights under the ACA;
- (d) during the period between the parties signing the JCA and its completion, the Ministry of Finance agrees to procure that Islandsbanki's business will be conducted in a manner consistent with ordinary practices, and that a director nominated by Glitnir is appointed to the board of Islandsbanki. During such period, certain matters including material disposals or changes in business will require the consent of Glitnir or such director. Islandsbanki also agrees to allow Glitnir and its advisers to continue due diligence during such period;
- (e) the Icelandic government agrees to provide further capitalization in the form of the Tier 2 Instruments, having a market value of ISK 25 billion.
- (f) the Ministry of Finance, Islandsbanki and Glitnir will enter into a shareholders' agreement setting out the terms on which the investments of Glitnir and the Icelandic government in Islandsbanki will be regulated between the two shareholders and certain other matters concerning the future operation of Islandsbanki and its subsidiaries described further below;
- (g) Glitnir undertakes to maintain term deposits amounting to at least the equivalent of ISK 25 billion at Islandsbanki for a period of 15 months from the date the JCA was signed;
- (h) if the Icelandic government or the Central Bank makes additional capital generally available to the Icelandic banking system and such additional capital is made available to any Icelandic bank whose position is substantially analogous to that of Islandsbanki (save for ownership), the Icelandic government will not and will use reasonable endeavors to procure that the Central Bank will not treat Islandsbanki less favorably than any other third party Icelandic bank in terms of access to such additional capital being made available;
- (i) the JCA is governed by Icelandic law with the exclusive jurisdiction of the Icelandic courts;
- (j) all parties to the JCA will bear their own costs in connection therewith; and
- (k) if any of the conditions to the JCA are not satisfied or waived on or before September 30, 2009 or Glitnir notifies the Icelandic government and Islandsbanki that it does not intend to complete the Joint Capitalization, the JCA will immediately terminate and the ACA described below will complete.

Shareholders' Agreement

Upon signing of the JCA, the Ministry of Finance, Islandsbanki and Glitnir will enter into a Shareholders' Agreement. This will remain in force for a period of two years from the date of the Shareholders' Agreement but will terminate earlier upon the Icelandic government ceasing to hold the Tier 2 instrument referred to above.

The principal terms of the Shareholders' Agreement are as follows:

- (a) Islandsbanki covenants to ensure that its business and affairs are conducted in a proper and efficient manner consistent with the Shareholders' Agreement and its Articles and consistent with an agreed business plan;
- (b) the Icelandic government will have the ability to appoint one director to the Board of Islandsbanki who will be appointed to Islandsbanki's remuneration committee;
- (c) certain matters including amendments to the Articles of Islandsbanki or its subsidiaries, new share issuances or a material change to accounting policies will require the consent of the Ministry of Finance;

- (d) the Icelandic government will have veto rights in respect of payments of dividends for three years from the date of the JCA and in respect of Islandsbanki entering into any transactions with Glitnir or its affiliates other than transactions made in the ordinary course of business and on the same terms offered to other customers of Islandsbanki. The Icelandic government will not, however, exercise its right of veto in respect of dividend payments to the extent these do not exceed the payments of principal and interest that would have been made under Bond A, Bond B and Bond C over the same period if the ACA had completed as described below. Any such dividend must however be made by Islandsbanki in compliance with requirements of Icelandic law and capital adequacy requirements;
- (e) during the period that the Shareholders' Agreement is in force, the Ministry of Finance must approve the acquisition by any shareholder other than Glitnir of more than 33.2% of the voting rights in Islandsbanki, including an acquisition by way of distribution of the shares by Glitnir to its creditors. If such approval is not obtained, such shareholder will be restricted from exercising any voting rights attaching to its holding which exceeds such threshold;
- (f) if shareholders (other than the Ministry of Finance) sell in a transaction or a series of connected transactions, a stake in Islandsbanki of more than 33.2% in Islandsbanki, the shareholders will have a drag along right requiring the Icelandic government to accept any offer from the purchaser on the same terms and conditions (including the purchase price) as the selling shareholder. In relation to any such sale by shareholders, the Icelandic government also has tag-along rights enabling it to require the proposed transferee to have made a written offer to the Icelandic government to purchase all ordinary shares held by it on the same terms and conditions (including the purchase price) as the selling shareholders;
- (g) any party to whom shares in Glitnir are transferred during the period the Shareholders' Agreement is in force, including any creditor to whom such shares are distributed, must sign a deed of adherence to the Shareholders' Agreement; and
- (h) the Shareholders' Agreement is governed by Icelandic law with the exclusive jurisdiction of the Icelandic courts.

Tier 2 Instruments

In addition, irrespective of the compensation option elected by Glitnir, the Ministry of Finance will subscribe for EUR 138,106,287 of Tier 2 capital instruments (the "Tier 2 Instruments") in the form of unsecured subordinated notes issued by Islandsbanki. The principal terms of such instruments are as follows:

- (a) they will be in the form of notes in registered form;
- (b) the term of the notes is ten years from the date of completion of the JCA;
- (c) interest is payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year with the first payment due on December 31, 2009. Interest accrues at a rate of EURIBOR plus a margin of 4% for five years with a step-up in the margin to 5% thereafter;
- (d) Islandsbanki may redeem any note on an interest payment date falling after the fifth anniversary of the issue date at its option or earlier, if permitted by the FME. The amount payable on such redemption will be the principal amount of the Tier 2 instrument together with accrued interest to the date of payment;
- (e) if permitted by law or pursuant to an exemption issued by the Central Bank, Islandsbanki may elect that the principal amount of the notes be redeemed in a currency other than euro;

- (f) the Tier 2 Instruments are subordinated to all senior unsecured liabilities of Islandsbanki. On a winding-up of Islandsbanki, all claims of the noteholders are postponed to the claims of such senior creditors and no amount is payable under the notes until the claims of all senior creditors have been met in full. All payments of principal and interest under the notes are therefore conditional on no resolution having been passed for the winding-up of Islandsbanki and the payment not causing Islandsbanki to be in breach of its regulatory capital requirements; and
- (g) in the event of default on payment of any principal or interest on the notes for a period of 10 business days or more (other than interest that has been deferred pursuant to the subordination provisions described in (f) above) the holders of the note may petition to wind-up Islandsbanki (but subject to such subordination provisions).

Alternative Capitalization Agreement

Pursuant to the ACA, if the JCA is not completed, Islandsbanki agrees, pursuant to a Bond Issue Agreement between Islandsbanki and Glitnir (the “Bond Issue Agreement”), to issue Bond A, Bond B and Bond C to Glitnir as described further below. In addition, the Ministry of Finance will issue an Equity Option Instrument to Glitnir.

Bond A

Bond A will be issued to Glitnir upon completion of the ACA in the aggregate principal amount of EUR 346,182,012 (being the euro equivalent of ISK 52 billion as at October 15, 2008). Bond A is secured and will have the benefit of the Pledge Agreements described further below. The principal features of Bond A are as follows:

- (a) principal on Bond A will be paid in 12 equal installments commencing on January 15, 2013 and ending on the final maturity date, being October 15, 2015;
- (b) interest is payable quarterly in arrears on January 15, April 15, July 15 and October 15 in each year with the first payment due on October 15, 2009. Interest accrues at a rate of EURIBOR plus a margin of 3% per annum until the third anniversary of the issue date with a step-up in the margin to 4% per annum thereafter. In respect of the first interest period, interest will be payable as if it had accrued from October 15, 2008 until October 15, 2009 and the rate of interest for such initial interest period will be 5.710% per annum;
- (c) although payments under Bond A are to be made in euros, in the event that Islandsbanki has used its best endeavors for a period of not less than 10 successive business days to obtain sufficient euros to make any payment due under Bond A but is unable to do so due to an event which makes it impossible to convert ISK into euros through customary financial channels or it is impossible to deliver euros to the account of the relevant bondholder, Islandsbanki is entitled to make such payment in ISK subject to the terms of a currency indemnity which requires Islandsbanki to indemnify the bondholder against the difference in the amount of euros it should have received and the amount of euros that can be obtained from the ISK received by the bondholder in respect of such payment;
- (d) the bondholder is entitled to redeem the bonds on giving not less than 30 and no more than 60 written days’ notice to Islandsbanki at their outstanding principal amount together with accrued and unpaid interest up to the early redemption date specified in the notice if (i) Islandsbanki, other than with the prior written consent of the bondholder, enters into any reorganization (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed in accordance with applicable laws or participates in any other type of corporation reconstruction) unless that reorganization does not have a material adverse effect on the financial condition of Islandsbanki and its subsidiaries taken as a whole or Islandsbanki’s ability to perform or comply with its obligations under Bond A (a “material adverse effect”) or (ii) the Icelandic

government ceases to own voting shares representing more than 50% of the voting rights in Islandsbanki;

- (e) all payments of principal and interest under the Bonds are to be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or government charges unless such withholding is required by law. In such a case, Islandsbanki (with certain limited exceptions) is required to pay such additional amounts as would have been received by Islandsbanki if no such withholding or deduction has been required;
- (f) the bond specifies a number of events of default, the occurrence and continuance of which will give the holder of the bonds the right to enforce the bonds and receive payment of principal and accrued but unpaid interest together with other legal costs. The events of default include:
 - (i) Islandsbanki fails to pay any amount payable under the bonds on the date on which such payment is due or within three business days of such date;
 - (ii) Islandsbanki fails to perform or comply with any one or more of its obligations under Bond A including the covenants referred to in paragraph (g) below), which default is incapable of remedy or if capable of remedy is not remedied within 30 days after the bondholder gives Islandsbanki notice of such default;
 - (iii) indebtedness of Islandsbanki and its material subsidiaries (“material subsidiary” being defined as a subsidiary representing not less than 10% of the Islandsbanki’s group’s consolidated assets or revenues as shown in Islandsbanki’s most recent annual financial statements prepared in accordance with IFRS) become due and payable prior to their stated maturity date by reason of default or any payment of principal or interest on indebtedness of Islandsbanki or such subsidiaries is not paid when due (subject to any grace period) provided that the aggregate principal amount in respect of which such default has occurred equals or exceeds EUR 25 billion or its equivalent in other currencies;
 - (iv) the occurrence of certain insolvency related events;
 - (v) the coverage ratio in respect of the pledged assets under the Pledge Agreements described below falls below 140% and is not remedied within 14 days (if the ratio falls below 120% it must be raised to 120% within seven days and to 140% within seven days thereafter); and
 - (vi) Islandsbanki ceases to carry on all or part of its banking business and, in the case of a cessation in part, such cessation has a material adverse effect;
- (g) Islandsbanki provides certain covenants. These include that for so long as Bond A remains outstanding:
 - (i) so long as any bond remains outstanding, Islandsbanki will not, and will not permit any material subsidiary other than certain subsidiaries acquired through a debt for equity swap or through enforcement of a pledge over the shares in such entity (“acquired debtor subsidiaries”) to directly or indirectly create or suffer to exist any security interest other than certain permitted security interests;
 - (ii) except for borrowings incurred in the ordinary course of business, Islandsbanki will not and will procure that no material subsidiaries will incur or suffer to exist any borrowings with certain specified exceptions including unsecured, junior and subordinated borrowings, intra group borrowings, existing borrowings and borrowings committed by or incurred with the Central Bank;

- (iii) Islandsbanki will not and will procure that no subsidiary will enter into transactions with affiliates other than on arm's length terms;
- (iv) neither Islandsbanki nor any material subsidiary will declare or pay any dividends or make other distributions for any period prior to December 2011. For the fiscal years 2012 and 2013, Islandsbanki and its material subsidiaries may make such a payment provided no event of default or potential event of default has occurred or would result from such payment and the aggregate amount of such payments does not exceed 50% of Islandsbanki's net profit as determined in the most recent consolidated financial statements prepared in accordance with IFRS;
- (v) Islandsbanki will maintain its Tier 1 capital adequacy ratio at a minimum of 9%;
- (vi) neither Islandsbanki nor its material subsidiaries will dispose of any part of its assets in a single transaction or a series of connected transactions having a value exceeding EUR 20 million or during any financial year dispose of assets having an aggregate value exceeding 5% of Islandsbanki's consolidated financial statements unless the sale is in the ordinary course of Islandsbanki's banking business or is the sale, transfer or disposal of an acquired debtor subsidiary and two thirds of the Board of Directors opines that the transaction is in the best interests of Islandsbanki;
- (vii) Islandsbanki will not permit a material subsidiary from agreeing to restrict its ability to pay dividends on its share capital or to make loans or advances or otherwise transfer assets to Islandsbanki with certain limited exceptions;
- (viii) Islandsbanki will deliver certain financial and other information to the bondholder including Islandsbanki's audited consolidated financial statements for each financial year within 100 days of the end of such year. Islandsbanki will also, as soon as practicable but no later than within 60 days of the end of each financial quarter, provided copies of its unaudited financial statements for such quarter;
- (ix) Bond A is freely transferrable;
- (x) under the terms of the Bond Issue Agreement, the bondholder has the right to convert Bond A in its absolute discretion into marketable instrument(s) or take any other action to make Bond A marketable. A marketable instrument is a euro-denominated secured bond with market standard provisions for such bonds assuming that the bonds are listed on either the Dublin, London or Luxembourg Stock Exchange and are to be cleared through Euroclear, Clearstream and DTC and permit offers in accordance with Regulation S of the United States Securities Act of 1933, as amended (the "Securities Act") or under private transactions to qualified institutional buyers (as defined under Rule 144A of the Securities Act) or other similar structured finance transaction. Such instruments will include interest and principal payment provisions, covenants and events of default materially the same as those contained in Bond A. In the alternative, the bondholder has the right in its absolute discretion to convert Bond A into term deposits at Islandsbanki with the same maturity date as Bond A;
- (xi) Bond A is governed by Icelandic law and the Courts of Iceland have exclusive jurisdiction in connection therewith; and
- (xii) Bond A has the benefit of the Pledge Agreements as described below.

Bond B / Bond C

Upon completion of the ACA, Islandsbanki will also sign a Principal Adjusted Bond B (“Bond B”) and an Interim Valuation Bond C (“Bond C”) without a specific principal amount being inserted at the date of issuance. Bond B and Bond C will be held by Landslog and Logos acting together as Escrow Agent pursuant to the terms of an Escrow Agreement between the Escrow Agent, Islandsbanki and Glitnir.

The relevant provisions for determining any principal and interest payable on Bond B and Bond C are as follows:

- (a) there will be an interim revaluation on March 31, 2009 and a final determination of value on March 31, 2012;
- (b) in connection with the interim revaluation on March 31, 2010, Islandsbanki will determine a principal balance of Bond C which will apply to Bond C from December 31, 2009. To obtain the new principal balance, Islandsbanki will use its financial statements as at December 31, 2009, audited in accordance with IFRS and such principal balance will be equal to the Profit Surplus (as defined in paragraph (g) below) so determined during the year of 2009). A valuation of Islandsbanki’s assets will be conducted by Islandsbanki’s management according to IFRS following discussions with its Board and Glitnir according to an agreed protocol which will assess how the key data used in the valuation of such assets as at January 1, 2009 has changed up to December 31, 2009. The resulting amount is referred to as the “Revaluation Amount.” Glitnir may appoint an independent valuation agent to verify the calculations. If this cannot be achieved, Islandsbanki and Glitnir will use their reasonable endeavors to reach a mutually acceptable solution, failing which the matter can be referred to the courts of Iceland;
- (c) the Revaluation Amount, up to a maximum of ISK 17 billion will be converted into euros at the then relevant Central Bank exchange rate. Such euro amount will be inserted by the Escrow Agent as the principal amount of Bond C which will then be released from escrow to Glitnir. If the Revaluation Amount is zero or a negative amount, Bond C will be cancelled;
- (d) interest will accrue on the principal amount of Bond C with effect from January 1, 2010. The interest rate is the same as in relation to Bond A described above provided that the step-up in the margin from 3% to 4% will occur with effect from October 15, 2011;
- (e) on March 31, 2012, Islandsbanki will determine a principal balance of Bond B which will apply to Bond B from December 31, 2011. To obtain the new principal balance, Islandsbanki will calculate the Profit Surplus as at such date which must be certified by Islandsbanki’s auditors as being reconciled (confirmed) to the audited financial statements of Islandsbanki, prepared in accordance with IFRS and covering the period from January 1, 2009 to December 31, 2011. Glitnir will again have the ability to appoint an independent valuation agent to verify the calculations with the possibility of the matter being referred to the courts if agreement cannot be reached. Following the determination of the Profit Surplus there will be deducted therefrom the principal amount of Bond C. The resulting amount, up to a maximum of ISK 80 billion, will also be converted into euros at the then relevant Iceland Central Bank exchange rate and such amount will be inserted by the Escrow Agent as the principal amount of Bond B which will then be released from escrow to Glitnir. If such amount is zero or a negative amount, Bond B will be cancelled;
- (f) interest will accrue on the principal amount of Bond B with effect from December 31, 2011. The interest rate is the same as in relation to Bond A described above or 4%;
- (g) the Profit Surplus in respect of Bond B and Bond C is defined as an amount in ISK, not exceeding ISK 80 billion equal to 0.9x (Aggregate Profits minus Benchmark Return); divided by one minus the weighted average effective corporate tax rate paid or payable by Islandsbanki for the relevant

period. Aggregate Profits is defined as increases / decreases in Islandsbanki's equity over the relevant period (i) before accounting for the issuance of Bond B and Bond C, as applicable and (ii) incorporating increases / decreases in the fair value of assets held on Islandsbanki's balance sheet irrespective of whether they are accounted for through fair value adjustments in the income statement or the equity or accounted for on an accruals basis (adjusted for each discrete issuance of fully paid share capital over the original equity, repurchases of share capital or payments of dividends during the relevant period). Benchmark Return is defined by reference to the amount that would be obtained on the original equity over the relevant period applying a rate based on government bonds held by Islandsbanki (adjusted to reflect the fact that such Icelandic government bond accrues interest on a monthly basis). To the extent further equity is injected during the relevant period, a similar calculation is made in respect of such equity for the period since its issuance. Adjustments are also made to reflect repurchases of share capital and payments of dividends by subtracting the amount of repurchase or dividend from the relevant period;

- (h) principal on Bond B and Bond C will be paid in 12 equal installments commencing on January 15, 2013 and ending on the final maturity date, being October 15, 2015. All other commercial terms of Bond B and Bond C, except as described above, including events of default and the covenants are the same as for Bond A described above;
- (i) if prior to the valuations specified above, an Event of Default occurs on Bond B or Bond C or the holder wishes to exercise its right of early redemption, the principal amount of Bond B and Bond C will be determined on the first date upon which financial information becomes available to determine the relevant revaluation amount (in the case of Bond C) or the Profit Surplus (in the case of Bond B). Such amounts will be used to determine the principal amount of Bond B and Bond C using the same methodology as described above;
- (j) if the principal amount to be inserted into either Bond B or Bond C would result in Islandsbanki not meeting its regulatory capital requirements, the parties agree to negotiate and use their reasonable endeavors to find a solution which best serve the interests of the parties;
- (k) Bond B and Bond C are secured and will have the benefit of the Pledge Agreements described further below; and
- (l) Bond B and Bond C are governed by Icelandic law and the Courts of Iceland have exclusive jurisdiction in relation thereto.

Bond Issue Agreement

The Bond Issue Agreement principally sets out the mechanism for determining the principal amount of Bond B and Bond C as described above and describing certain aspects of the Possessory Pledge Agreement and the Receivables Pledge Agreement described below. Islandsbanki will also give a number of representations and warranties to Glitnir in connection with its incorporation and its ability to enter into the agreements relating to the compensation instruments as described herein. This will contain a representation that the financial and other information provided to Glitnir by Islandsbanki for purposes of calculating the amount of the compensation instruments, taken as a whole, does not contain any untrue statement of material fact or omit to state any material fact necessary to make such information not misleading in light of the circumstances under which such information was provided and that all information that was made available to Glitnir and its representatives and advisers leading up to the execution of the ACA was complete, correct and not misleading and that no information was omitted.

Pledge Agreements

Bond A, Bond B and Bond C are secured by pledges over Islandsbanki's rights, title, benefits and interests (present or future) in the assets subject to the pledges (the "Pledged Assets"). Such pledges will be given under a Possessory Pledge Agreement and either a Receivables Pledge Agreement or a Share Pledge Agreement to be

granted over the shares in a special purpose vehicle to which certain assets of Islandsbanki will be transferred (together the “Pledge Agreements”).

Assets that are eligible to be pledged by Islandsbanki pursuant to the Pledge Agreements include individual mortgage bonds, corporate mortgage bonds and vehicle mortgage bonds meeting specified eligibility criteria.

The aggregate book value of the pledged assets under the Pledge Agreements is required to be maintained at a ratio of 140% of the amounts owing at any time under Bond A, Bond B and Bond C. Islandsbanki has the right to withdraw or substitute pledged assets or to substitute pledged assets with replacement assets provided that the coverage ratio is maintained at no lower than its minimum permitted level. A withdrawal or substitution is not permitted without the consent of the holder of the bonds where an event of default or potential event of default has occurred.

An event of default occurs under the security documents where (i) there has been an event of default under Bond A, Bond B or Bond C, (ii) there is non-payment on Bond A, Bond B or Bond C on the date they become due and payable, (iii) the minimum coverage ratio falls below the permitted level and is not rectified within specified time limits, (iv) Islandsbanki is in breach of any covenant or does not comply with the terms of the Security Documents or related transaction documents or (v) any of the undertakings, representations or warranties made in the transaction document are untrue or cease to be true on the relevant date. Following the occurrence of an event of default, the security granted under the Security Documents will become immediately enforceable.

In the event of an insolvency (or similar event) of Islandsbanki, Islandsbanki and the holders of Bond A, Bond B and Bond C will use their reasonable efforts to ensure that the administrator (or equivalent official) calculates the depositors’ recovery ratio and distributes the proceeds from the enforcement of the Pledge Agreements to enable such proceeds together with the other assets of Islandsbanki to be distributed *pari passu* between the bondholders and depositors. If the bondholder enforces the Pledge Agreements on other grounds than those specified above, these provisions do not apply unless Islandsbanki becomes subject to such an event within 90 days of the bondholders’ enforcement of the Pledge Agreement.

Equity Option Instrument

The Equity Option Instrument (the “Equity Option”) will be executed by the Ministry of Finance upon signing of the ACA and will be held in escrow pending completion of the ACA. If the ACA completes, the Equity Option Agreement will be transferred to Glitnir. Under the terms of the Equity Option, the holder has the option to purchase for cash ordinary shares of ISK 1 each in the capital of Islandsbanki.

The purchase price of the Islandsbanki shares under the Equity Option is equal to a value per share representing the initial investment by the Icelandic government multiplied by a rate of return equal to a rate of return equal to a specified “risk free” rate (calculated by reference to interest payable on the Icelandic government bonds held by Islandsbanki during the same period plus 5 per cent) during the period since August 14, 2009 until notice of exercise of the option

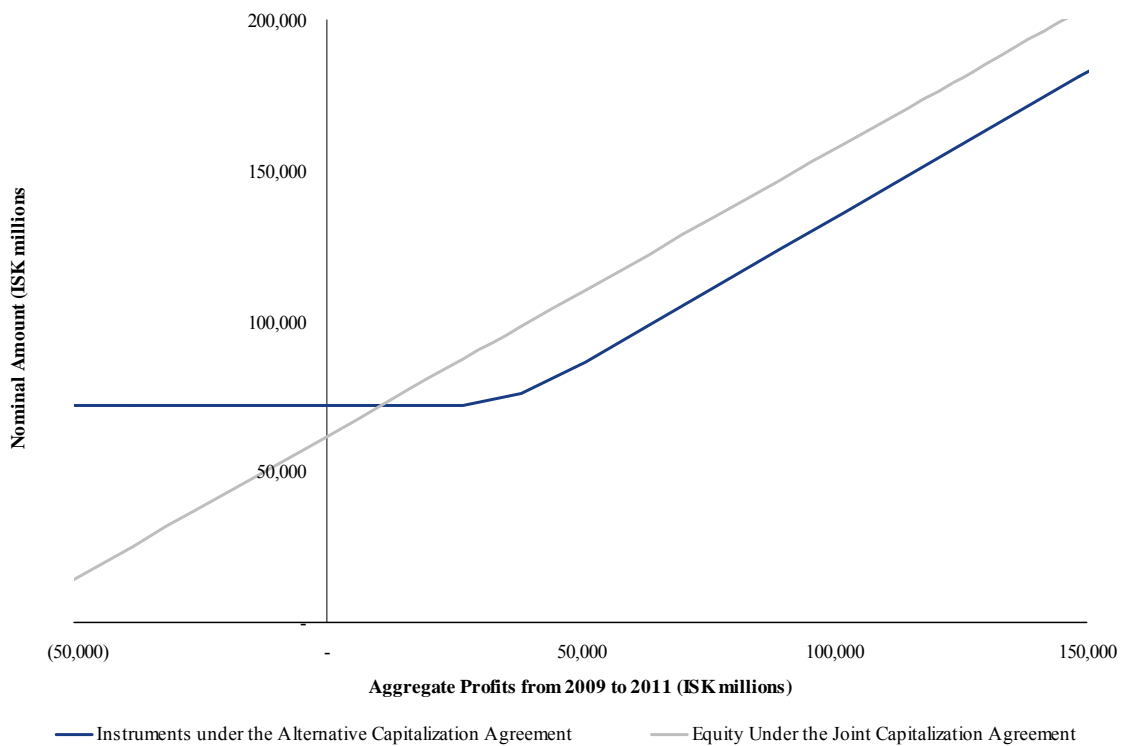
The purchase rights under the Equity Option may be exercised during a period of one month immediately following the publication of Islandsbanki’s annual report for each of the financial years ending December 31, 2010, December 31, 2011, December 31, 2012, December 31, 2013 and December 31, 2014 or any other date notified by the Icelandic government. In addition, the rights become exercisable ten business days following notice from the Icelandic government of (a) a listing of the ordinary shares of Islandsbanki or any of its subsidiaries on an internationally recognized stock exchange, (b) an underwritten initial public offering of not less than 50% of the issued shares of any class of securities of Islandsbanki or (c) a change of control (excluding an Icelandic government sponsored intervention in the Icelandic banking sector or a listing, qualifying IPO or change of control directly resulting from a government sponsored intervention) (each, an “Exit”). If an Exit is proposed, any purchase rights not exercised prior to the date of that exit will lapse and the options will be cancelled. If any purchase rights have not been exercised by the date falling one month after the publication of Islandsbanki’s annual report relating to the financial year ending December 31, 2014, those rights lapse and the options will be cancelled.

Other terms of the Equity Option include:

- (a) the terms of the Equity Option will be adjusted to take effect of dilutive or concentrative events such as a reorganization or reclassification of Islandsbanki's share capital;
- (b) in each one week period immediately preceding a purchase period, the Icelandic government may make an offer to purchase options from optionholders. If optionholders collectively holding at least 80% of the options accept an offer, the Icelandic government may purchase all of the options on the same terms as the offer;
- (c) while any purchase rights under the options remain exercisable, the optionholders may appoint a director of Islandsbanki on their behalf;
- (d) Islandsbanki's half-yearly accounts will be provided to optionholders following June 30th and December 31st of each year. Optionholders also have the right to receive certain other information including information on any material acquisition or event relating to Islandsbanki that could be reasonably deemed to materially affect optionholders' rights;
- (e) the options are transferrable by optionholders;
- (f) the options are governed by Icelandic law and are subject to the exclusive jurisdiction of the Courts of Iceland; and
- (g) there are provisions for meetings of optionholders. At an optionholders meetings, optionholders holding options representing the right to purchase at least 75% of the option shares will have the ability to agree to certain matters binding on all option holders including (i) sanctioning any compromise or arrangement proposed to be made between the Icelandic government and the optionholders, (ii) agreeing modifications to the options, (iii) agreeing to the exchange or substitution of the options into shares, stock, bonds, debentures, debenture stock or other obligations or securities of Islandsbanki, or any other company and (iv) appointing a director of Islandsbanki to act on behalf of the optionholders.

Illustrative Compensation Nominal Amounts

Below we illustrate the relative nominal amounts of each compensation option for a given range of aggregate profits from 2009 to 2011 in accordance with the definitions set out in the JCA and ACA. The illustration shows the nominal amount of Islandsbanki's common equity of which 95% will be owned by Glitnir under the JCA and the aggregate nominal amounts of the compensation instruments under the ACA, comprising Bond A, Bond B, Bond C and the Equity Option. For the purposes of this illustration, the nominal amount of the Equity Option under the ACA is shown as its intrinsic value (defined as the nominal amount of Islandsbanki's common equity less the purchase price of the Option multiplied by 90%). Other assumptions in this illustration include, among others: (1) a risk-free rate of 9.5%; (2) an ISK/EUR exchange rate of 181.00; and (3) an Icelandic corporate tax rate of 15%. This illustration does not constitute a valuation of the instruments under each compensation option. You should analyze the illustration of the comparative potential nominal amounts of the compensation instruments together with the considerations identified under "Reasons for the Proposal" and with the risks identified under "Risk Factors."



BACKGROUND OF THE PROPOSAL

Brief History of the Icelandic Banks

The Icelandic government liberalized its financial markets quickly in stages between 1985 and 2003 in order to bring itself in line with its EU counterparts. The Icelandic government abolished interest rate controls between 1985 and 1990, opened the capital account in 1995 and privatized the banking sector between 1998 and 2003. In 1994, Iceland became a member of the EEA, a 30-nation free-trade zone of the EU. As a condition of EEA membership, Iceland was required to adopt policies permitting the free movement of capital, labor, and goods and services among Iceland and EU members. Iceland also adopted regulations consistent with EU directives on banking, insurance and securities trading.

Privatization began in 1991 as part of the adoption of free market principles. The process started with smaller industries, including travel agencies, fertilizer plants, fish processing plants and alcohol production. In 1990, the Icelandic government facilitated the formation of a privately held commercial bank in Iceland, Glitnir banki hf., through the merger of a state-owned bank with three privately held banks. Glitnir obtained its formal listing on the Iceland Stock Exchange in 1993. In 1998, after directing the mergers of several state owned investment credit funds into the Icelandic Investment Bank (“FBA”), which merged with Glitnir in 2000, the Icelandic government commenced the privatization process for FBA and two other state-owned commercial banks, Landsbanki Íslands hf. (“Landsbanki”) and Bunadarbanki Íslands hf. (which later merged with Kaupthing), through public equity offerings (15% of total equity) in each bank. In December 1999, the Icelandic government sold an additional 15% equity interest in both banks and completed the privatization in 2003. Together with Glitnir, these were the three largest commercial banks in Iceland.

Privatization and deregulation led to the rapid growth of the Icelandic banks, and Iceland became an international banking center, with banks performing financial intermediation mostly outside the country. The internationalization of Icelandic banks also affected the way in which these banks financed their activities. In early 2000, less than one-third of the banking sector’s financing originated from abroad, compared to two-thirds in 2006. In only five years the banking sector transformed itself from a system of local depository institutions to an international financial intermediary.

The Icelandic banking sector’s expansion also has been international in scope. Growth was achieved principally through an increase in mortgage origination activities and the acquisition of foreign financial companies. For example, in 2004 Kaupthing acquired the Danish bank FIH, thus becoming the largest banking group in Iceland. In 2005, Glitnir acquired BNbank of Norway and Kaupthing consolidated its leading position by acquiring the UK bank Singer & Friedlander. In 2006 and 2007, the Icelandic banks focused on consolidating their activities both in Iceland and abroad. At the end of 2007, 41% of the total assets of the largest commercial bank groups consisted of foreign subsidiaries.

The foreign expansion and lending by parent banks to non-residents broadened the Icelandic banks’ income base and diversified their risk. The banking group’s income from outside Iceland increased, along with their foreign assets. In 2007, 58% of group income originated outside of Iceland, compared to 48% in 2006. Credit to non-residents accounted for 59% of total lending at the end of 2007, compared to 61% at the end of 2006. Profitability among the largest commercial banks also was strong in 2007, with combined returns amounting to 23%, resulting from increased interest income following a rise in lending and significant income from fees and commissions, with moderate gains (compared to 2006) on securities portfolios. During 2007, the three major commercial banks made loans equivalent to about nine times the size of the Icelandic economy, an increase of approximately 200% since they were privatized in 2003. Although the broader income base and resulting risk diversification left the banks less vulnerable to domestic shocks, they became more susceptible to foreign financial shocks, as discussed in “The Icelandic Economy—Brief Overview of the Icelandic Financial Crisis.”

History of Icelandic Government Intervention

Concerns about the stability of the Icelandic banking sector surfaced throughout 2008, as the krona depreciated by 35% between January and September 2008. The bankruptcy of Lehman Brothers Inc. in mid-September 2008 further eroded investor confidence and made it increasingly difficult for Icelandic banks to obtain

short-term credit and refinance their existing foreign debt. In late September 2008, Glitnir approached the Central Bank. On September 29, 2008, the Icelandic government announced that it had agreed to invest €600 million in Glitnir in return for a 75% equity stake in the bank. Shortly thereafter, Glitnir's share price collapsed, the ratings agencies downgraded Iceland, as well as the Icelandic banks, and the krona fell even further. On October 7, 2008, in an effort to contain the crisis, the Icelandic government authorized the FME to take over Glitnir and Landsbanki. On October 6, 2008, the Icelandic government agreed to provide Kaupthing with a €500 million emergency loan to improve its liquidity. However, Kaupthing could not survive the defaults caused by the seizure of its online deposit accounts by the UK government. On October 9, 2008, the Icelandic government nationalized Kaupthing.

On October 11, 2008, the FME established a new banking entity to take over part of the operations of Landsbanki, including domestic assets, in order to ensure the provision of normal banking services and the safety of deposits in Iceland. The FME also ensured that all domestic branches, call centers, automated teller machines and internet accounts would remain open for business, and separated all of the international operations from the new entity, which were left in the old entity along with foreign and other riskier assets. Similar entities were established for Glitnir on October 15, 2008 and for Kaupthing on October 22, 2008. The Icelandic government subscribed for equity in the new banks (ISK 200 billion for Landsbanki, ISK 110 billion for Glitnir and ISK 75 billion for Kaupthing). The three major commercial banks also requested delisting from the Iceland Stock Exchange (the "ISE"), beginning with Landsbanki on October 14, 2008.

The Icelandic government granted temporary moratoria on payments to creditors for the three major commercial banks in November 2008. The Icelandic government has been actively involved in ascertaining commitments to depositors in the failed Icelandic banks and other creditors and agreeing with the countries whose citizens have been exposed (mainly the United Kingdom, the Netherlands and Germany). The Icelandic government has completed this process for the most part, with the liabilities estimated at \$8 billion or almost 50% of Iceland's gross domestic product ("GDP").

Establishment of the Restructuring Process

Resolution committees for the Icelandic banks were also established and began meeting with creditors in November 2008. Although the valuation of the assets of all the failed Icelandic banks has not been completed at this time, the resolution committees for the failed banks have considered various restructuring options. The new banks will have smaller balance sheets than did the old banks and will concentrate on domestic rather than foreign markets.

The Icelandic government also has issued government guaranteed bonds in order to refinance and recapitalize the banking system. In January 2009, the Icelandic government indicated that the net capital requirement required in 2009 for the refinancing and recapitalization is estimated conservatively at ISK 145 billion, and will be financed by the issuance of marketable non-indexed debt instruments amounting to ISK 45 billion net of maturities and ISK 100 billion taken from the Icelandic government's balance with the Central Bank. Net treasury note issuances will amount to a total of ISK 74 billion, including new two-year treasury notes that were issued in July 2009. While new three-month treasury bills will also be issued monthly, the Icelandic government's intention is to reduce the overall treasury bill balance by ISK 29 billion in 2009.

On July 18, 2009, the Icelandic government formally announced a restructuring plan for the failed banks, including the injection of \$2 billion of capital into the new banks in order to bring their capital ratios to well-capitalized levels. Despite the delay in bringing forward the restructuring plan, the approach of recapitalizing only domestic operations of the old banks may have potentially reduced the overall costs of the restructuring plan. The cost of the restructuring plan will include not only the capital injected, but also the loans made during the financial crisis by the Central Bank and the Icelandic government's guarantee of Icesave deposits of Landsbanki, which could total 90% of GDP. As a stakeholder in the new banks, the Icelandic government will also have a significant role in the new banks. As a result of the restructuring plan, gross debt is expected to rise to approximately 180% of GDP in 2010, but after including the financial assets of the new banks, net debt will rise to only 40%, compared to 0% prior to the financial crisis.

The following timeline highlights the most significant developments, which are discussed above and in "The Icelandic Economy—Brief Overview of the Icelandic Financial Crisis."

Late September 2008	Glitnir approaches the Central Bank.
September 29, 2008	The Icelandic government announces that it has agreed to invest €600 million in Glitnir in return for a 75% equity stake in the bank.
October 4 and 5, 2008	UK depositors continue to make withdrawals from their online savings accounts with Landsbanki, after discussions in the international press questioning the solvency of Icelandic banks.
October 6, 2008	<p>The FME suspends trading in the Icelandic banks on the stock exchange. The Central Bank temporarily pegs the krona against the trade weighted index and imposes currency controls.</p> <p>The government issues an emergency law and states that domestic deposits will be fully guaranteed.</p> <p>The Icelandic government agrees to provide Kaupthing with a €500 million emergency loan to help improve its liquidity.</p>
October 7, 2008	<p>In an effort to contain the banking crisis, the Icelandic government authorizes the FME to take over Glitnir and Landsbanki.</p> <p>The Central Bank announces that it is in negotiations to receive a €4 billion loan from Russia.</p>
October 8, 2008	<p>The Central Bank abandons the exchange rate peg. Landsbanki announces that it will not process any deposits or any withdrawal requests through online accounts.</p> <p>By this point, UK depositors have already withdrawn £200 million from their Landsbanki accounts.</p> <p>In response to concerns that Icelandic banks and the Icelandic government will not completely guarantee foreign deposits, the UK government invokes anti-terrorism legislation to freeze the UK deposits of Kaupthing and seize the UK assets of Landsbanki, resulting in the complete collapse of these two banks.</p>
October 9, 2008	<p>The Icelandic government nationalizes Kaupthing.</p> <p>The FME suspends all trading on the stock exchange for two days.</p>
October 11, 2008	The FME establishes a new banking entity to take over part of Landsbanki's operations.
October 12, 2008	The government announces that it is formally engaged in talks with the IMF regarding the stabilization of the krona and interest rate targeting.
October 14, 2008	The three major commercial banks request delisting from the ICEX, beginning with Landsbanki.
October 15, 2008	The FME establishes a new banking entity for Glitnir.
October 22, 2008	The FME establishes a new banking entity for Kaupthing.
October 19, 2008	The IMF tentatively agrees to an emergency loan of €1.58 billion.
October 28, 2008	The Central Bank raises interest rates from 12% to 18%, as trading resumes in the krona after a one-week suspension.
November 2008	<p>The District Court of Reykjavik grants temporary moratoria on payments to creditors for Glitnir and Kaupthing.</p> <p>The Central Bank imposes more stringent currency controls, including daily currency auctions for the importation of necessary goods.</p>
November 16, 2008	As a condition to the approval of the IMF plan, Iceland commits to guarantee each online depositor a minimum payment of €20,887 (approximately \$26,400).

November 19, 2008	The IMF approves a two-year SDR1.4 billion (approximately \$2.1 billion) standby arrangement for Iceland to support the country's efforts to restore investor confidence and stabilize the economy.
November 20, 2008	The United Kingdom agrees to loan to Iceland \$3.3 billion to cover the estimated 300,000 UK depositors in online savings accounts with Landsbanki and Kaupthing. The Netherlands and Germany also agree to loan €1.3 billion and €1.1 billion, respectively, to cover Dutch and German online depositors.
December 2008	The District Court of Reykjavik grants temporary moratorium on payments to creditors for Landsbanki.
December 6, 2008	The Central Bank introduces a new currency regime, which leads to the krona rising by 25% within three days.
January 5, 2009	The Icelandic government supports the decision of the resolution committees of Kaupthing and Landsbanki to file suit against UK authorities regarding the seizure of Icesave accounts.
January 13, 2009	The Icelandic government appoints a special prosecutor to investigate criminal activity in connection with and in the wake of the financial crisis.
January 26, 2009	The coalition government of the Independence Party and the Social Democratic Alliance collapses.
February 1, 2009	A new coalition government of the Social Democratic Alliance and the Left-Green Movement takes office.
February 9, 2009	The Icelandic government appoints a new board of directors for the FME.
February 26, 2009	The Icelandic government passes a bill amending the Central Bank Act, including changes to the Central Bank's administrative structure, a reduction in the number of governors and the establishment of a monetary policy committee.
March 3, 2009	The Icelandic government hires international corporate advisory firm Hawkpoint to assist with the recapitalization of Glitnir, Kaupthing and Landsbanki.
March 9, 2009	The FME takes control of Straumur-Burdaras Investment Bank hf ("Straumur"), the last significant financial institution to collapse.
March 10, 2009	The Icelandic government appoints Norwegian-French Magistrate Eva Joly as a special adviser for the investigation of cases linked to the financial crisis.
March 13, 2009	The IMF conducts its first review of Iceland under the standby arrangement.
April 8, 2009	The Central Bank cuts interest rates for the second time that month, from 17% to 15.5%.
April 25, 2009	The president of Iceland dissolves the Icelandic Parliament and announces new elections.
May 7, 2009	The Central Bank cuts interest rates by 2.5% to 13%.
May 10, 2009	A new coalition government takes office and the Social Democratic Alliance and the Left-Green Movement continue their cooperation.
May 25, 2009	The Icelandic government presents a proposal to the Parliament authorizing it to begin talks on EU membership.
June 6, 2009	Iceland agrees to reimburse the United Kingdom and the Netherlands for compensation paid out to UK and Dutch depositors in Icesave accounts of Landsbanki.

July 1, 2009	Denmark, Finland, Sweden and Norway sign loan agreements with Iceland totaling €1.775 billion.
July 7, 2009	The offices of Icelandic investment firms Sjova and Milestone ehf. (“Milestone”) are searched in a criminal investigation related to the collapse of the banking system.
July 16, 2009	The Parliament approves Iceland’s application for EU membership.
July 18, 2009	The Icelandic government announces a plan to recapitalize Glitnir, Kaupthing and Landsbanki through the creation of new banks and cede control of them to creditors. The Icelandic government and the creditors of the banks agree to inject a total of ISK 270 billion (approximately €1.5 billion or \$2.1 billion) into the new banks to restore them to normal operations, with the Icelandic government issuing bonds to the new banks.
August 1, 2009	The IMF announces that it has reached an agreement with the government on policies underpinning the first review under the standby arrangement, but that the review, which would release the second installment of the \$2.1 billion loan, has been delayed.
August 4, 2009	The Securities Fraud Office intensifies its investigations following a leak regarding Kaupthing’s loan book and begins examining the prior activities of Glitnir and Landsbanki.
August 28, 2009	The Icelandic government passed legislation authorizing a state guarantee for the loans granted by the UK and the Netherlands to the Depositors’ and Investors’ Guarantee Fund of Iceland.
September 4, 2009	The Icelandic government announced the signing of definitive agreements with the resolution committee of Kaupthing regarding the capitalization of New Kaupthing and the basis for the compensation following the creation of New Kaupthing in October 2008.
September 8, 2009	The European Commissioner for Enlargement, Olli Rehn, presented the Icelandic Prime Minister with a questionnaire assessing the country’s readiness to fulfill EU membership obligations.
September 13, 2009	The Icelandic government announced the signing of definitive agreements with the Resolution Committee regarding the capitalization of Islandsbanki and the basis for compensation to Glitnir and its creditors following the creation of Islandsbanki in October 2008.

Summary Timeline of Meetings and Process to Date

The following timeline highlights the principal events affecting the Old Bank and indicates the actions taken by the Resolution Committee to communicate with stakeholders, including the ICC. The Resolution Committee and its advisers held numerous meetings with all participants in the negotiating process, including, but not limited to, the Icelandic government and its advisers, the FME, the IMF, the Steering Committee, the Central Bank and Deloitte. In addition, there were periodic update conference calls held with members of the ICC and their advisers. The process undertaken by the Resolution Committee to maximize the value of the Old Bank's assets and to negotiate the terms of the Instruments is discussed in more detail in the following section.

September 26, 2008 – October 6, 2008	<ul style="list-style-type: none"> - Icelandic government announces takeover of 75% share in Glitnir for EUR 600 million equity injection. - Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch Inc. ("Fitch") downgrade Icelandic sovereign, Glitnir, Landsbanki, and Kaupthing debt. - The FME suspends trading in Glitnir stock. - Icelandic Parliament passes legislation stating, in part, that: <ul style="list-style-type: none"> ▪ FME has powers to assume control of distressed financial institutions. ▪ Resolution committees can be appointed to take executive control of distressed financial institutions. ▪ Insolvency proceedings cannot be brought against institutions covered by the Financial Undertakings Act. ▪ Institutions can be split into an "old bank" and a "new bank." ▪ Certain depositors will be provided priority over others.
October 7, 2008 – October 8, 2008	<ul style="list-style-type: none"> - FME takes control of Glitnir under terms of emergency law. - UK Icelandic government freezes assets of Kaupthing and Landsbanki in the UK. - S&P, Moody's, and Fitch downgrade Icelandic sovereign, Glitnir, Landsbanki and Kaupthing debt further.
October 9, 2008 – October 14, 2008	<ul style="list-style-type: none"> - S&P downgrades Glitnir to "D". - Central Bank announces rules to limit currency outflow. - Glitnir is split into Old Glitnir and New Glitnir.
November 13, 2008	First ICC meeting held.
November 21, 2008	The Resolution Committee files for moratorium with the District Court of Reykjavik.
November 24, 2008	District Court of Reykjavik grants moratorium for Glitnir.
November 26, 2008	Glitnir files a petition for recognition of foreign main proceeding and a motion for permanent injunction with the U.S. Bankruptcy Court in New York.
December 11, 2008	<ul style="list-style-type: none"> - Second ICC meeting held. - The FME announces that Oliver Wyman will provide an independent valuation of the net assets of the New Bank and formally opine on the value of the net assets of the New Bank.
January 22, 2009	The Resolution Committee appoints UBS as its financial and capital markets adviser.
January 29, 2009	In accordance with the Letter of Intent issued to the IMF on November 15, 2008, the FME appoints Deloitte to complete a net asset valuation for Glitnir, and announces that Oliver Wyman will continue to co-ordinate the valuation process.
February 4, 2009	Third ICC meeting held.

February 6, 2009	First open creditors' meeting held.
February 19, 2009	District Court of Reykjavik rules in favor of Glitnir's request for an extension to the moratorium order to November 13, 2009.
March 5, 2009	Moderna Finance AB ("Moderna Finance"), a Swedish subsidiary of Milestone, disposes of its foreign assets and transfers its domestic assets to Iceland.
March 6, 2009	The Resolution Committee and the Central Bank of Luxembourg (the "BCL") sign an agreement on a settlement for Glitnir's Luxembourg subsidiary, Glitnir Bank Luxembourg S.A. ("Glitnir Bank Luxembourg").
March 16, 2009	The Resolution Committee takes over share capital of Moderna Finance.
March 18, 2009	Representatives from UBS meet with senior management of Islandsbanki for an initial due diligence review, during which Islandsbanki provides an update on the compilation of its detailed business plan and model.
March 23, 2009	The Resolution Committee and UBS are granted access to an electronic dataroom containing preliminary financial information on Islandsbanki.
April 2009	Glitnir's assets in Norway, which had been impounded since its collapse in October 2008, are released.
April 1, 2009	Fourth ICC meeting held.
April 15, 2009	Ingólfur Hauksson appointed as CFO for Glitnir.
April 22, 2009	The FME announces that Deloitte has completed the valuation of the assets transferred from the Old Bank to the New Bank and that Oliver Wyman has reviewed the Deloitte new asset valuation and confirmed the methodology used for the valuation.
May 12, 2009	District Court of Reykjavik appoints a Winding-Up Board which will handle aspects of the winding-up not dealt with by the Resolution Committee.
May 13, 2009	Fifth ICC meeting held.
May 15, 2009	- Glitnir invites creditors to a meeting on Thursday, November 5, 2009. - Glitnir gives notice that the District Court Reykjavik will review Glitnir's moratorium on November 13, 2009, the expiration date of the Moratorium.
May 18, 2009	Glitnir appoints Kroll to assist the Resolution Committee in investigating potential irregularities in transactions undertaken prior to the bank's collapse.
May 27, 2009	Sjova announces that its restructuring is near completion.
June 18, 2009	Claim filing instructions and deadlines announced.
June 22, 2009	Sixth ICC meeting held.
July 8, 2009	The interests of Sjova's customers are safeguarded through a joint effort by Glitnir, Islandsbanki, the Icelandic government, and the FME.
July 18, 2009	- The Icelandic government determines the basis of capitalization for Glitnir, Landsbanki and Kaupthing and the basis of agreements with creditors. - The Icelandic government and the Resolution Committee reach agreement on capitalization and compensation instruments. - Agreement on the capitalization of Islandsbanki complete.

July 18 – 31, 2009	The Resolution Committee (through its advisers) is granted access to Islandsbanki and its management to complete two phases of due diligence, with the initial phase focusing on the IFRS fair valuation conducted by Islandsbanki management of the assets and liabilities initially transferred from Glitnir to Islandsbanki.
August – September 2009	Second phase of diligence completed, focusing on Islandsbanki's trading from October 2008 - 2009, business operations and 5-year business plan.
August 13, 2009	ICC meeting held during which the Resolution Committee presented a summary of alternative capitalization and compensation instruments, the initial due diligence findings relating to the valuation of "Bond A" are presented to ICC members and Islandsbanki management presented a business overview to ICC attendees.
August 14, 2009	The Ministry of Finance, on behalf of the Central Bank, conditionally subscribes for ISK 65 billion of ordinary shares to increase the capital of Islandsbanki.
August 24, 2009	Open creditors' meeting announced for September 22, 2009.
September 1, 2009	Moratorium appointee of Glitnir presents report on the assets and liabilities of Glitnir as of June 30, 2009.
September 13, 2009	JCA and ACA signed by Glitnir, the Ministry of Finance (on behalf of the Icelandic government) and Islandsbanki.
September 22, 2009	Open creditors meeting held in Reykjavik.
September 30, 2009	Deadline for the Resolution Committee to select a capitalization arrangement and decide on the form of the compensation instrument.

Background on Process Undertaken by the Resolution Committee and its Financial Adviser

The following section provides a summary of highlights or milestones in the process undertaken by the Resolution Committee. The process has been intensive, was subject to, at times, significant delays and, as such, has taken almost one year. This section does not detail each meeting nor is it a complete listing of all meetings, including periodic update conference calls held with members of the ICC and their advisers. The Resolution Committee and its advisers held numerous meetings with all participants in the negotiating process, including, but not limited to, the Icelandic government and its advisers, the FME, the IMF, the Steering Committee, the Central Bank and Deloitte.

On March 10, 17 and 18, 2009, the Resolution Committee, in conjunction with representatives from UBS, attended a series of meetings in Reykjavik with Hawkpoint and the Ministry of Finance as represented by Thorsteinn Thorsteinsson to discuss the formulation of a negotiation timetable and the availability of confidential information from Islandsbanki.

On March 18, 2009, representatives from UBS met with senior management of Islandsbanki for an initial due diligence review. During this meeting, Islandsbanki provided an update on the compilation of its detailed business plan and model. Thereafter, on March 23, 2009, the Resolution Committee and UBS were granted access to an electronic dataroom containing preliminary financial information on Islandsbanki.

On April 1, 2009, the Resolution Committee and its advisers held a meeting with representatives of the ICC to provide an update on work completed to date and an illustrative workout strategy for the Old Bank. During this meeting, representatives from UBS described its initial assessment of the risk embedded in Islandsbanki's balance sheet and the consequences on the potential terms and structure of a compensation instrument.

On April 22, 2009, the FME announced that Deloitte had completed the valuation of the assets that were transferred from the old banks to create New Kaupthing Bank, NBI and Islandsbanki. On the same day, the FME also announced that Oliver Wyman had reviewed the Deloitte new asset valuation for each bank and confirmed the methodology used for each valuation. Following this announcement, the Resolution Committee and UBS received access to Part I of the Deloitte net asset valuation report.

On May 13, 2009, the Resolution Committee and its advisers held a meeting with the representatives of the ICC to provide an update on the process and timeline, including a deadline imposed by the FME to reach an agreement on the compensation arrangements by May 18, 2009.

On May 15, 2009, the resolution committees of Glitnir, Kaupthing and Landsbanki and their respective advisers provided a letter to the FME outlining their dissatisfaction with the process held to date, particularly with the imposition of a May 18, 2009 deadline, which all parties had agreed was unachievable. The letter outlined further requirements of each resolution committee in order to proceed with the negotiation of the compensation instruments. On May 15, 2009, the FME announced that the previously announced May 18, 2009 deadline would be extended to a date no later than June 15, 2009.

On May 20, 2009, the Resolution Committee and its advisers held a video conference with Islandsbanki's management during which it presented its valuation of Islandsbanki's assets and liabilities in accordance with IFRS resulting in a material difference from the Deloitte valuation.

On June 3, 2009, the Resolution Committee and representatives from UBS met with senior management of Islandsbanki to review its confidential detailed business plan and five-year forecast. On the same day, UBS met with representatives from Hawkpoint and with Thorsteinn Thorsteinsson representing the Ministry of Finance regarding their outline for the negotiation process with respect to the compensation instruments, including anticipated parties, preconditions and approvals, available financial information, documentation and timetable.

On June 10, 2009, representatives from UBS reviewed Part II of the Deloitte net asset valuation report in a physical data room in London. Subsequent to this review, Islandsbanki's management noted that the Deloitte net

asset valuation report was not based on IFRS standards and could not reasonably be expected to constitute the basis for the October 15, 2008 opening balance sheet of Islandsbanki.

On June 15, 2009, the FME announced that it had extended its previously announced June 15, 2009 deadline to finalize the terms for the financial instruments on settlement in respect of the disposal of assets and liabilities of the old banks to the new banks to a date no later than July 17, 2009.

On June 16, 2009, representatives from UBS held a meeting in Reykjavik with senior management of Islandsbanki to review their internal fair valuation results, methodology and comparison with the results of the Deloitte net asset valuation report. Following this meeting, the Resolution Committee and UBS provided feedback to senior management of Islandsbanki with respect to certain assumptions made in the valuation, including earnings multiples applied to certain Icelandic corporate entities and fixed assets.

During the weeks of July 7 and 13, 2009, the Resolution Committee and its advisers, along with members of the ICC and its advisers, engaged in negotiations with the Ministry of Finance and Hawkpoint with respect to preliminary agreements related to the compensation instruments. At that time, the initial terms of the compensation arrangement, agreed to on July 18, 2009, would provide Glitnir the option of receiving up to 100% ownership of the share capital of Islandsbanki under the joint capitalization or a set of bonds and an equity option under the alternative capitalization. During these discussions, no agreement was reached on the principal balances of the bonds under the alternative capitalization. Furthermore, the parties agreed that a subsequent due diligence review to be completed by July 31, 2009 would take place with Islandsbanki senior management. A decision whether to receive compensation under either arrangement was agreed by the parties to be made no later than September 30, 2009.

On July 18, 2009, the Ministry of Finance publicly announced the preliminary agreement reached with the Resolution Committee and that the financial instruments on settlement in respect of the disposal of assets and liabilities of the old banks to the new banks would be issued by the parties no later than August 14, 2009.

During the weeks of July 20 and 27, 2009, representatives from UBS and an adviser to certain creditors of Glitnir held a series of meetings in Reykjavik with Islandsbanki to discuss its internal fair valuation. Topics reviewed during those sessions included, among other things, the credit adjustment methodology for each asset class, the assessment of collateral values, the treatment of foreign currency imbalances, funding sources and costs, and discount rate assumptions.

On July 30 and 31, 2009, the Resolution Committee, in conjunction with representatives of the ICC and their advisers, negotiated and agreed to additional commercial terms related to the compensations instruments. The compensation agreements were structured to capture the majority of any potential future increases in the net asset value of Islandsbanki. Under the ACA, the parties agreed that the principal balance of Bond A would be set at ISK 52 billion and denominated in euros and the principal balance of Bond B would be based on the aggregate net profits of Islandsbanki above a hurdle rate between October 15, 2009 and December 31, 2011, at which time the principal value would be fixed. The total principal value of Bond B would be capped at ISK 63 billion and would be denominated in euros, although the revised terms as of September 4, 2009 provided that the total capped principal value of Bond B and C has to be increased to ISK 80 billion. As discussed below, the terms of the ACA were further revised on September 4, 2009 to increase the total principal value of the bonds. Furthermore, the revaluation of Bond B and C would no longer strictly be based on aggregate net profits but rather on changes in the value of Islandsbanki's equity.

From August 6, 2009 and through the week of August 11, 2009, representatives from UBS and an adviser to certain creditors of Glitnir held a series of meetings in Reykjavik with Islandsbanki to discuss its financial performance since October 15, 2008 and a detailed review of its 5-year business plan. Topics reviewed during those sessions included, among other things, the status of business units, liquidity profile, asset-liability management, loan restructuring efforts and business model assumptions. Subsequent to these meetings and through the weeks of August 17, 24 and 31, 2009, representatives from UBS and advisers to certain ICC members provided senior management of Islandsbanki with a number of follow-up data requests, which were subsequently posted to an electronic dataroom.

On August 13, 2009, the Resolution Committee and its advisers held a meeting with the representatives of the ICC to review the results of the previously held negotiations, the summary term sheets for the joint and alternative capitalization arrangements, the proposed timeline and preliminary issues for consideration.

On August 14, 2009, the Resolution Committee negotiated with the Ministry of Finance and Hawkpoint an amendment to the terms of the compensation instruments agreed on July 18, 2009 and July 31, 2009. Pursuant to this amendment, the relative shareholding of Islandsbanki under the JCA was fixed at 90.7% for Glitnir and 9.3% for the Icelandic government. These percentages were calculated based on the accrued value of the ISK 60 billion government bond and Bond A, respectively, as at August 14, 2009, taking into account ISK exchange rate movements since October 9, 2008.

On September 4, 2009, based on further feedback from the due diligence performed by the Resolution Committee and its advisers, the Ministry of Finance and Hawkpoint agreed to revisions to the terms of the ACA, including an increase in the cap of Bond B to ISK 80 billion and the establishment of an interim revaluation date on March 31, 2010, at which point a newly created Bond C will be given a principal value subject to a cap of ISK 17 billion and otherwise will have terms similar to Bond B. In respect of the JCA, the Icelandic government agreed to increase Glitnir's ownership of Islandsbanki's share capital to 95% from 90.7%.

On September 10, 2009, the Resolution Committee and its advisers held a meeting with the representatives on the Informal Creditors committee to review, among other things, the amended terms of the compensation instruments, due diligence feedback on Islandsbanki, illustrative economics of the compensation alternatives and various pros and cons of the compensation alternatives.

REASONS FOR THE PROPOSAL

As we discuss throughout this information memorandum, the negotiating process relating to the compensation instruments was established by the Icelandic government. There was no formal opportunity to reassess the Old Bank/New Bank split up or other more fundamental structural or strategic changes. The Resolution Committee and its advisers and other stakeholders, including members of the ICC that were included in the negotiating committee, adhered in principle to the process set forth by the Icelandic government. The Resolution Committee and its advisers had access to limited information as we discuss in this information memorandum. The information made available to the Resolution Committee and its advisers was not sufficient to permit the Resolution Committee to form a view regarding the assets and liabilities of the New Bank or to establish a valuation of the Instruments. The objective of the Resolution Committee and its advisers throughout the negotiations was to improve the alternatives available to the Old Bank and its stakeholders. Neither option relies on, or depends upon, the accuracy of, or completeness of, valuations conducted by advisers retained by the Icelandic government or the New Bank. Both options outlined in this information memorandum provide the Old Bank and its stakeholders with an opportunity to benefit from improvements in the financial condition of the New Bank. Likewise, both options incorporate affirmative and negative covenants relating to the conduct of business by the New Bank.

In the course of reaching agreement on the compensation alternatives, the Resolution Committee considered several factors and potential benefits of the respective alternatives, each of which the members of the Resolution Committee believed supported its decision.

In respect to the JCA, the Resolution Committee considered the following factors that may provide for improved recovery of value:

- potential improvements in the macroeconomic factors of Iceland, including, but not limited to, substantial decreases in ISK interest rates, strengthening of ISK exchange rates and superior asset quality performance than estimated by Islandsbanki's management;
- potential stabilization of the Icelandic economy as a result of entry into the EU and adoption of the euro;
- tax and operational synergies with Glitnir that may include the ability to use future tax losses at Glitnir to offset taxable income from Islandsbanki;
- likelihood of a potential future acquirer of Islandsbanki determining a fair valuation if its net assets are in excess of management's fair valuation, thereby placing a premium on the stated equity value of Islandsbanki in a sale transaction;
- ability of Islandsbanki to restructure its existing loan portfolio in a more accelerated manner or at terms more favorable than originally estimated by Islandsbanki's management;
- ability to incentivize Islandsbanki employees through a long-term incentive plan that aligns employee interests with those of Glitnir and its stakeholders;
- potential reinvestment of contractual interest and capital payments received by Islandsbanki at terms more favorable than originally estimated by management;
- increased control over the future strategic alternatives of Islandsbanki, including sales, acquisitions, divestitures, mergers or public listings;
- potential beneficiary of any future consolidation within the Icelandic financial system; and
- increased oversight of Islandsbanki management and the Board of Directors.

In respect to the ACA, the Resolution Committee considered the following factors that may provide for improved recovery of value:

- the potential values of the compensation instruments under the ACA are subject to the same positive factors as those under the JCA;
- Bond A represents “floor value” of compensation to Glitnir;
- Bonds B and C structured to capture 90% of the changes to Islandsbanki’s equity above the benchmark rate based on the risk free rate plus 4% up to ISK 80 billion during the revaluation period;
- the Equity Option provides potential incremental returns to Glitnir in a sale, merger or public listing transaction through option to purchase 90% of government equity; and
- Bonds A, B and C represent senior claims on Islandsbanki secured by a pool of Islandsbanki’s assets.

The negotiating committee also considered a variety of risks and other potentially negative factors concerning the proposal, including, but not limited to, the following, as well as the risks identified herein under “Risk Factors”:

In respect of the JCA, the Resolution Committee considered the following factors that may provide for reduced recovery of value:

- potential negative reaction of domestic depositors to Glitnir’s majority ownership of Islandsbanki;
- potential further deterioration in the Icelandic economy and domestic real estate values through a “double dip” recession;
- potential economic instability as a result of failure to gain entry to the EU or adoption of the euro;
- potential capacity limitation for restructuring of Islandsbanki’s existing loan portfolio, including staffing levels, systems and servicing platforms;
- potential further asset quality deterioration of Islandsbanki’s existing loan portfolio beyond that originally estimated by management;
- risks to the value of restructured loans, including extension and re-default risk;
- extent of access to domestic or international wholesale funding markets in the medium- to long-term; and
- potential requirement for an incremental capital and/or liquidity injection in the event of further deterioration in the Icelandic economy or operating results of Islandsbanki.

In respect of the ACA, the Resolution Committee considered the following factors that may provide for reduced recovery of value:

- potential values of the compensation instruments under the ACA are subject to the same negative factors as those under the JCA;
- potential for trading discount on Bonds A, B and C due to market conditions and perception of the credit condition of Islandsbanki and the Icelandic government;

- potential limitation on the ability to incentivize the employees of Islandsbanki to maximize the value of the Compensation Instruments under the ACA;
- hurdle rate on Bonds B and C and the Equity Option represent the cost to the Icelandic government of the “floor value” of compensation provided by Bond A;
- ability to exercise option is subject to a hurdle rate that will decrease its value;
- potential that if the fair value of Islandsbanki’s assets increases substantially during the revaluation period and that increase is attributed, in large part, to the value of Bonds B and C, that Islandsbanki’s capital ratios may be negatively impacted may fall below the minimum capital levels set by the FME; and
- potential that if the fair value of Islandsbanki’s assets increases substantially during the revaluation period and that increase is attributed, in large part, to the value of Bonds B and C, that Islandsbanki’s foreign currency imbalance may increase.

For additional information regarding the terms of the Instruments, please read “Description of the Instruments.”

THE OLD BANK

History of Glitnir

Glitnir banki hf. 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 550500-3530. Glitnir is legally domiciled at Kirkjusandur 2, 105 Reykjavík, Iceland, but currently located at Sóltún 26, 105 Reykjavík, Iceland, and its phone number is +354 440 4000.

Prior to the government intervention on October 7, 2008, Glitnir was a bank with operations in 11 countries. Its shares were listed on OMX Nordic Exchange Iceland hf. under the symbol “GLB.” Based on its market capitalization of ISK 323 billion as of December 31, 2007, it was the third largest bank in Iceland and the tenth largest bank in the Nordic region. Glitnir derived 47%, 22%, 27% and 5% of its profit before taxes from Iceland, the Nordic region, Europe and its international operations, respectively, in 2007. Its international business was based on three specialized industry sectors: seafood, sustainable energy and offshore service vessels.

Glitnir operated 23 branches in Iceland, along with a branch in London, and representative offices in Canada and China. As of December 31, 2007, its total assets were ISK 2,949 billion and its net profit was ISK 28 billion. Earnings per share were ISK 1.86 for the year ended December 31, 2007. Its senior long-term debt ratings were “A2” from Moody’s, “A” from Fitch and “BBB+” from S&P.

Current Business of Glitnir

Under the authority granted by the Icelandic Parliament under Article 100a of Act no. 161/2002 on Financial Undertakings, as amended by Article 5 of Act no. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances, etc., the FME dismissed the Board of Directors of Glitnir and appointed a Resolution Committee on October 7, 2008. The Resolution Committee took on all matters relating to Glitnir, including oversight of its assets, as well as the management of the business and affairs of Glitnir on an ongoing basis. The Resolution Committee must abide by the decisions taken by the FME on the basis of Article 100a of the Act on Financial Undertakings and operate in consultation with the FME.

On October 14, 2008, the FME decided (as subsequently amended) on the basis of the Act on Financial Undertakings to transfer a part of Glitnir’s operations to a new bank, New Glitnir banki hf. (later renamed Islandsbanki hf.), that was formed and owned by the Icelandic government. The New Bank took over all of Glitnir’s deposits in Iceland and most of Glitnir’s assets that relate to its Icelandic operations, such as loans and other claims. Glitnir retained all foreign assets and those liabilities not transferred to the New Bank.

From October 15, 2008, New Glitnir banki hf. took over the operations which had been under Glitnir and were related to the transferred assets, including the participation of Glitnir in any payment system. The New Bank also took over the rights and obligations according to contracts on custodianship and asset management with the customers of Glitnir in Iceland.

The current subsidiaries of Glitnir are Glitnir eignarhaldsfelag ehf., Glitnir Norway, Glitnir Bank Luxembourg and Ruven Capital.

Moratorium

On November 24, 2008, the District Court of Reykjavik granted Glitnir a three-month moratorium on creditor proceedings (the “Moratorium”). Under the terms of the Moratorium, no legal claim may be brought against Glitnir until the end of the Moratorium. On February 19, 2009, the District Court of Reykjavik accepted Glitnir’s request for an extension to the Moratorium. The extension period ends on November 13, 2009.

Steinunn Guðbjartsdóttir, supreme court attorney and former member of the Resolution Committee, was appointed the Moratorium Administrator, reporting to the District Court of Reykjavik, and supervises the actions taken by the Resolution Committee.

On November 26, 2008, Glitnir filed a petition under Chapter 15 of Title 11 under the United States Code in the U.S. Bankruptcy Court for the Southern District of New York (the “U.S. Bankruptcy Court”). The petition sought to have the Moratorium (the order of the District Court of Reykjavik approving the application for suspension of payments and stay of creditor actions against Glitnir) and related proceedings under the Act on Bankruptcy etc., No. 21/1991 (the “Bankruptcy Act”) and the Financial Undertakings Act (the “Proceeding”) made binding and enforceable in the United States.

On January 7, 2009, the U.S. Bankruptcy Court issued an order recognizing the Moratorium and related proceedings and granting a permanent injunction against all claims filed against Glitnir in the United States. The Resolution Committee also took action in other jurisdiction to have the Moratorium recognized. As a result, the claims of all creditors will be adjudicated pursuant to the Proceeding, and, except as provided in the Proceeding, all creditors are permanently enjoined and restrained from the following:

- taking or continuing any act to obtain possession of or exercise control over Glitnir or its property that is or may become located within the territorial jurisdiction of the United States or any proceeds thereof (the “Property”);
- transferring, encumbering, relinquishing or disposing of any Property to any person other than Glitnir’s duly authorized foreign representative;
- commencing or continuing any action or legal proceeding (including, without limitation, arbitration, mediation or any judicial, quasi-judicial, administrative or regulatory action, proceedings or process whatsoever), including by way of counterclaim (each individually, an “Action”) against Glitnir or its Property or seeking discovery of any nature against it;
- commencing or continuing any act or Action to create, perfect or enforce any lien, set-off or other claim against Glitnir or its Property, including without limitation, rights under any contracts with Glitnir, with certain exceptions under the U.S. Bankruptcy Code; and
- declaring or treating the filing of the petition or any pleadings, declarations, memoranda or statements in support thereof, as a default or event of default under any agreement, contract or arrangement.

Recent Transactions

Moderna Finance. On March 5, 2009, Moderna Finance, a subsidiary of Milestone ehf. in Sweden concluded agreements for the sale of its insurance company Moderna Försäkringar and asset management company Aktie Ansvar. In addition, the company’s Icelandic assets, which include Sjova, Askar Capital and Avant, were sold to Milestone and were still retained by Icelandic parties. The disposal of Moderna Finance’s assets was concluded in consultation with the Resolution Committee, which is Milestone’s largest creditor. On March 16, 2009, the Resolution Committee reached an agreement with Milestone, enforcing its charge on the entire share capital of Moderna Finance. As a result, the Resolution Committee acquired control of Moderna Finance’s Icelandic subsidiaries Sjova, Askar Capital and Avant. Work continues on restructuring these companies and the agreement reached with the Resolution Committee is part of an effort to ensure their long-term operation. The actions did not affect the Icelandic companies’ day-to-day operations.

Glitnir Bank Luxembourg. On March 6, 2009, the Resolution Committee and the BCL signed an agreement providing for settlement of debts of Glitnir Bank Luxembourg. The BCL is part of the network of European central banks in member countries of the eurosystem. Negotiations for a settlement had been underway since early October 2008. The agreement will facilitate the placement of Glitnir Bank Luxembourg in a voluntary and solvent liquidation proceeding.

Under the agreement, Glitnir Bank Luxembourg will have a period of up to five years within which to maximize the value of its assets and repay all debts owed to the BCL. The agreement also provides that securitized loan portfolios, pledged to the BCL, and which include, among others, loans to Glitnir’s Icelandic customers, will continue to be administered by the Resolution Committee. According to the agreement, proceeds from the corporate

loan portfolio of Glitnir Bank Luxembourg are to be used to repay debts to the BCL. The portfolio principally includes mortgages on commercial and residential real estate in the Nordic countries, the UK and Germany.

Norway Impoundment. In late April 2009, Glitnir's assets in Norway, which had been impounded since its collapse in October 2008, were released. The action gives the Resolution Committee unrestricted control over its assets in Norway, which are valued at around ISK 100 billion.

Forensic Review. On May 18, 2009, the Resolution Committee announced the appointment of the London office of Kroll, a global independent forensic investigation firm, to assist the committee in investigating potential irregularities in transactions undertaken prior to Glitnir's collapse. The goal of the investigation is to pursue and recover any assets from those who may have benefited from, or were responsible for, those irregularities.

Sjova. In July 2009, the Resolution Committee announced the completion of Sjova's financial restructuring. As publicly announced, Sjova's investment operations will be separated from its insurance operations. A new company will be formed to handle the insurance operations, which are sound. As a result of the restructuring, which was a joint effort of Glitnir, Islandsbanki, the Icelandic government and the FME, Glitnir and Islandsbanki provided Sjova with capital of ISK 16 billion and Glitnir now owns 91% of Sjova, with Islandsbanki owning 9%. The Central Bank provided Glitnir with credit in the form of loans granted against a mortgage in Glitnir's holding in Sjova.

Glitnir's Strategy

The principal responsibilities of the Resolution Committee are:

- to continue to administer Glitnir's authorized activities under the supervision of the FME;
- to continue to serve as Glitnir's board of directors and exercise the rights and obligations formerly held by the board and those delegated to the bank's shareholders;
- to assess the value of Glitnir's assets once the time limit for submission of claims has passed in order to decide whether Glitnir's assets are sufficient to cover its obligations;
- to work towards obtaining the highest possible value for Glitnir's assets, including waiting for outstanding claims to fall due if considered necessary rather than attempting to sell assets off immediately; and
- to convene and direct creditors' meetings, as deemed suitable, to present the measures taken by the Resolution Committee.

The Resolution Committee's purpose is to:

- preserve and maximize the value of Glitnir's assets;
- ensure that Glitnir's assets are disposed of in the most effective manner, that claims and amounts on deposit are collected, and that no rights are lost which could be of value to Glitnir; and
- take necessary actions to prevent damage to Glitnir's interests.

The Resolution Committee works on behalf of the FME. The Resolution Committee and its members are expected to work at least for the next few seasons.

The wages of Glitnir employees will be paid from the income generated by the bank's loan portfolio. The income will be generated by collecting on outstanding loans, which belong to the estate of Glitnir, and from asset sales. However, the estate will not pay off its loans for now, only the necessary costs due to collection and

management (for example, to pay its employees). Claimants will receive the remainder when the cost of collection and payoff has been paid up.

Management of Glitnir

The following individuals are members of the Resolution Committee:

- Árni Tómasson, certified public accountant;
- Heimir Haraldsson, certified public accountant;
- Erla Árnadóttir, barrister; and
- Þórdís Bjarnadóttir, barrister.

On April 15, 2009, Ingólfur Hauksson was appointed as CFO of Glitnir. Mr. Hauksson is a Chartered Accountant and for the last three years worked in the Financial department of Hf. Eimskipafélag Íslands. Previously he was an Auditor and Partner at KPMG in Iceland for 15 years.

The Resolution Committee announced that Kristján Óskarsson, a former member of the Resolution Committee, was appointed as CEO of Glitnir on August 5, 2009. Mr. Óskarsson had formerly renounced his position as a member of the Resolution Committee after the FME requested that members who formerly held management positions within the three main commercial banks at the time of their collapse should resign from their respective resolution committees to avoid potential conflicts of interest. Mr. Óskarsson, who has over twenty years of experience within the banking sector, has been instrumental in establishing an infrastructure to ensure the day-to-day operations of the Old Bank.

Winding-Up Board

On May 12, 2009, the Reykjavík District Court appointed a Winding-Up Board for Glitnir to handle, among other things, claims against Glitnir while the Moratorium is in effect and after winding-up proceedings commence upon the conclusion of the Moratorium. The Winding-Up Board is currently in the process of gathering and approving all creditor claims against Glitnir. The commencement date of claims processing is based on the entry into force of Act No. 44/2009 which was April 22, 2009. The deadline for registration of claims is November 26, 2009. Claims not submitted by this date will be deemed null and void, as provided for in Art. 118 of the Act on Bankruptcy etc., No. 21/1991, unless the exceptions in Points 1-6 of the provision apply.

The members of the Winding-Up Board are:

- Steinunn Guðbjartsdóttir, Supreme Court Attorney;
- Einar Gautur Steingrímsson, Supreme Court Attorney; and
- Páll Eiríksson, District Court Attorney.

Notice was given on May 15, 2009 of a creditors' meeting in Reykjavik on November 5, 2009 and that the District Court of Reykjavik will convene to review the Moratorium on November 13, 2009, the expiration date of the Moratorium. Notice was given on June 11, 2009 of a creditors' meeting in Reykjavik on December 17, 2009 in Reykjavik. The purpose of the December 17, 2009 meeting is to provide interested parties with an opportunity to hear the report of claims. At the meeting, the Winding-Up Board will present and discuss the claims submitted and its decisions regarding these claims insofar as these are available.

SUMMARY OF STATEMENTS OF ASSETS AND LIABILITIES

The summary Statement of Assets and Liabilities below is reproduced from the complete presentation dated February 6, 2009 published on the Old Bank's website. The summary below is qualified by, and should be read together with, the presentation dated February 6, 2009, which includes explanatory notes (referred to as the "Year-End Presentation"). This summary is reproduced here for ease of reference. The Year-End Presentation was presented to creditors of Old Glitnir at the Creditors' Meeting on February 6, 2009 and presented at a court hearing in Reykjavik. No representation or warranty is made regarding the information below. The summary is accurate only as an assessment made as of February 6, 2009 and has not been updated since that date.

As noted in the Year-End Presentation, the actual realizable value of the Old Bank's assets and the amount of its liabilities may differ materially from the estimates shown below.

The Moratorium Appointee has prepared the information in conjunction with the Resolution Committee, employees of the Old Bank and professional advisers. The Statement of Assets and Liabilities is presented in ISK throughout, with values translated at the mid rates published by the Central Bank for December 31, 2008. However, a significant proportion of the assets and liabilities of the Old Bank are foreign-currency denominated and the values shown may be impacted by exchange rate issues.

You are urged to read the Supplementary notes, including Note 1 regarding the basis of preparation of the Statement of Assets and Liabilities and Note 2 regarding the limitations of the Statement of Assets and Liabilities, which are included in the Year-End Presentation.

ISKbn	Recorded balance sheet amount as at 12/31/2008	Balance subject to set- off	Recorded balance sheet amount set- off as at 12/31/2008	Estimated value of assets and computation of liabilities
Assets				
Loans to customers	907	(460)	447	198
Loans to banks	371	(235)	136	113
Derivatives	112	(40)	72	72
Bonds and debt instruments	220	(128)	92	19
Shares and equity investments	83	-	83	22
Investment in subsidiaries	183	-	183	110
Cash and balances with central banks	26	-	26	26
Other assets	55	-	55	25
Total assets before instrument from New Glitnir banki hf.	1,957	(864)	1,094	586 ¹
Instrument from New Glitnir banki hf.	-	-	-	422 ²
Total assets	1,957	(864)	1,094	1,008
Liabilities				
Debt issued and other borrowed funds	(2,822)	747	(2,075)	(2,075)
Subordinated bonds	(180)	-	(180)	(180)
Derivatives	(61)	10	(51)	(51)
Wholesale deposits	(55)	-	(55)	(55)
Deposits from central banks and other banks	(31)	-	(31)	(31)
Guarantees	-	-	-	(18)
Other liabilities	(7)	-	(7)	(7)
	(3,157)	757	(2,399)	(2,417)

The summary Statement of Assets and Liabilities below as at June 30, 2009 is reproduced from the complete presentation dated August 31, 2009 published on the Old Bank's website. The below summary is qualified by, and should be read together with, the presentation dated August 31, 2009, which includes explanatory notes (referred to as the "Half Year Presentation"). This summary is reproduced here for ease of reference. No representation or warranty is made regarding the information below. The summary is accurate only as an assessment made as of August 31, 2009 and has not been updated since that date.

As noted in the Half Year Presentation, the actual realizable value of the Old Bank's assets and the amount of its liabilities may differ materially from the estimates shown below.

The Moratorium Appointee is required by law to set out the assets and liabilities of the Old bank together with an estimate of the value of the assets and a computation of the liabilities as at the reference date of November 15, 2008, which is the date on which the revised Moratorium legislation was passed. Given that the Moratorium

¹ Please see the limitations section in the full presentation for additional explanatory information, there is considerable uncertainty regarding the ultimate realizable value of the Old Bank's assets. In order to illustrate this uncertainty, the Resolution Committee has made an estimate of the range of likely outcomes for asset realization of "Total assets before instrument from New Glitnir banki hf." based solely on adjustments to the credit risk assumption used on loans (including those in subsidiaries) and derivative assets being ISK445 billion to ISK 680 billion. Due to the extent of the uncertainty and the other factors that may change, the actual outcome may fall outside this range.

² The estimate of value for the instrument from New Glitnir banki hf. is presently unknown, and no attempt has or can be made to estimate its value, due to the preliminary state of discussions with New Glitnir banki hf. and accordingly the value shown in the Statement of Assets and Liabilities is the estimate published by the FME on November 14, 2008.

was extended on February 19, 2009, the Moratorium Appointee and the Resolution Committee prepared an updated Statement of Assets and Liabilities.

The Moratorium Appointee has prepared the information in conjunction with the Resolution Committee, employees of the Old Bank and professional advisers. The Statement of Assets and Liabilities is presented in EUR throughout (unless otherwise stated), and, unless otherwise stated, foreign currency values are translated at the mid rates published by the Icelandic Central Bank for June 30, 2009. Foreign currency liabilities were translated into ISK at April 22, 2009 rates, and further translated into EUR at the ISK/EUR rate on June 30, 2009. A significant portion of the assets and liabilities of the Old Bank are foreign-currency denominated and the values shown may be impacted by exchange rate issues.

You are urged to read the Supplementary notes, including Note 1 regarding the Basis of preparation and Note 2 regarding the Limitations of the Statement of Assets and Liabilities, which are included in the full presentation.

EURm	Recorded balance sheet amount as at 6/30/2009	Balances subject to set-off	Recorded balance sheet after set-off as at 6/30/2009	Estimated value of assets as at 6/30/2009 and computation of liabilities	Estimated value of assets 12/31/2008 and computation of liabilities
Assets					
Loans to customers	6,093	(2,574)	3,519	1,080	1,163
Loans to banks	2,529	(1,870)	659	649	664
Derivatives	789	(431)	358	358	426
Bonds and debt instruments	423	(315)	108	108	113
Shares and equity investments	198	-	198	198	127
Investment in subsidiaries	1,073	-	1,073	661	650
Cash and balances with central banks	422	-	422	422	155
Other assets	-	-	-	-	149
Total assets before instrument from Islandsbanki hf.	11,527	(5,190)	6,337	3,476	3,446
Instrument from Islandsbanki hf.	-	-	-	557 ¹	2,485
Total assets	11,527	4,201	6,337	4,033²	5,932
Liabilities					
Debt issued and other borrowed funds	(15,734)	-	(11,533)	(11,533)	(12,210)
Subordinated bonds	(1,106)	-	(1,106)	(1,106)	(1,061)
Derivatives	(463)	-	(463)	(463)	(298)
Wholesale deposits	(374)	-	(374)	(374)	(324)
Deposits from central banks and other banks	(12)	-	(12)	(12)	(180)
Guarantees	-	-	-	(99)	(105)
Other liabilities	(140)	-	(140)	(140)	(43)
	(17,828)	4,201	(13,627)	(13,727)	(14,221)

ISKbn	Recorded balance sheet amount as at 6/30/2009	Balances subject to set-off	Recorded balance sheet after set-off as at 6/30/2009	Estimated value of assets as at 6/30/2009 and computation of liabilities	Estimated value of assets 12/31/2008 and computation of liabilities
Assets					
Loans to customers	1,093	(462)	631	194	198
Loans to banks	454	(336)	118	116	113
Derivatives	142	(77)	64	64	72
Bonds and debt instruments	76	(57)	19	19	19
Shares and equity investments	36	-	36	36	22
Investment in subsidiaries	193	-	193	119	110
Cash and balances with central banks	76	-	76	76	26
Other assets	-	-	-	-	25
Total assets before instrument from Islandsbanki hf.	2,068	(931)	1,137	623	586
Instrument from Islandsbanki hf.	-	-	-	100	422
Total assets	2,068	(931)	1,137	723 ¹	1,008
Liabilities					
Debt issued and other borrowed funds	(2,823)	754	(2,069)	(2,069)	(2,075)
Subordinated bonds	(198)	-	(198)	(198)	(180)
Derivatives	(83)	-	(83)	(83)	(51)
Wholesale deposits	(67)	-	(67)	(67)	(55)
Deposits from central banks and other banks	(2)	-	(2)	(2)	(31)
Guarantees	-	-	-	(18)	(18)
Other liabilities	(25)	-	(25)	(25)	(7)
	(3,199)	754	(2,445)	(2,463)	(2,417)

As creditor balances are being crystallized in ISK as at April 22, 2009, the ISK equivalent Statement Assets and Liabilities is presented. Currency fluctuations in the liability balances may potentially materially impact comparison of estimated from one period to the next.

¹ As noted in Supplementary Note 2, Limitations included in the full presentation, there is considerable uncertainty regarding the ultimate realizable value of the Old Bank's assets. In order to illustrate this uncertainty, the Resolution Committee has made an estimate of the range of likely outcomes for asset realization of "Total assets" being EUR 3 billion to EUR 5 billion. Due to the extent of the uncertainty and other factors that may change, the actual outcome may fall materially outside this range.

THE NEW BANK

The information relating to the New Bank and its affiliates and its business, results, business strategy and financial information has not been verified. The financial information has not been audited. This discussion does not purport to be a complete description of the New Bank's business or financial condition. The information included herein has been reproduced from portions of a presentation (most of which is confidential and cannot be shared) prepared by the New Bank and its advisers. Islandsbanki had limited time to review the information included herein and cannot therefore represent or warrant as to the fairness, accuracy, completeness or correctness of the information, forecasts, opinions and expectations contained herein. Islandsbanki has advised Glitnir to allow the FME to review the information and cannot represent or warrant that those statements pertaining to the FME are correct. Some information may be based on assumptions or reflect assumptions or judgments regarding market conditions. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of the information, forecasts, opinions and expectations contained in this section. You should not rely on such information as the basis for any decision.

History of the New Bank

The New Bank was incorporated as Nyi Glitnir banki hf. on October 8, 2008 and commenced operation on October 15, 2008. Following a shareholders' meeting on February 20, 2009, the name was changed to Islandsbanki hf. It is a public limited company incorporated in Iceland and is registered with the Register of Enterprises in Iceland. Its identification number is 491008-0160 and its domicile is Kirkjusandi 2 155 Reykjavik, Iceland. Each share in the New Bank has a nominal value of ISK 1.

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

The Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. provides a number of exceptions applicable to the New Bank with respect to certain provisions of other legislative acts. On this basis, the New Bank holds an operating license as a commercial bank pursuant to the provisions of the Act on Financial Undertakings No. 161/2002.

The New Bank submitted an application for a banking license in December 2008 and in a letter dated March 4, 2009 from the FME, the FME confirmed that the New Bank operates in accordance with the Act on Financial Undertakings, No. 161/2002 and is licensed as a commercial bank. The New Bank has been granted its operating license by law and the FME is currently reviewing information provided by the New Bank with respect to its operating license as a financial undertaking. See “—The New Bank's Strategy—Internal Capital Adequacy Assessment Process (ICAAP)” below. The New Bank is subject to the supervision of the FME, in accordance with the Act on Official Supervision of Financial Operations, No. 87/1998.

One of Islandsbanki's first acts was to grant customers with payment difficulties a stay on their scheduled loan payments, and it opened its Advisory Centre for customers in mid-November 2008. In early December 2008, the New Bank announced it would finance the building of the vessel Thorunn Sveinsdottir VE and the bank introduced a Treasury Portfolio, a new deposit and bond fund. On January 13, 2009, the New Bank opened for foreign payments again and was the first Icelandic bank to lower interest rates, on January 21, 2009. In late January 2009, the New Bank reached a refinancing agreement with Icelandair and announced that it would handle the open tender by the publishing company Arvakur of one of Iceland's largest newspapers, Morgunbladid. In February 2009, the New Bank agreed to temporary reductions in leasing payments on Glitnir Fjarmognun vehicle contracts and elimination of payback charges for indexed housing mortgages.

The New Bank's name, Islandsbanki, which dates back to 1904, was introduced in December 2008 and launched in February 2009. Also in February 2009, Islandsbanki presented a long-term solution for leveling repayments on currency-linked housing mortgages and participated in a syndicated loan for the construction of the

Reykjavik Music and Conference Center in March 2009. In April 2009, the New Bank acquired all of the deposit obligations of Straumur and provided a loan to the Municipality of Fljotsdalsherad for a large construction project.

Business Plan of the New Bank

Islandsbanki provides universal banking services for households, corporate clients and professional investors in Iceland. It has 21 branches, 12 in the Reykjavik area and 9 outside of Reykjavik, and provides on-line banking. It is the leading fund manager in Iceland. Islandsbanki has extensive knowledge and international reach in the seafood and geothermal energy sectors. Its industry experts provide services to investors and industry players to and from Iceland.

The business divisions of Islandsbanki are: Commercial Banking; Asset Management; Corporate and Investment Banking; and Treasury and Capital Markets.

The sole shareholder of Islandsbanki is the Icelandic government. Islandsbanki has the following subsidiaries and affiliates: Reiknistofa bankana (23%), Kreditkort hf (55%) (an issuer of MasterCard and other payment solutions), Islandsbanki Sjodir hf (99.7%) (a fund management company), Borgun hf (55%) (a provider of acquiring services and issuing processing services for credit and debit cards), Lomur ehf, Steypustodin ehf, GRF I ehf, GRF II ehf, SUB-SICAVI, SUB-SICAVII and Glitnir Asset Management.

The New Bank leases its headquarters at Kirkjusandur 2 from Fasteign. The New Bank also leases the offices in which its branches are housed.

Commercial Banking

The New Bank's Commercial Banking division provides retail banking and asset based financing services and has a loan portfolio of ISK 214 billion. It has 21 branches, 12 in the Reykjavik area and nine outside of Reykjavik. Challenges include the current economic environment and the stressed circumstances of its customers. Its strengths in this area are its strong brand name, efficient branch network and its leadership in providing solutions. 390 of the Bank's full-time employees are in this division.

Islandsbanki has 14% of the Icelandic branch network with 24% market share as of 2007.

Covered Bonds. Index-linked residential loans amount to ISK 120 billion. About ISK 100 billion of the portfolio was put in the Covered Bond Program issued by Glitnir. The majority of the portfolio was lent out in late 2004 and in 2005 (70% of the total amount).

Corporate and Investment Banking

The New Bank's Corporate and Investment Banking division provides corporate banking, M&A and corporate financing services and has a loan portfolio of ISK 247 billion. Internationally, the New Bank specializes in the seafood and sustainable energy industries with its significant industry expertise. Challenges include the current economic environment and the stressed circumstances of its customers. Its strengths in this area are its industry expertise, strong pipeline in corporate financings and manageable loan book. 30 of the New Bank's full-time employees are in this division.

Other Assets

Islandsbanki values its other assets at ISK 22.8 billion and its off-balance sheet items at ISK -4.8 billion). The majority of the Bank's cash balance is a deposit with the Central Bank.

Assets Transferred Back to Glitnir

According to an agreement with Glitnir's Resolution Committee, Islandsbanki transferred approximately ISK 430 billion (gross) assets back to Glitnir. The assets had a fair value of ISK 230 billion and the vast majority of

the assets were loans to customers. The reasons for the transfer are that part of the assets were not part of the New Bank's domestic banking operations and the exposures were too large for the bank.

Treasury and Capital Markets

Islandsbanki's Treasury and Capital Markets division provides currency sales, market making, securities brokerage, research, funding and liquidity management services. Challenges include the current economic environment, limited access to international markets and the need to rebuild domestic capital markets. Its strengths in this area are its leading market share across the product spectrum and its experienced team. 38 of the New Bank's full-time employees are in this division.

Asset Management

Islandsbanki's Asset Management division provides private banking, financial advisory, fund management and discretionary asset management services. Islandssjodir is the largest fixed income fund manager in Iceland. Challenges include the current economic environment and attracting and retaining qualified personnel. Its strengths in this area are its strong base of assets under management, its leading position in fixed income assets and range of full services. 51 of the Bank's full-time employees are in this division.

Financial Information

On August 14, 2009, following a meeting of shareholders of Islandsbanki, the Icelandic government committed to capitalize Islandsbanki on the basis of compensation agreements which were finalized with the Resolution Committee of Glitnir. Islandsbanki is being capitalized with ISK 65 billion of Tier 1 capital in the form of Icelandic government bonds, giving the New Bank a core Tier 1 ratio of approximately 12%.

Liabilities of the New Bank include deposits from banks with a book value of ISK 77.2 billion, deposits from customers with a book value of ISK 330.7 billion, debt issues and other borrowed funds with a book value of ISK 80.3 billion, and other liabilities having a book value of ISK 2.8 billion. The Central Bank (as well as Lanasysla Rikisins, a governmental agency of debt and borrowings) holds a covered bond originally issued by Glitnir under its Covered Bond program, as security for repo debt. The bond is guaranteed by a pool of home mortgages held by Islandsbanki, resulting in an effective guarantee by Islandsbanki of the debt. In order to release the covered bond, Islandsbanki reached an agreement with the Central Bank to issue a new asset-backed bond on agreed upon terms. In the event the new bond is not repaid, a pool of mortgages will be taken over by the Central Bank.

Off Balance Sheet Items

Guarantees transferred from Glitnir to Islandsbanki amounted to ISK 14.4 billion at October 14, 2008. Guarantees that have not currently matured equal ISK 8.6 billion. Undrawn credit lines at October 14, 2008 amounted to ISK 17.3 billion. The amount that has been drawn or expected to be drawn equals ISK 9.8 billion and the other lines have been terminated.

The New Bank's Strategy

Islandsbanki currently operates in a demanding environment, where the market situation is extremely difficult and there are severely negative economic predictions for the immediate future regarding asset quality and loan performance. Unemployment is currently around 8%, the ISK has depreciated significantly and interest rates are high, with the Central Bank rate at 12%.

Islandsbanki's objective is to maximize asset recovery and establish fundamentals for future profitability. Its restructuring strategy is based on the New Bank's proven infrastructure which has been in place since the 1990's and seeks to provide solutions aimed at maintaining a going concern value. Islandsbanki has a strong network of skilled professionals with varied experience in banking, finance and other business areas and resources outside the bank. The New Bank's professionals are experienced complex restructuring transactions and their goals are to

nurture existing relationships for future growth and profitability. Islandsbanki provides standardized solutions for smaller businesses, households and individuals and an infrastructure able to handle large volumes of transactions.

Restructuring

The analysis and restructuring of the New Bank's portfolio started in October 2008 and distressed cases have been identified and prioritized, with a focus on cash flows, collateral position, financial and operating performance and available options. The New Bank has commenced legal processes where other options are limited and where necessary to safeguard the bank's position. Standardized solutions such as payment holidays and minor restructuring have been implemented where such options have sufficed. Formal restructuring and workout processes are in various stages of execution, i.e., restructuring completed, in negotiations, under evaluation, enforcement of margin calls, asset recovery and asset transfers. The New Bank has established a holding company, Midengi ehf., as a vehicle for acquired properties, assets, equity interests or equity conversions made as part of the restructuring process. Midengi has five subsidiaries, each with a predefined purpose for certain asset types. Midengi aims to divest or sell acquired assets and equity positions within 18 months, i.e., after the effective restructuring of the acquired company.

Islandsbanki has made execution plans for the restructuring of its loan portfolio, specific to industry sector and portfolio, with the goal of executing and completing the restructuring of the largest part of the portfolio within the next 12 months. The final success and eventual outcome of the restructuring efforts will materialize over the next five years. The New Bank will make final charge-offs where every legal recourse for loss mitigation has been exhausted, in accordance with the New Bank's impairment procedures and rules.

Islandsbanki has implemented assistance in the form of standardized solutions for household mortgage holders with foreign currency denominated mortgages as well as CPI linked mortgages. This consists of modifying payments on these loans, whereby the "base" payment is the payment made May 2, 2008 (in the case of currency linked mortgages) or November 1, 2008 (in the case of CPI linked mortgages) and regular payments thereafter will change in relation to a new index calculated by the Icelandic government, intended to better reflect the purchasing power in the economy. The plan for the CPI linked loans was passed as legislation in November 2008, but a similar plan for foreign exchange linked loans was implemented as a joint undertaking by all the Icelandic banks at the behest of the Icelandic government. Adverse effects on impairment or cash flows is not expected to be significant, as it is assumed that those who utilize these options are incapable of making full payments and before the economic downturn, the only other general option was to offer interest payments only. This will result in lower-than-contracted payments, but payments that are still higher than interest payments only. To date, around 10% of the New Bank's customers have taken this option

Islandsbanki has offered customers with car loans the option to pay a partial contractual payment with interest on their loans for eight months and receive a four-month maturity extension. This option extends the maturity of the portfolio, but provides Islandsbanki with a steady cash flow. The option was deemed favorable under a decree issued by the Ministry of Commerce in October 2008.

General or standardized options solutions for SMEs have not been implemented as they are handled on a case-by-case basis based on each company's situation. The solutions available for SMEs are based on an analysis of financial standing, operating environment and market conditions. Options include payment holidays, interest payments only, changes in repayment schedules and changes in interest rates. In some instances, formal legal proceedings, such as moratorium proceedings, are necessary where options are limited.

Other solutions are currently being offered to the Bank's customers and are designed on an individual basis, based on a detailed analysis of each customer's situation.

The New Bank's liquidity policy requires that it have liquid assets to meet all liabilities maturing within the next 12 months or a liquidity ratio of greater than 100%. The New Bank currently has a liquidity position of ISK 74 billion and considerable uncertainty/volatility with respect to deposits. In the short-term, the New Bank's deposit base is assumed to remain fairly stable around ISK 400 billion. 87% of retail deposits are in ISK.

Internal Capital Adequacy Assessment Process (ICAAP)

The New Bank is adopting the comprehensive ICAAP framework developed in Glitnir that will be implemented with an intensive internal documents update and review as well as a thorough quality assurance exercise. Within the Islandsbanki Group there are two subsidiaries subject to capital requirements: Kreditkort and Borgun. Islandsbanki has submitted to the FME an updated capital assessment indicating that capital in the amount of ISK 90 billion is needed for the New Bank.

On July 6, 2009, the FME issued a statement to the negotiation parties outlining its intent to conditionally grant Islandsbanki an operating license pursuant to the Act on Financial Undertakings. The statement was based on an assessment of preliminary information, including a business plan, a capitalization plan and stress-test results submitted by Islandsbanki to the FME. Moreover, it was based on the assumption that the New Bank would be capitalized and majority owned by the Iceland State Banking Agency. On July 18, 2009, the Glitnir Resolution Committee signed a heads of terms agreement with the Icelandic Ministry of Finance regarding the capitalization and future ownership of the bank. The heads of terms provided two options for capitalizing the New Bank – a joint option where Glitnir acquires a majority shareholding in the bank and an alternative option where the Icelandic Ministry of Finance becomes the majority owner of the New Bank.

Regulatory Capital

The FME has reviewed the business plans and ICAAP documents prepared by the New Bank. As part of this work, the FME has stated that it has carried out stress-testing of the New Bank's solvency and liquidity reserves to evaluate the adequacy of the proposed capitalization structure and liquidity position. The FME has also carried out an assessment of the risk management, corporate governance and resource capacity of the banks.

Based on the assumption that prospective asset transfer prices and capitalization levels are correctly represented in the business plan submitted by the New Bank, the FME has approved the New Bank as a financial undertaking fit to hold a banking license, provided that certain conditions are fulfilled. The FME announced that the capitalization model proposed by the New Bank is acceptable. If assets are transferred at values higher than those assumed in current business plan, Tier 1 capital must be increased accordingly, taking into account the associated valuation risk.

The FME has stated that the principal threats to the viability of the New Bank as a financial undertaking are credit risk and liquidity risk. Credit risk mainly arises from uncertainty concerning the performance of transferred assets. Liquidity risk is driven by multiple factors, including uncertainty of cash flows from the transferred assets and high reliance on short-term deposit funding.

FME has stated that the New Bank's indicated capitalization levels are high by international standards and the available capital exceeds the New Bank's internal assessments of capital requirements. Moreover, the stress-testing exercise undertaken by the FME concluded that the New Bank can survive a Prolonged Deep Recession (or PDR, as defined by the FME in collaboration with the Central Bank).

In addition to this, the FME believes the New Bank is starting out with substantial liquidity reserves in the form of a cash and capital injection from the Icelandic government and the FME believes it will be able to withstand a delay in the cash yield of the transferred assets, although the New Bank remains exposed to deposit outflow.

For the first years, the New Bank will maintain foreign currency imbalances that are larger than what was permissible prior to the crisis. The FME has requested that the New Bank, its respective auditors as well as the National Audit Office confirm this. The FME in collaboration with the Central Bank will continue to monitor closely the foreign currency imbalance of the New Bank.

In addition to the financial risk issues, the FME review of the New Bank's risk management framework revealed certain shortcomings, as well as some corporate governance issues that remain to be addressed.

FME approval was granted subject to certain conditions, including that New Bank management commit to closing the risk management, corporate governance and resource capacity gaps identified by the FME in accordance with timelines to be agreed with the FME. To support such improvement, the FME will work closely with other Icelandic authorities to create favorable conditions for the New Banks to control their risks efficiently.

Based on the conclusions of its review, the FME encouraged the Ministry of Finance to explore the options for downside risk sharing as a component of any prospective compensation instruments. The FME also suggested that a Bank Holding Agency should be given a mandate to promote financial stability. In particular, the FME assumed that all government funds available for bank recapitalization, and not injected immediately as risk capital, will be placed at the disposal of the Bank Holding Agency as contingency capital, and that an incentive framework will be established to ensure compliance with the FME sign-off conditions.

Management of the New Bank

Board of Directors

Vilhjálmur H. Vilhjálmsson, Chairman of the Board. Vilhjálmur H. Vilhjálmsson, Supreme Court attorney, has been a partner at Landslog law Offices since 1976. He was the Reykjavík City Attorney in 2003-2004, a Justice of the Labour Court in 1997-2003 and has served on various public committees and presiding election boards in Reykjavík. He holds a Cand. Jur. law degree from the University of Iceland and pursued postgraduate studies in maritime law, tort law and insurance law at the University of Oslo in 1977-1978 and 1997.

Martha Eiríksdóttir, Vice Chairman of the Board. Martha Eiríksdóttir is Head of Business Relations at Landsnet, the Icelandic electricity transmission system operator. She was previously Executive Director of Marketing at the telecoms operator Íslandssími. Prior to that, she was Manager Commercial Programmes at Europay Int. in Brussels, which operated the payment brands MasterCard, Maestro and eurocheque. Before moving to Brussels, she was Head of Marketing at Eurocard Iceland. She has worked as a consultant on several projects for Icelandic and international banks relating to the credit card industry and strategic planning. Martha has served on the boards of several companies, including Icelandair Group, Kreditkort and EJS. She holds a degree in Economics and Business Administration from the University of Iceland and a BEd degree from the University of Education in Iceland.

Guðmundur R. Jónsson, Member of the Board. Guðmundur R. Jónsson has worked at the University of Iceland since 1983, initially as researcher and Associate Professor in mechanical and industrial engineering, becoming a Professor in 1996. He specializes in statistics and control theory. Since 2003, he has held administrative positions within the University, most recently as Head of Finance and Operations. Guðmundur has a Master's degree in mechanical engineering from the Technical University of Denmark and a PhD in mathematical statistics from the Technical University of Lund, Sweden.

Ólafur Ísleifsson, Member the Board. Ólafur Ísleifsson is Assistant Professor at the Reykjavík University School of Business. He was formerly Executive Director representing the Nordic and Baltic countries on the IMF Executive Board, Director of the International Department of the Central Bank and Economic Adviser to the Prime Minister. He served as a member of the Icelandic Competition Council, and chaired several government-appointed committees and working groups on economic and financial affairs. He has been as a columnist for two leading Icelandic newspapers and is a frequent commentator in the media. Ólafur holds an MSc. degree in economics from the London School of Economics and Political Science and a BS degree in mathematics from the University of Iceland.

Katrin Ólafsdóttir, Member of the Board. Katrin Ólafsdóttir is Assistant Professor at Reykjavík University's School of Business. She was formerly Head of Forecasting at the National Economic Institute of Iceland. Prior to that she worked in the Economic Department of the Icelandic Ministry of Finance. She has worked at Landsbanki and the Pasadena Research Institute in California, as well as serving on various government-appointed committees and as an adviser on fiscal policy. Katrin holds a Master's degree in labor economics from Cornell University and an A.B. degree in economics with a minor in mathematics from Occidental College, Los Angeles.

Management

Birna Einarsdóttir, CEO. Birna Einarsdóttir first joined Islandsbanki (then Iðnadarbankinn) in 1987. After six years with Royal Bank of Scotland she rejoined Islandsbanki in the fall of 2004 then as the Managing Director of Sales and Marketing. She was appointed to the role of Executive Vice President of Commercial Banking in June of 2007. Einarsdóttir's work experience further includes work as the Marketing Manager for the Icelandic Broadcasting Company (Channel 2) and Íslensk getspá. Einarsdóttir holds a B.Sc. in Business Administration from the University of Iceland, and an MBA from the University of Edinburgh.

Rósant Már Torfason, Managing Director. Róasant Már Torfason joined Islandsbanki in 1996. He has a comprehensive experience from working in the Bank for the past 13 years in different positions within Capital Markets, Proprietary Trading, CEO Office Business Development and Managing Director. Róasant holds a Cand. Oecon Degree in Business Administration from the University of Iceland with focus on finance, and is a licensed securities broker.

Sigrún Ragna Ólafsdóttir, Managing Director. Sigrún Ragna joined Islandsbanki in the end of 2007 as a director of Finance. Prior to joining Islandsbanki Sigrún worked for Deloitte & Touche LLP where she served as chairman and partner. Sigrún has over 20 years of experience in accounting. Sigrún was appointed Managing Director of Finance and Operations in October 2008. Sigrún holds a B.Sc. degree in Business Administration from the University of Iceland and a MBA degree from Reykjavík University along with being a licensed accountant.

Vilhjelm Már Thorsteinsson, Managing Director. Vilhjelmi Már Thorsteinsson joined Islandsbanki in 1999. He has extensive experience having held various positions in Capital Markets, Leverage Finance, Treasury and within the CEO's Office working on different types of transactions and strategic projects in Iceland and internationally. Vilhjelmi was appointed Managing Director of Corporate Banking in October 2008. Vilhjelmi holds a B.Sc. in Business Administration from Reykjavík University. He is a licensed securities broker and has an MBA degree from Pace University New York, NY.

Jóhannes Baldursson, Managing Director. Jóhannes Baldursson joined Islandsbanki (then VÍB Securities, a subsidiary of Islandsbanki) in 1996. He started as a securities broker, then moved over to Treasury and later joined Capital Markets, where he has been instrumental in building up Islandsbanki's strong Capital Markets team. Jóhannes headed foreign exchange sales for many years and was appointed Managing Director for Capital Markets in Iceland in 2007. Jóhannes holds a B.Sc. in Economics from the University of Iceland, an MSc. degree in Economics from UPF (Universitat Pompeu Fabra) in Barcelona, Spain, an ACI Diploma and is a licensed securities broker.

Stefán Sigurdsson, Managing Director. Stefán Sigurdsson joined Islandsbanki in 2006. Stefán has worked in the financial sector for 10 years and has extensive experience from working in Capital Markets, Treasury, Corporate Finance, Investor Relations and Business Development. Stefán was appointed Managing Director of Asset Management in October 2008. Stefán holds a M.Sc. degree in Economics from the University of Copenhagen and a B.Sc. degree in Economics from the University of Iceland.

Una Steinsdóttir, Managing Director. Una Steinsdóttir joined Islandsbanki in 1991 as a specialist in International Banking. Una has over 17 years of experience in working for Islandsbanki and its predecessors and has among other things worked in loan supervision and service management. Una was a branch manager in Keflavík for eight years, from 1999-2007 until she was appointed director of Commercial Banking in 2007. In October 2008 she was appointed Managing Director of Commercial Banking. Una holds a Cand. Oecon degree in Business Administration from the University of Iceland.

Employees

Islandsbanki underwent substantial restructuring in 2008 and currently has 884 full-time employees, down from 1,176 full-time employees at the end of 2007. All employees excluding senior management are members of The Union of Icelandic Bank Employees and adhere to its Collective Agreement. All employees are insured at TM Ltd. according to the Collective Agreement Chapter. Currently there is no incentive compensation of any kind in

place. Retirement and pension are according to Collective Agreement. Benefits like health and life insurance, pension are included in the Collective Agreement. Senior management have a separate insurance package.

Corporate Governance

Islandsbanki has incorporated the basic principles of Glitnir's corporate governance structure and its current policies, rules and work processes are largely based on those of Glitnir. Some changes and reviews have been applied with the objective of reducing risk and strengthening internal controls and the New Bank's entire governance structure is currently under review in a company-wide effort on corporate governance reforms that was launched in the summer of 2009 and is expected to be completed by year end. Islandsbanki's goal is to implement a corporate governance framework that is consistent with international best practices.

Islandsbanki has a Risk Committee, Asset and Liability Committee and Executive Board that supervise and monitor material risks.

Since Islandsbanki's establishment, its Internal Audit division has devoted a substantial part of its resources to serve other investigative parties and supervisory authorities. These investigations relate to matters concerning the events in the financial markets last year as well as current market monitoring efforts. Some of these investigations have been carried out by contractors hired by Glitnir's Resolution Committee, the FME, the Central Bank, Icelandic tax authorities, and the Special Investigation Commission established by Icelandic Parliament. Internal Audit has also been working on a number of audit projects as well as actively monitoring certain issues relating to the creation of Islandsbanki and the transfer of assets from Glitnir.

The Icelandic National audit office is the appointed auditor of Islandsbanki by law while it is owned by the Icelandic government. Deloitte was appointed on behalf of the National audit office to audit Islandsbanki for 2008-2010. KPMG provides non-audit services to the New Bank and Deloitte does not provide non-audit services to the New Bank. Islandsbanki's accounting policies are based on IFRS.

The documentation relating to the Instruments also imposes certain requirements related to corporate governance of the New Bank. These requirements are discussed under "The Description of the Instruments."

CONDITIONS TO THE PROPOSAL

Completion of the JCA is conditional upon certain events occurring, including certain Icelandic regulatory and merger approvals, completion of due diligence to the satisfaction of Glitnir and creditor feedback satisfactory to Glitnir being received in respect of the JCA. If such conditions are not satisfied or waived by Glitnir by September 30, 2009, the ACA will take effect.

RISK FACTORS

Risks that may affect the New Bank's ability to fulfill its obligations under the Instruments

Set forth below are certain risks that could materially adversely affect the value of the Instruments, your rights under the Instruments, and the future business, operating results or financial condition of the New Bank, which will affect holders of the Instruments. Each stakeholder should carefully consider these risk factors and the other information in this information memorandum before making any decision involving the Instruments, the claims process or any potential legal action. Additional risks not currently known to us or that we now deem immaterial may also affect the value of the Instruments, the operating results and prospects of the New Bank and the Icelandic banks generally.

Risks related to Iceland

The current recessionary economic environment in Iceland may adversely affect the New Bank's results

The New Bank's results are affected directly by general economic and other business and political conditions in Iceland. These conditions include changing economic cycles that affect demand for investment and banking products. These cycles also are influenced by global political events, as well as by market specific events, such as shifts in consumer confidence and consumer spending, the rate of unemployment, labor or social unrest and political uncertainty. The Icelandic financial crisis has drastically slowed the growth of the Icelandic economy since September 2008.

The recent global financial crisis, which resulted from the US sub-prime mortgage crisis, precipitated the Icelandic financial crisis. However, a number of factors made the Icelandic economy, including Icelandic banks, more susceptible to, and less resilient in the face of, an economic downturn. The Icelandic banks had expanded rapidly. Deregulation or liberalization of regulations permitted the banks to expand their operations. Given the relatively small size of the Icelandic economy, the banks' rapid growth relied principally on growth outside of Iceland. Financing for the banks was relatively cheap given their own ratings and the Icelandic sovereign ratings. Also, from 2002 to 2006, the krona appreciated significantly. Cheap and accessible financing permitted the banks to extend credit; and borrowing levels by Icelandic households increased significantly. Most of the foreign debt accumulated by the banks was through US and European financial institutions and financial products. In addition, the expansion in bank balance sheets created a dependency on the short-term funding market to maintain liquidity, particularly as the banks began to experience difficulties beginning in early 2008. The dependence of the Icelandic banks on foreign financing made them more sensitive to external financial shocks, particularly volatility in the exchange rate and investor speculation. For a further discussion of the Icelandic financial crisis, see "The Icelandic Economy—Brief Overview of the Icelandic Financial Crisis."

According to published reports, including the OECD Economic Outlook, the Icelandic economy continues to be in a very deep recession. The economy is projected by the OECD to shrink until early 2010. The unemployment rate is likely to soar to up to 10% in 2010.

Recently, interest rates and the rate of inflation in Iceland have been rising in response to the fiscal contraction resulting from the Icelandic financial crisis. The Central Bank's policy interest rate has increased from 13.3% at December 31, 2006 to 13.8% at December 31, 2007 and 18% at December 31, 2008. On September 10, 2009, the Central Bank's policy interest rate was 12%. Inflation has increased from 6.8% in 2006 and 5.8% in 2007 to 20.5% in 2008. In addition, Iceland's current account deficit at December 31, 2008 was approximately 10.7% of gross domestic product, or GDP, for 2008, adversely affecting the value of the krona, which fell in value against the euro during 2008. At December 31, 2008, the krona had declined 87.7% against the euro to ISK 171.01 to €1 from ISK 91.2 to €1 at December 31, 2007. The exchange rate at September 10, 2009 was ISK 180.51 to €1.

These developments and others may have a material adverse effect on the New Bank's business, financial condition and results of operations.

The downgrading of sovereign ratings may adversely affect the New Bank

In January 2008, as it became clear that the Icelandic economy was slowing down as a result of the global financial crisis, the ratings agencies Moody's, S&P and Fitch downgraded Iceland's long-term sovereign debt, as well as the long-term debt of the three major commercial banks. By September 2008, just before the onset of the financial crisis, Moody's placed these credit ratings on review for a possible downgrade. This downgrade limited the Icelandic banks' access to the credit markets, thus increasing their financing costs, which impaired their liquidity. Speculators then drove down the price of the krona and Icelandic stocks and bonds. Continued downgrading of the sovereign ratings will impair the New Bank's ability to access credit markets, which will negatively impact its business, financial condition and results of operations. Furthermore, ratings (if any are obtained) of the Instruments will never be higher than the sovereign ratings.

The failure of the Icelandic banking system and uncertainty regarding increased regulation may adversely affect the New Bank's results

The failure of the Icelandic banking system and the slow response of the Icelandic government to repair and increase confidence in the banking system has created uncertainty regarding its continued viability. The lack of international confidence in the Icelandic banking system, despite various measures taken by the Icelandic government to restructure the Icelandic banks and improve banking regulation, has driven current and potential investors and customers away from Icelandic banks and created speculation that the banking system and the economy as a whole may not recover as quickly as expected. This lack of confidence will continue to affect the Icelandic banks' access to the credit markets which will slow the recovery process. The Icelandic government also has not presented a clear exit strategy with respect to the restructuring of the Icelandic banks, which will continue to create uncertainty, and there can be no assurance that the current restructuring efforts of the Icelandic government in general will be successful. Furthermore, the reduction in current and potential investors and customers will create increased competition among existing financial institutions for such business which may drive the banking system towards further consolidation or government involvement or investment in Icelandic banks. This uncertainty will negatively impact the New Bank's business, financial condition and results of operations.

There is uncertainty whether the Icelandic economy can sustain several large banks

There have been a number of reports that question whether the Icelandic economy will be able to sustain several large banks. Icelandic regulators have noted that the new banks, including the New Bank, will be required to maintain higher regulatory capital levels and will be required to comply with more stringent requirements on leverage. Regulators also have noted that they anticipate that the operations of the new banks will grow more slowly and may be more focused on domestic operations. It is not clear that there is sufficient demand for three large banks to meet domestic Icelandic banking needs. Continued uncertainty regarding the future of the three largest banks will have a negative impact on the New Bank's business, financial condition and results of operations.

The instability of the Icelandic government and public discontent regarding the government's reaction to the crisis may impact the New Bank's results

The measures undertaken by the Icelandic government in response to the Icelandic financial crisis have helped to stabilize the economy to some degree. However, the fiscal contraction resulting from the financial crisis in the last few months has created political instability. The government fell in January 2009 amid public dissatisfaction with its handling of the financial crisis and a dispute by the ruling parties, the Social Democrats and the Independence Party, as to who would serve as the country's prime minister until elections were held in the spring of 2009. There was widespread public sentiment that the government did not act swiftly enough in response to the financial crisis and was to be held accountable for the liberalization of the regulatory regime that led to the financial crisis. A provisional government was quickly established, and early parliamentary elections were held in May 2009, with a coalition of Social Democrats and the Left-Green Movement taking office. In addition, the current coalition has recently faced waning public support for Iceland's recent bid for EU membership, although there can be no assurance that EU membership and the adoption of the euro will ensure or speed the economic recovery. Although the current coalition has made some progress with respect to the economic recovery, ongoing political uncertainty will have a negative effect on the restructuring process and ongoing banking reform, which

could drive current and potential investors and customers away from Icelandic banks and thus have a material adverse effect on the New Bank's business, financial condition and results of operations.

The New Bank's results may be adversely affected by rising inflation in Iceland

On October 28, 2008, the Central Bank raised interest rates from 12% to 18% and indicated that it might raise interest rates even further, although the IMF plan contemplates that the Central Bank will return to inflation targeting by the end of 2010. However, the Central Bank subsequently announced that it would gradually lower interest rates, without disrupting exchange rate stability, once the IMF changes its fiscal policy recommendations. For example, the Central Bank reduced interest rates to 15.5% on April 8, 2009 then to 13% on May 7, 2009 and to 12% on June 4, 2009. Despite the recent reductions, interest rates are still at inflationary levels and may continue at such levels through the end of 2009 and into 2010. High interest rates have resulted in increased volatility of equity prices and may negatively impact the demand for mortgages and other loan products.

Domestic businesses and borrowers are still in crisis, which may adversely impact the New Bank's results

The commercial and consumer banking business will be significantly affected as a result of the current recessionary conditions in Iceland as there will continue to be less demand for loan products. Customers will continue to face significant financial problems. The current recessionary economy and business climate also will negatively affect the credit quality of borrowers and counterparties, which will negatively impact the recoverability of loans and amounts due from counterparties.

The impact of the IMF plan on the Icelandic economy is still uncertain and may impact the New Bank's results

On November 19, 2008, in response to the Icelandic government's request for assistance, the IMF approved under its fast-track Emergency Financing Mechanism procedures a two-year SDR1.4 billion (approximately \$2.1 billion) standby arrangement for Iceland to support the country's efforts to restore investor confidence and stabilize the economy. Under the IMF plan, SDR560 million (approximately \$827 million) is immediately available for use by the Icelandic government and the remainder will be available in eight equal installments of SDR105 million (approximately \$155 million), subject to quarterly reviews. The plan also provides for access to IMF resources, amounting to 1,190% of Iceland's IMF quota, and is expected to fill approximately 42% of Iceland's financing gap for the years 2008 to 2010 (agreements with bilateral creditors will fill in the remainder of the financing gap). The main objectives of the IMF plan are restoring confidence in the economy and stabilizing the exchange rate in the short term, implementing a sound banking system strategy and limiting the socialization of losses in the collapsed banks, and implementing a multi-year fiscal consolidation program. In order to prevent further krona depreciation, the plan focuses on maintaining a tight monetary policy in the context of a flexible exchange rate policy, with restrictions on near-term capital outflows.

On March 13, 2009, the IMF conducted its first review of the Icelandic economy under the standby arrangement. The IMF indicated that the macroeconomic outlook for Iceland was broadly in line with program expectations, with the financial crisis leading to a sharp decrease in economic activity, but suggested that a late-year turnaround is within reach. The IMF also noted that the krona had stabilized and inflation appeared to have peaked, suggesting that the programme was having a positive macroeconomic effect. However, the IMF noted that Iceland's monetary and fiscal policies are still in transition and emphasized that the financial sector restructuring needed to move forward. On August 1, 2009, the IMF announced that it had reached an agreement with the Icelandic government on policies underpinning the first review under the standby arrangement, but that the review, which would release the second installment of the \$2.1 billion loan, had been delayed until late August or September 2009. In addition, in response to IMF recommendations, the Icelandic government has planned further sharp reductions in public spending and tax increases. This has created continued uncertainty as to whether the economic recovery is truly on track and will continue to impact overall investor confidence in the economy which will negatively impact the New Bank's business, financial condition and results of operations.

The status of the krona as a small currency and the inability to effectively hedge the krona may impact the New Bank's results

The krona has been particularly vulnerable to exchange rate volatility because it is a small currency that is less likely to be held by other central banks as a reserve currency or to hold its value over time as there continues to be a lack of investor confidence in the Icelandic government and banking system. During the rapid expansion of the banking sector, the Central Bank found it increasingly difficult to accumulate adequate foreign currency reserves to cover the rising foreign-denominated debt of the Icelandic banks. The increase in foreign-denominated debt also neutralized the appreciation of the krona from increasing foreign capital inflows, which would have made the krona more expensive and foreign currencies less expensive, and thus have enabled the Central Bank to eliminate the foreign currency reserve shortfall with cheaper foreign currency. However, by the middle of 2008, the Central Bank held only €2 billion in foreign currency reserves, while the Icelandic banks had accumulated more than €49.9 billion (\$70 billion) in foreign-denominated debt.

In response to the krona's collapse in October 2008, the Central Bank implemented a fixed exchange rate policy and imposed foreign currency controls beginning in December 2008, with a gradual reduction in interest rates from the high levels imposed to bring about the necessary fiscal contraction. The IMF plan also contemplates that the Central Bank will return to inflation targeting within a floating rate regime by the end of 2010. However, until the size of the banking sector is reduced to appropriately match the size of the economy and the massive levels of foreign-denominated debt are reduced, the krona will continue to remain subject to speculation and exchange rate volatility which will reinforce the lack of investor confidence in the Icelandic government and banking system. Furthermore, the volatility of the krona will increase the cost of hedging exposure to the krona and maintaining adequate foreign currency reserves to cover even reduced amounts of foreign-denominated debt. As a result of these factors, the New Bank may find it difficult and expensive to enter into appropriate hedging arrangements.

The current overall focus on reducing leverage after prior over-reliance on leverage may adversely affect the New Bank's results

During the Icelandic economy's recent expansion, the level of household, corporate and sovereign borrowing steadily increased. Household foreign-denominated debt increased significantly in the past four years, accounting for almost 13% of total household debt at the end of 2007, and in October 2008, household debt amounted to 213% of disposable income, compared to 169% and 140% for UK and US households, respectively. At the end of 2003, the debt of non-financial Icelandic corporations was the equivalent of 150% of GDP, and at the end of 2007 corporate debt rose to more than 300% of GDP. Icelandic sovereign debt also has increased significantly in recent years, with the bond market growing by 25% annually between 1998 and 2005 and the market value of listed bonds amounting to \$17.3 billion at the end of 2005, compared to \$7.3 billion in 1999 (at 2005 price levels). This increase in leverage throughout the Icelandic economy fueled its rapid expansion, particularly expansion in the banking sector. However, the recent reductions in leverage throughout the economy in order to contain the financial crisis and improve macroeconomic fundamentals will reduce demand for the New Bank's products and services as domestic customers will find it increasingly difficult to obtain credit. Without the ability to focus on international operations and product international products and services to provide revenue diversification, the New Bank's results may be adversely impacted.

Risks related to general economic conditions

The global financial crisis and its impact on international financial markets may adversely affect the New Bank's results

The New Bank's results will be affected by global financial markets and economic conditions generally. Over the past year, these conditions have changed significantly and negatively and continue to deteriorate. The availability of funding in global financial markets will materially impact the New Bank's borrowing costs and affect its liquidity.

Since the second half of 2007, and particularly since September 2008, the financial services industry and the global financial markets have been materially and adversely affected by significant declines in the values of nearly all classes of financial assets. The financial markets have been, and continue to be, characterized by

unprecedented levels of volatility and the breakdown of historically observed correlations across asset classes, compounded by extremely limited liquidity. This has materially and adversely affected the availability and performance of instruments used to hedge positions and manage risk. Furthermore, there has been a widespread loss of investor confidence, most severely in financial institutions.

Market conditions have also led to the failure or merger under distressed conditions of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in losses, including for the New Bank, as a consequence of defaults on securities issued by them and defaults under bilateral derivatives and other contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase the spreads, or costs, on credit default swaps, which are instruments used to manage credit risks, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in central bank borrowing rates and other government actions.

Business activity across a wide range of industries and regions continues to be greatly reduced and local governments and many companies are in serious economic difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets.

Unprecedented government actions in the United States and Europe has increased uncertainty in the international financial markets which may adversely affect bank results

In response to the global financial crisis, there has been significant intervention by governments and central banks in the financial services sector, including the taking of direct shareholdings in individual financial institutions, particularly in the U.S., the UK and Switzerland, and contributions of other forms of capital to, guarantees of debt of and purchases of distressed assets from financial institutions. In some instances, individual financial institutions have been nationalized or their nationalization is being considered. Such interventions involve significant amounts of money and have significant effects on both institutions that participate in them and institutions that do not participate including with respect to access to funding and capital and recruiting and retention of talent. Institutions that do not receive such government support may be in a position to preserve greater autonomy in their strategy, lending and compensation policy but may suffer competitive disadvantages on their cost base, in particular their cost of funding and of capital. They also may suffer a decline in depositor or investor confidence, thus risking a loss of liquidity. Institutions that receive such government support will, as described above, have to make certain commitments and become subject to certain constraints.

In addition, there is a wide variety of proposals on a reform of the regulatory framework for financial services which are presently being discussed. Such proposals relate in particular to increased capital requirements, additional regulatory oversight and reporting, business models and business practices. If these proposals in whole or in part become law, they may impact the New Bank's borrowing costs and affect its liquidity.

Discussions generally in the United States and Europe regarding the need for higher regulatory capital levels may adversely affect Islandsbanki's results

In addition to significant intervention by governments and central banks into the financial services sector in response to the global financial crisis, there have been discussions by regulators in the United States and Europe regarding the need for more stringent regulatory capital levels for financial institutions. By requiring higher capital ratios, financial market regulators can help ensure that financial institutions maintain sufficient liquidity to adequately weather future economic crises and protect against declines in investor confidence in global financial markets as well as particular economies and banking systems. However, uncertainty with respect to the exact increases in the required capital ratios will adversely impact borrowing costs for the New Bank and affect its liquidity, as the demand for capital to meet such higher capital ratios increases and supply contracts.

There can be no assurance that the New Bank has been adequately capitalized

The FME has reviewed the business plans and ICAAP documents prepared by the New Bank. As part of this work, it has carried out stress-testing of the New Bank's solvency and liquidity reserves to evaluate the

adequacy of the proposed capitalization structure and liquidity position. The FME has also carried out an assessment of the risk management, corporate governance and resource capacity of the banks. The FME's assessment was based on the assumption that prospective asset transfer prices and capitalization levels are correctly represented in the business plan submitted by the New Bank. However, if assets are transferred at values higher than those assumed in current business plans, Tier 1 capital must be increased accordingly, taking into account the associated valuation risk. There can be no assurance that the New Bank will prove to be adequately capitalized.

The FME has identified risk management issues that must be remedied and there can be no assurance that these issues will be addressed adequately

As part of the FME's review of the New Bank, it conducted a review of its risk management policies. This review revealed certain shortcomings, as well as corporate governance issues that remain to be addressed. The New Bank was granted FME approval subject to certain conditions, including that New Bank management commit to closing the risk management, corporate governance and resource capacity gaps identified by the FME in accordance with timelines to be agreed with the FME. International commentators have noted that in order to avoid a recurrence of the problems in the Icelandic banking system, Icelandic regulators will need to strengthen the bank regulatory framework and supervision needs to be strengthened. There can be no assurance that the New Bank will remedy its risk management and corporate governance issues nor that investors will have confidence in the risk management policies of the New Bank.

Risks related to the incomplete nature of the information made available by the Icelandic government

The Icelandic government has not allowed the Resolution Committee and its advisers to conduct full diligence of the New Bank; creditors will not have access to more detailed information about the New Bank

The Icelandic government has not permitted the Resolution Committee and its advisers to fully review and examine the business and assets and liabilities of the New Bank. There is limited publicly available information about the New Bank. The only information regarding the New Bank that the Icelandic government has provided to the Resolution Committee consists of independent third party net asset valuation reports prepared by Deloitte and Oliver Wyman. There is no audited information available for the New Bank. The valuation reports were prepared as of a date more than six months ago and were based on a variety of assumptions and incorporated a number of estimates and judgments. The valuation reports were not prepared in accordance with GAAP or IFRS. With only limited and incomplete access to the New Bank's financial statements and records, corporate minutes and records, and material agreements, contracts, instruments and documents relating to its business, the Resolution Committee and its advisers have not been able to conduct an independent valuation of the assets and liabilities of the New Bank or to formulate an assessment of the New Bank's business plan. Creditors will not be provided with access to additional information about New Bank. As a result, creditors and their advisers may not have the information that they deem necessary in order to make a determination regarding the Instruments and their legal remedies.

Risks related to the business of the New Bank

Current levels of market volatility are unprecedented

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. During the second half of 2008, the volatility and disruption reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that the New Bank will not experience an adverse effect, which may be material, on its ability to access credit and on its business, financial condition and results of operations.

The restructuring process that the Icelandic government has approved does not necessarily permit either bank to have a sustainable business

The restructuring process approved by the Icelandic government has separated the foreign and domestic assets and operations of each bank, with the new entities retaining the domestic assets and operations. However, the

exclusive focus on domestic assets and operations may overexpose the New Bank to the uncertainty and volatility of the Icelandic economy in the wake of the Icelandic financial crisis. As the economy undergoes a fiscal contraction, the domestic assets and operations will also be negatively impacted, and will not be able to be counterbalanced by non-leveraged diversification into foreign assets and operations.

Changes in interest rates and foreign exchange rates may impact the New Bank's results

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

The New Bank publishes its consolidated financial statements in ISK. There is a large concentration of foreign currency denominated loans among the assets of the New Bank, with a number of different currencies. The liability side of the New Bank's balance sheet is likely to be dominated by Icelandic krona items. This will produce variability in the bank's operating results and will affect the carrying value of the assets and liabilities of the New Bank.

Many of the retail mortgage assets of the bank are linked to Icelandic CPI. These mortgages were commonplace when they were introduced and were intended to match products offered by state institutions and often funded with external index-linked debt. This gives rise to cashflow challenges and rising long-term values in the current high inflation, high interest rate environment and given the lack of long-term hedging solutions.

Management of interest rate risk and foreign exchange risk does not completely eliminate the effect of those factors on the New Bank's performance.

The New Bank's performance is subject to substantial competitive pressures that could adversely affect its results of operations

There is substantial competition for the types of banking and other products and services that the New Bank provides in Iceland. Competition may intensify if merger activity produces larger, better-capitalized companies that are capable of offering a wider array of products and services, and at more competitive prices.

The New Bank is subject to credit, market and liquidity risk

To the extent that any of the instruments and strategies the New Bank uses to hedge or otherwise manage its exposure to market or credit risk are not effective, it may not be able to mitigate effectively its risk exposures in particular market environments or against particular types of risk. Balance sheet growth will depend upon the economic conditions described above, as well as on the New Bank's determination to sell, purchase or syndicate particular loans or loan portfolios. Trading revenues and interest rate risk depend upon the New Bank's ability to identify properly, and mark to market, changes in the value of financial instruments caused by changes in market prices or rates. Earnings also will depend upon how accurate the New Bank's critical accounting estimates prove and upon how effectively the New Bank determines and assesses the cost of credit and manages its risk concentrations. To the extent its assessments of migrations in credit quality and of risk concentrations, or its assumptions or estimates used in establishing valuation models for the fair value of its assets and liabilities or for its loan loss reserves, prove inaccurate or not predictive of actual results, the New Bank could suffer higher-than-anticipated losses. The successful management of credit, market and operational risk is an important consideration in managing liquidity risk.

Increases in the New Bank's loan losses or allowances for loan losses may have an adverse effect on its results

The New Bank establishes provisions for loan losses, which are reflected in impairment losses in its IFRS income statement, in order to maintain the allowance for loan losses at a level which is deemed to be appropriate by management based upon an assessment of prior loss experience, the volume and type of lending being conducted by the bank, industry standards, past due loans, economic conditions and other factors related to the collectibility of the loan portfolio. Although management uses its best efforts to establish the provision for loan losses, that determination is subject to significant judgment, and the bank may have to increase or decrease its provisions for loan losses in the future as a result of increases or decreases in non-performing assets or for other reasons. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have an adverse effect on the New Bank's results of operations and financial condition.

The New Bank is subject to credit risk which may have an adverse effect on its credit ratings and its cost of funds

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in the New Bank's business.

Adverse changes in the credit quality of borrowers and counterparties or a general deterioration in the Icelandic economy or global economic conditions, or arising from systematic risks in the financial markets, could affect the recoverability and value of the New Bank's assets and require an increase in the provision for bad and doubtful debts and other provisions. Counterparty risk covers situations where a counterparty is unable to make full payment of amounts when due. The New Bank makes provisions to cover possible losses. The New Bank constantly monitors these risks and reviews them.

A decline in the value or illiquidity of the collateral securing the New Bank's loans may adversely affect its loan portfolio

A substantial portion of the New Bank's loans to corporate and individual borrowers are secured by collateral such as real estate, securities, ships, and in the case of fishing vessels, together with their non-transferable fishing quotas, receivables, raw materials and inventories. Downturns in the relevant markets or general deterioration of economic conditions in the industries in which these borrowers operate, or in Iceland, the United Kingdom or Norway generally, or other markets in which the collateral is located, may result in declines in the value of collateral securing loans to levels below the outstanding principal balance on those loans. A decline in the value of collateral securing these loans or the inability to obtain additional collateral may, in some cases, require the New Bank to reclassify the relevant loans, establish additional provisions for loan losses and increase reserve requirements. In addition, a failure to recover the expected value of collateral in the case of foreclosure may expose the New Bank to losses which could have a material adverse effect on its business, financial condition and results of operations.

The New Bank depends on the accuracy and completeness of information about customers and counterparties

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

The New Bank is subject to legal risk which may have an adverse impact on its results of operations and financial condition

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

Systemic risk could adversely affect the New Bank's business

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

The New Bank is subject to indexation risk which may have an adverse effect on Islandsbanki's results of operations

Indexation risk derives from imbalances in the New Bank's indexed assets and liabilities, including both on- and off-balance-sheet items. Indexation risk is calculated on the basis of CPI and is mainly used on long-term loans in domestic currency. The New Bank's indexed assets include assets and derivatives based on indexed trading securities, which are short-term investments.

There is operational risk associated with Islandsbanki's industry which, when realized, may have an adverse impact on the New Bank's results of operations and financial condition

The New Bank, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, dependence on automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The New Bank also may be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to suspension of services to customers and result in loss or liability. The New Bank is further exposed to the risk that external vendors may be unable to fulfill their contractual obligations to it (or will be subject to the same risk of fraud or operational errors by their respective employees as is the New Bank), and to the risk that its (or its vendors') business continuity and data security systems prove not inadequate. The New Bank also faces the risk that the design of its controls and procedures prove inadequate, or are circumvented, thereby causing delays in detection of errors in information.

The preparation of the New Bank's financial statements requires the use of estimates that may vary from actual results

The preparation of consolidated financial statements in conformity with accounting principles generally accepted under IFRS requires management to make significant estimates that affect the New Bank's financial statements. Three of the New Bank's most critical estimates are the level of expected loan and lease losses, the level

of contractual interest and capital payments received and the effective interest rate for its existing loans and leases. These estimates will be used to calculate the reserve for impairments against the New Bank's assets in its opening balance sheet as of October 15, 2008. Due to the inherent nature of these estimates, the New Bank cannot provide absolute assurance that it will not significantly increase the reserve for impairments in the future. If the New Bank's reserve for impairments is not adequate, the New Bank's business, financial condition, including its liquidity and capital, and results of operations could be materially adversely affected. Additionally, in the future, the New Bank may increase its reserve for impairments, which could have a material adverse effect on its capital and results of operations.

The New Bank may fail to retain and attract key employees and management personnel

The New Bank's success has been and will continue to be influenced by its ability to retain and attract key employees and management personnel, including senior and middle management. The New Bank's ability to attract and retain key employees and management personnel may be adversely affected as a result of the workload and stress associated with the resolution of legacy issues and business transformation efforts, and related risks and uncertainties.

Damage to the New Bank's reputation could damage the New Bank's businesses

Maintaining a positive reputation for the New Bank is critical to the New Bank attracting and maintaining customers, investors and employees. Damage to its reputation can therefore cause significant harm to the New Bank's business and prospects. Harm to the New Bank's reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failing to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Furthermore, negative publicity regarding the New Bank, whether or not true, may also result in harm to the New Bank's prospects.

Market risks associated with the Instruments

The value of the Instruments issued by the New Bank that Glitnir will receive may fluctuate

In accordance with the JCA and the ACA, Glitnir may receive a substantial equity stake in the New Bank or a set of bonds issued by the New Bank and an equity option to purchase share capital in the New Bank. The price of any of these instruments may fluctuate widely in the future. Initially, there will be no public market for any of the instruments issuable under the JCA or the ACA as they will not be listed on any securities exchange and there can be no guarantee that a future public market will exist for these instruments. The trading value of the instruments issuable under the JCA and the ACA could fluctuate depending upon any number of factors, including those specific to the New Bank and those that influence the trading prices of equity or fixed income securities generally, many of which are beyond control of the Resolution Committee. See "—Risks Related to the Business of the New Bank."

Glitnir may fail to realize all of the anticipated benefits of the receipt of the Instruments

The primary goal of the receipt of the Instruments is to compensate Glitnir and its stakeholders for the assets and liabilities transferred by the Icelandic government on October 14, 2008 and to allow Glitnir and its stakeholders to participate in any future increase in the value of the New Bank. However, given the rapidly changing and uncertain financial environment, there can be no assurance that Glitnir will achieve these objectives or that the benefits, if any, realized from the receipt of the Instruments will be sufficient to compensate Glitnir and its stakeholders for the assets and liabilities transferred by the Icelandic government on October 14, 2008.

The Resolution Committee has not obtained a third-party determination that the Instruments to be received by Glitnir are fair to Glitnir or its stakeholders

The Resolution Committee is not making a recommendation to Glitnir or its Glitnir's stakeholders in regards to the receipt of the Instruments. The Resolution Committee has not retained, and does not intend to retain, any unaffiliated representative to act solely on behalf of the creditors of Glitnir for purposes of preparing a report

concerning the fairness of the receipt of the Instruments. Creditors must make their own independent decision regarding these matters.

The Instruments may not be a suitable investment for stakeholders

As we have noted above, the Resolution Committee and its advisers have had access to very limited information regarding the New Bank. The information provided to the Resolution Committee has been incomplete. The Resolution Committee has not obtained a formal valuation of the Instruments. The Resolution Committee and its advisers believe that both the Joint Capitalization option and the Alternative Capitalization option provide an opportunity to benefit from potential upside associated with Islandsbanki, its performance and financial condition, the loan book and performance of loans, and from improvements (if any) in general economic conditions in Iceland. As set forth in the FME's decision of October 14, 2008 regarding the transfer of the assets and liabilities of the Old Bank to the New Bank, the starting point for the negotiation of the compensation to the Old Bank (in the form of the Instruments) was that it should equal the difference between the value of the assets and liabilities of the Old Bank that were transferred to the New Bank. This may not have been an equitable approach to setting the compensation amount.

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this information memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact the Instruments will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including where the currency for principal or interest payments is different from the potential Stakeholder's Currency (as defined below);
- understand thoroughly the terms of the Instruments and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

There can be no assurance that the New Bank will comply with the covenants to be performed by it pursuant to the shareholders' agreement or the bonds

Under the Joint Capitalization option, the New Bank will enter into a shareholders' agreement pursuant to which it will agree not to undertake certain actions without the consent or approval of a specified percentage of its equity holders. There can be no assurance that the New Bank will comply with the terms and conditions of the shareholders' agreement. Moreover there can be no assurance that there will be adequate remedies available to the Old Bank and stakeholders for noncompliance by the New Bank with the terms and conditions of the agreements.

Finally, although under the Joint Capitalization option the Old Bank will own substantially all of the equity of the New Bank, the shareholders' agreement protects the interests of the Ministry of Finance as a minority holder of the New Bank. The Old Bank will not be able to take certain actions without the approval of the Ministry of Finance. The interests of the Ministry of Finance (and the Icelandic government) may not be consistent with the interests of the stakeholders. The agreements are all governed by Icelandic law and there may be limited remedies available to stakeholders.

Risks related to the Instruments generally

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

Modification and Waivers

The equity option Instrument contains provisions for meetings of optionholders to consider matters affecting their interests generally. These provisions permit optionholders representing the right to acquire at least 75% of the option shares (excluding any options held by the Icelandic governments) to approve modifications to the equity option Instrument or alterations or abrogations of any right attached to the equity option Instrument. These modifications, alterations and abrogations will be binding on all of the optionholders including optionholders who did not attend and vote at the relevant meeting and optionholders who voted in a manner contrary to the majority. Similar provisions with respect to modification of the bond Instruments are likely to be included upon conversion of the bond Instruments into marketable instruments.

EU Savings Directive

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

If, following implementation of this directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither Islandsbanki nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a paying agent following implementation of this directive, Islandsbanki will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to this directive.

Change of law

The Instruments are governed by Icelandic law. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this information memorandum.

Risks related to the market generally

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

The secondary market generally

The Instruments will have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, stakeholders may not be able to sell their Instruments easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Instruments generally will have a more limited secondary market and more price volatility than conventional debt securities and will initially represent a domestic Icelandic bond structure so they are likely to have very limited liquidity. However, there is an option at the election of the stakeholders for the Instruments to be converted into a marketable Eurobond structure although such structure is still likely to have a limited secondary market. Illiquidity may have a severe adverse effect on the market value of the Instruments.

Exchange rate risks and exchange controls

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

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

Under the bond Instruments, Islandsbanki may make any payment of principal or interest in krona if Islandsbanki has used its best efforts for not less than ten successive business days to obtain sufficient euros in the financial markets to enable it to make that payment but are unable to obtain the euros due to an event which (1) makes it impossible to convert krona (or any other currency held by us) into euros through customary financial channels or (2) makes it impossible to deliver euros from accounts inside Iceland to accounts outside Iceland or to a party that is not a resident of Iceland (other than where the impossibility arises from Islandsbanki's failure to comply with any applicable law, rule or regulation).

Any payment made in krona will be subject to the currency indemnity described in "Description of the Instruments." If Islandsbanki makes any payment in krona, it will, to the extent permitted by applicable law, indemnify the stakeholders for any loss suffered as a result of any discrepancy between the rate of exchange used to convert krona into euro for the purpose of making the payment and the rate or rates of exchange at which the stakeholder may in the ordinary course of business purchase euros with krona upon receipt of the payment.

Interest rate risks

The bond Instruments pay a floating rate of interest based on three-month EUR EURIBOR. Investment in the Instruments involves the risk that subsequent changes in market interest rates may adversely affect the value of the Instruments.

Credit ratings may not reflect all risks

The Instruments will not initially be rated although one or more independent credit rating agencies may assign credit ratings to the Instruments upon the New Bank's request or through their own volition. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Instruments. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Real or anticipated changes in Islandsbanki's audit ratings generally will affect the market value of the Instruments.

Legal investment considerations may restrict certain investments

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

ADVISERS

The Resolution Committee has been advised by Morrison & Foerster LLP and Logos Legal Services on legal matters. The Resolution Committee appointed Deloitte to assist with the communication and consultation with all remaining creditors of Glitnir, as well as to advise in connection with certain other matters. Deloitte assisted the Resolution Committee in setting up the ICC. The Resolution Committee appointed UBS to act as its financial and capital markets adviser in connection with certain matters relating to the restructuring of Glitnir and the negotiation of the compensation instruments. As part of its responsibilities to the Resolution Committee, UBS consults with all parties to the negotiation process, including, but not limited to, major creditors of Glitnir (including members of the ICC and its advisers), the Icelandic government and its advisers, the FME, the IMF, the Steering Committee, the Central Bank and Deloitte.

As discussed elsewhere herein, the Icelandic government has been advised by Lovells and Landslog on legal matters. Hawkpoint has served as financial adviser to the Icelandic government.

ICELANDIC TAXATION

The operation of the Old Bank and New Bank can result in various tax issues and the description herein is not intended to, and does not purport to, address them in whole. The description herein merely addresses in a general manner specific issues resulting directly from the transfer of assets between the Old Bank and the New Bank and the choice between the proposals (the Joint Capitalization option and the Alternative Capitalization option).

Tax Consequences of the Transfer of the Assets of the Old Bank to the New Bank

This applies irrespective of the Joint Capitalization option or the Alternative Capitalization option being chosen.

For tax law purposes the transfer of assets from the Old Bank to the New Bank is a sale. The price of the assets in such a sale has an impact on both entities. The price of the assets should be significantly lower than the tax book value of the Old Bank. As a result, the Old Bank realizes losses upon the sale. Such losses on the sale of claims and operational assets should be tax deductible at the level of the Old Bank, and in the case of share capital sales the losses should not be deductible.

The New Bank acquiring these assets has a corresponding tax base for those assets. However, in the case of claims acquired at a lower value than par, the difference is defined as interest income of the New Bank. There is a lack of clarity in the Icelandic tax law of the exact treatment of this difference. The issue is one of timing, i.e., taxable income should not exceed the amount actually realized on the basis of an acquired claim, but the timing of taxable income and deductible costs may not coincide.

Also, it should be noted that in case of the Alternative Capitalization option, the purchase price of the assets can vary, i.e., it depends on factors that have not yet occurred. Therefore, the acquisition price of the assets is subject to adjustments after the amounts of Bonds B and C are clear.

Proposals Outlined in the Information Memorandum

Joint Capitalization Option

Consolidated Taxation

The Old Bank exceeding 90% shareholding in the New Bank provides for the possibility of the two entities being taxed on a consolidated basis. There are general requirements made in the Icelandic tax law for this to occur, and provided that the acquisition takes place prior to year-end 2009, consolidated taxation should effectively be achievable from, and including, 2010.

Use of Net Operating Losses

Net operating losses can be carried forward and deducted for ten years. However, losses incurred prior to consolidation becoming effective can only be used in the entity that incurred the losses and not on a consolidated basis. Losses incurred either by the New Bank or the Old Bank after consolidation becoming effective should be available to offset income of either entity.

Currency Issues

Bonds A, B and C should be extinguished in this scenario and, therefore, the currency issue described above in relation to them should not occur.

Alternative Capitalization Option

Consolidated Taxation

If the Alternative Capitalization option is chosen there should be no possibility of the Old Bank and the New Bank being taxed on a consolidated basis.

Use of Net Operating Losses

As consolidated taxation should not be possible, net operating losses of the Old Bank and the New Bank can only be deducted from their own respective income.

Currency Issues

Examined in isolation, the fact that Bonds A, B and C are non-krona denominated can result in taxable income and/or deductible losses for the Old Bank and the New Bank depending on the fluctuation of the krona.

ICELANDIC LAW RELATING TO THE MORATORIUM, CLAIMS PROCESS AND WINDING-UP BOARD

The Resolution Committee

The Resolution Committee was appointed by the FME on October 8, 2008 in accordance with the authority provided to the FME by Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances. On that date, the Resolution Committee assumed the authority of the Board of Directors of Glitnir in accordance with the articles of the Company Law, including oversight of Glitnir's assets.

The principal responsibilities of the Resolution Committee are as follows:

- to continue to administer Glitnir's authorized activities under the supervision of the FME;
- to continue to exercise the rights and obligations formerly held by the Board of Directors and shareholders of Glitnir;
- to complete the valuation of Glitnir's assets once the deadline for the submission of claims has passed in order to determine whether the assets are sufficient to satisfy Glitnir's obligations;
- to work towards maximizing the value of Glitnir's assets, including by allowing outstanding claims to fall due rather than attempting to sell off assets immediately; and
- to convene and direct creditors' meetings, as appropriate, in order to present the measures taken by the Resolution Committee.

The Resolution Committee also has been entrusted with ensuring that Glitnir's assets and rights are disposed of or exercised in the effective manner, that claims and amounts on deposit are collected, that no rights are lost which could be of value and that all necessary actions are taken to protect Glitnir's interests.

Winding-Up Board

The Icelandic government passed a Bill of Legislation on April 15, 2009 to amend the Act on Financial Undertakings No. 161/2002 (the "Act"), which came into effect on April 22, 2009 (the "Bill of Legislation"). The Bill of Legislation includes new rules regarding the winding-up proceedings for Icelandic financial institutions. Under the new rules, the resolution committees for the Icelandic banks will continue to operate and perform certain tasks, including certain administrative aspects of the winding-up proceedings which would otherwise be entrusted to "Winding-Up Boards" established to handle the winding-up proceedings. The resolution committees for the Icelandic banks will continue to act under the direction of the FME.

On May 12, 2009, the District Court of Reykjavik appointed a Winding-Up Board for Glitnir (the "Winding-Up Board"). The members of the Winding-Up Board are as follows:

- Steinunn Guðbjartsdóttir, Supreme Court Attorney;
- Einar Gautur Steingrímsson, Supreme Court Attorney; and
- Páll Eiríksson, District Court Attorney.

The Winding-Up Board must issue and have published in the *Legal Gazette* two notices to creditors regarding the winding-up proceedings. The following considerations apply to the notices to creditors and the deadline for submitting claims:

- the deadline for submitting claims is determined by the Winding-Up Board, but can be established from two to six months from the date of the publication of the notice to creditors;

- in addition to publication in the *Legal Gazette*, the notice to creditors must be sent to all known creditors of Glitnir abroad;
- claims received after the expiration of the time limit cannot be considered, except in exceptional cases (if such exceptions do not apply, the claims that are not properly submitted are void against Glitnir); and
- the notice to creditors must state the location and time of a creditors meeting to review the list of claims submitted to the Winding-Up Board (the Resolution Committee also must submit a report regarding its assessment of Glitnir's assets), and each meeting must be held within a month of the deadline for the submission of claims.

Following the expiration of the deadline for the submission of claims, Glitnir must prepare a list of the claims submitted. At the same time, the Winding-Up Board must make decisions regarding the recognition of individual claims and report on these decisions in the list of claims. Under the Bankruptcy Act, there are a number of requirements applicable to the Winding-Up Board and the claims process, including the following:

- if a claim is rejected by the Winding-Up Board, the creditor must be notified of such rejection at least one week prior to the creditors' meeting, at which time further explanation of the grounds for rejection must be provided;
- a copy of the Winding-Up Board's list of claims must be available and accessible to creditors who have submitted claims against Glitnir one week prior to the meeting;
- a creditor unwilling to accept the decision of the Winding-Up Board on its claim must state its objections at the meeting or in a letter which must be received by the Winding-Up Board no later than the time of the meeting (an account must be provided of the objections of the creditor concerned at the meeting, and others entitled to attend the meeting may oppose the decision of the Winding-Up Board on individual claims);
- a decision by the Winding-Up Board on a claim, which is not opposed at the meeting will be deemed to be final; and
- if it proves impossible to conclude decisions on all claims submitted, due to the scope and number of claims, prior to the creditors' meeting, a follow-up meeting will be convened to conclude the process of deciding on the recognition of claims.

Following the creditors' meeting held by the Winding-Up Board as described above, the Winding-Up Board has authorization to pay the claims recognized in part or in full. However, this authorization is subject to certain additional requirements:

- only recognized claims may be paid, and Glitnir's assets must be sufficient to pay all equally ranked creditors an equal proportion of their outstanding claims;
- if a dispute on a claim which could be entitled to payment has not been finally resolved, assets must be set aside to enable its payment later if it is recognized; and
- if individual creditors are paid in advance provided they offer to waive their claims in return for partial payment, the partial payment must comprise a lower amount than would be disbursed to the claim at a later stage given its ranking.

The claims against Glitnir will generally be ranked as follows:

- assets and interests in the assets of the bank will be delivered to a third party if the third party proves his entitlement;
- claims on the estate resulting from a contract concluded after the Act came into effect or claims arising after the reference date as a result of measures approved by the Moratorium Appointee;
- claims secured by a collateral or other security interest in Glitnir's assets, to the extent they can be settled by sale of the relevant assets and any income derived from them;
- priority claims, including various wage claims and claims on deposits;
- unsecured claims (in other words, all other debts not included in the above categories); and
- deferred claims.

The appointment of the Winding-Up Board has had an impact on other committees and working parties currently within Glitnir. The "netting committee" has been disbanded and its role assumed by the Winding-Up Board, as well as various functions of the "settlement committee," including the assessment of claims subject to set-off.

Winding-Up Proceedings

Glitnir has been granted a Moratorium pursuant to a ruling of the District Court of Reykjavik until November 13, 2009. Under the Bill of Legislation, Glitnir is entitled to apply to the District Court of Reykjavik to have the Moratorium extended until November 24, 2010. As long as the Moratorium is in effect, the Moratorium Appointee will hold open creditors' meetings with Glitnir's creditors. The next creditors meeting will be held in Reykjavik, Iceland on November 5, 2009. According to a temporary provision in the Bill of Legislation, the rules of chapter IV of the Bankruptcy Act no longer apply to the Moratorium and are instead replaced by the rules concerning working practices of liquidators as provided for in the Bankruptcy Act.

The Bill of Legislation includes new rules regarding the winding-up proceedings of financial institutions, which are similar to the rules on insolvency proceedings under the Bankruptcy Act. As a result of a temporary provision in the Bill of Legislation, all of the principal rules of the winding-up proceedings apply to the Icelandic banks whether the moratorium is in effect or not. In the case of the three commercial banks, there are several derogations from the general rules of the Bill of Legislation regarding winding-up proceedings. These derogations are described in the temporary provisions in the Bill of Legislation. The principal derogations are as follows:

- the provisions on appointing a provisional board of directors do not apply as resolution committees have already been appointed;
- the provisions on the initiation of winding-up proceedings do not apply because the three commercial banks will automatically enter winding-up proceedings without a court ruling once the moratorium concludes; and
- the provisions on reference dates do not apply to the three commercial banks (the reference date for the three commercial banks is November 15, 2008).

If Glitnir's assets are insufficient to pay all the claims submitted against it in full, the Winding-Up Board may seek a "composition" with creditors to conclude the winding-up proceedings. Attempts to reach a composition with creditors are governed by specific rules under the Bankruptcy Act. For more information regarding a composition, see "—Composition with Creditors."

If a composition cannot be reached with creditors, then Glitnir's estate will be subject to bankruptcy proceedings at the request of the Winding-Up Board. In this case, the actions taken by the Winding-Up Board

during the winding-up proceedings will still remain valid. However, bankruptcy proceedings will only be undertaken if the following conditions are satisfied:

- the Winding-Up Board determines that there is no basis for seeking composition at any stage of the winding-up proceedings;
- a proposal for an arrangement with creditors has been rejected by creditors, pursuant to applicable rules regarding the approval of and voting on arrangements with creditors; and
- confirmation of an arrangement with creditors has been rejected by the courts.

The right of a creditor to demand bankruptcy proceedings is similar to the right of the Winding-Up Board described above. Certain additional conditions, however, apply to the right of the creditor in question, all of which must be satisfied:

- the creditor in question must hold a recognized claim against Glitnir;
- the creditor in question must demonstrate that the legal conditions for composition with creditors have not been satisfied or that there is a sufficiently large number of creditors opposed to composition that there is no possibility of its approval; and
- the creditor in question must demonstrate that it has lawful interests at stake in demanding the liquidation of Glitnir rather than the continuation of winding-up proceedings.

Composition with Creditors

An entity (the “debtor”) requiring a license to seek a composition must have a written declaration of at least 25% of the voting creditors, both by number and by amount, recommending the composition on the basis of the proposals submitted. A composition agreement may provide for total relinquishment of debts, proportionate relinquishment, deferred dates of payment, changes in form of payment or any combination of these arrangements.

The following must be specified in any composition proposal:

- the extent to which the debtor offers payment of the composition claims, and the form of payment;
- the date or dates of payment;
- whether interest, and if so, the rate, will be paid on the composition claims from the date a composition agreement is concluded to the date of payment, if deferred payment is permitted; and
- whether security, and if so the type of security, will be required to secure performance of the composition agreement.

A composition proposal may contain a provision to the effect that claims up to a certain amount, which in the absence of such a provision would be counted among composition claims, will be paid in full, provided the amount in question is deemed insignificant based on the debtor’s financial situation. However, such a provision may only be included if all of the composition claims will be paid by the same or greater amount.

When a license to seek composition with creditors has been granted, the District Court of Reykjavik will appoint an agent to carry out the preparations for the composition. The Winding-Up Board will perform the duties normally performed by a composition agent.

The composition agent must issue and have published two times in the *Legal Gazette* a notice to creditors calling upon the debtor's creditors who consider themselves in possession of composition claims to declare the claims to the composition agent within four weeks from the first publication of the notice.

Since Glitnir already is in winding-up proceedings it is not necessary to issue the required notice. If the Winding-Up Board decides that voting will take place on the proposal, it must convene a special meeting of the creditors for this purpose. However, such a meeting will not be held until a creditors' meeting is held to discuss the list of stated claims against the bankruptcy estate. The right to vote on the debtor's composition proposal will be restricted to the voting creditors who have stated their claims to the composition agent or the Winding-Up Board within the period granted for this purpose.

A composition proposal will be deemed approved if supported by the same proportion of votes as the proportion of composition claims to be relinquished according to the proposal, provided such support is at a minimum of 60% by number of voting creditors as well as by amount of claims. If neither proportionate nor total relinquishment is proposed, a composition proposal will be deemed approved if supported by 60% of all voting creditors by number as well as amount.

A composition does not affect the following claims against a debtor:

- claims originating after a court order has been issued granting a debtor license to seek composition;
- claims for performance other than payment of money, which can be performed in substance;
- claims that would be ranked as provided for in Articles 109, 110 or 112 of the Bankruptcy Act;
- claims secured upon the debtor's assets, to the extent the value of the relevant asset covers the claim;
- claims that could have been settled by set-off had the debtor been declared bankrupt; and
- any claims specifically exempted from composition under the terms of the composition agreement by reason of their full payment.

If the composition procedure has ended with an approval of the debtor's proposal, the debtor will submit a written petition for confirmation of the composition agreement to the District Court of Reykjavik within one week of the announcement of the conclusion of the composition procedure at the voting meeting.

Legal Impact of a Composition Agreement

A composition agreement will be deemed effective when the debtor's petition for confirmation of the agreement has been granted by a final court resolution.

Having entered into effect, a composition agreement will be binding upon the creditors and their successors and assigns with respect to their composition claims. The settlement of claim in accordance with the composition agreement will have the same effect as the performance of the original obligation.

Claims Process

All parties with claims against Glitnir or assets controlled by Glitnir, including preferential claims and secured claims, may submit their claims to the Winding-Up Board by November 26, 2009. If a claim is not submitted by the deadline, it will be deemed null and void as provided for in Art. 118 of the Bankruptcy Act, unless the exceptions in Points 1-6 of the provision apply. Submission of claims must be made by mail to the Winding-Up Board at Sóltún 26, 105 Reykjavik, Iceland, and the contents of such claims must comply with the instructions in the second and third paragraph of Art. 117 of the Bankruptcy Act. Details regarding the claims process are available on Glitnir's website at www.glitnirbank.com.

Creditors also are directed to include in their claims submissions the status of their claims as of April 22, 2009. In submitting a claim, a creditor also is deemed to have waived the rights to confidentiality or bank secrecy with regard to the claim.

Claims in a foreign currency must be submitted in the currency in question. A creditor from a member state of the EEA or the European Free Trade Association (“EFTA”) also may submit claims in the language of that state so long as accompanied by an Icelandic translation. However, claims may be submitted in English without an accompanying translation.

A creditors’ meeting will be held in Reykjavik, Iceland on December 17, 2009. Parties that have submitted claims against Glitnir are entitled to attend the meeting. This meeting will discuss the list of claims lodged and the decision of the Winding-Up Board insofar as it is then available. A list of claims lodged will be accessible to those who have submitted claims against Glitnir at least one week prior to the creditors’ meeting.

Additional information regarding the claims process, including frequently asked questions (FAQs) regarding the process, is available on Glitnir’s website at www.glitnirbank.com.

ICELANDIC ECONOMY

Introduction

Iceland is one of the Nordic countries, located in the North Atlantic between Norway, Scotland and Greenland. Iceland is the second largest island in Europe and has a land area of some 103,000 square kilometers and an exclusive 200 nautical mile economic zone of 758,000 square kilometers in its surrounding waters. Iceland also enjoys a warmer climate than its northerly location would indicate because of the Gulf Stream.

The population of Iceland is approximately 300,000. Iceland was first settled late in the 9th century. The majority of the settlers were undoubtedly of Norse origin, but it is generally assumed that a certain element of the early settlers were of Celtic origin. In 930, a general legislative and judicial assembly, the Althing, was established, and a uniform code of laws for the country was adopted. In 1262, Iceland entered a treaty, which established a union with the Norwegian monarchy. When Norway came under the rule of Denmark in 1380, Iceland became a Danish dominion. Iceland was granted limited home rule in 1874, which was extended in 1904. With the Act of Union in 1918, Iceland became an autonomous state in monarchical union with Denmark. In 1944, Iceland terminated its union with Denmark and became an independent republic. Iceland has a parliamentary system of government. Legislative power is vested in the parliament and executive power is vested in a cabinet headed by a prime minister.

Iceland is a member of the United Nations and its affiliates, the IMF and the World Bank. Iceland is a member of the Organization for Economic Cooperation and Development (“OECD”) and a number of other multinational organizations, including the Nordic Council and the Council of Europe. Iceland joined the EFTA in 1970 and is a member of the EEA. Iceland is a contracting party to the General Agreement on Tariffs and Trade (“GATT”) and ratified the agreement establishing the World Trade Organization (“WTO”) in December 1994, thus becoming a founding member of the WTO.

Economy

The Icelandic economy grew significantly in the 20th century and has continued to grow in the 21st century, although this growth has been volatile. Before World War II, Iceland was one of the poorest nations in Northern Europe. Its recent prosperity is principally attributable to its comparative advantage in natural resources, both marine and land-based, although it also enjoys the advantage of a high labor force participation rate. In addition, the introduction of wide-ranging free market reforms fuelled the economy’s rapid growth beginning in the 1990s. The economy expanded by between 40% and 50% from 1994 to 2006, despite a mild slowdown during 2001 and 2002. In 2004, GDP per capita amounted to \$32,600, well above the OECD average. In a 2005 United Nations Human Development Report, Iceland ranked second in terms of standard of living among 177 countries surveyed. The economy relies on foreign trade and services in maintaining the high standard of living. Foreign direct investment in Iceland and abroad has been growing over the past few years as a result of financial liberalization, which together with increased lending by the banking sector has resulted in low private sector savings. Although Iceland has not yet joined the European Union, its participation in the EEA has resulted in closer economic integration into the EEA and in economic globalization.

The Central Bank’s official policy interest rate increased from 13.30% at December 31, 2006 to 13.75% at December 31, 2007 and 18.00% at December 31, 2008. The official policy interest rate currently is 12.00%. Inflation increased from 6.8% in 2006 and 5.8% in 2007 to 20.5% in 2008. In addition, Iceland’s current account deficit in 2008 was approximately 10.7% of GDP, and a current account surplus of 1% of GDP in 2009 is expected as the economy undergoes a necessary contraction in response to the Icelandic financial crisis. The krona depreciated by 92% against the USD in 2008 and 5.5% in the first half of 2009. Although the OMXI15 Index has performed well in recent years, it has declined significantly first as a result of the global financial crisis and later as a result of the Icelandic financial crisis.

Historically, the Icelandic economy has depended on the fishing industry for exports. For example, the fishing industry provided approximately 60% of export earnings in 2004. However, the importance of this industry has declined in recent years, accounting for between 56% and 60% of total exports and 8% of GDP in 2006. Power-intensive industries have been another area of focus, with aluminum and aluminum products accounting for

approximately 18% of export earnings in 2004. It is only recently that the economy has expanded into other non-traditional, human capital intensive industries, such as biotechnology, information technology and financial services. The services, industrial production (non-aluminum), construction, commerce and catering, transportation and government sectors have contributed the most to economic growth from 1994 to 2003.

Main Industries

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

Iceland is also richly endowed with energy resources consisting of hydro and geothermal energy. Almost all of the electricity consumed in Iceland is produced from indigenous renewable energy resources. Hot water from geothermal sources and natural steam are extensively used for residential heating. Only a small percentage of the country's vast hydro and geothermal resources has been exploited so far. Hence, the potential for large-scale development of power-intensive industry is substantial.

Industrial expansion in Iceland is, to a considerable extent, based on the abundant energy resources and their attractiveness for power-intensive industries, and is aided by tariff-free access to the European market. Among the largest manufacturing enterprises in Iceland are two aluminum smelters and a ferro-silicon plant. Large projects in power-intensive industries are planned for the future including the construction of a new aluminum smelter and the possible enlargement of existing plants. Smaller scale manufacturing also is important and growing. This includes production of high technology and heavy equipment for fishing and fish processing, largely for exports. With the development of the economy, the share of services in GDP has grown rapidly. The tourism sector has been one of the fastest growing industries in recent years due to a rapid increase in the number of foreign visitors to Iceland.

Financial Markets

The Icelandic financial system has undergone an important transition over the last decade, generated by liberalization and legislative reforms. In connection with Iceland's membership in the EEA, Icelandic legislation and regulations regarding credit institutions and other financial undertakings and the financial market have been adopted to implement various regulations and directives of the EU.

There are four commercial banks currently operating in Iceland. The three largest, New Landsbanki, Islandsbanki and New Kaupthing, in their new forms following the restructuring process described above, provide conventional banking and securities services and are credit institutions partially held by the Icelandic government. There also are 21 savings banks in Iceland.

In addition to the commercial and savings banks, there are five investment banks, four investment funds and two leasing companies, as well as the HFF, that operate in Iceland. The HFF is a state-owned investment fund that provides financing for residential housing in Iceland. The bulk of mortgage lending to households was historically provided by the HFF, but the market share of the investment banks has increased recently.

There are three main insurance companies (out of a total of 15) licensed to operate in Iceland, three of which are the main players in the insurance market. Insurance companies are becoming active in the financial market through their investment activities and lending operations. Pension funds receive payments from employers and employees and are the most important source of long-term finance in the country. Membership in a pension

fund is obligatory for wage earners and self-employed people. The pension funds are independent non-government entities and invest mainly in domestic bond issues, equity capital and foreign securities.

ICEX operates under legislation adopted in 1998, which converted ICEX into a limited liability company. At the same time, ICEX's monopoly on exchange activities was abolished. Currently, there are fewer than 25 members of ICEX. The shares of these companies are listed on ICEX, as well as government securities and corporate bonds. ICEX joined the NOREX Alliance of Nordic exchanges in 2000, which included the adoption of the SAXESS trading system together with other Nordic stock exchanges, and since September 2006 has been run by the OMX Nordic Exchange. The FME temporarily suspended trading on the ICEX on October 6, 2008, in response to the Icelandic financial crisis, but approved the resumption of trading on October 14, 2008.

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

Since 1999, the FME has handled the task of supervising commercial banks, savings banks and other credit institutions, insurance companies, companies and individuals acting as insurance brokers, undertakings engaged in securities services, Undertakings for Collective Investment in Transferable Securities ("UCITS"), management companies, stock exchanges and other regulated markets, central securities depositories and pension funds. The FME is charged with ensuring that the activities of these institutions are conducted in accordance with the laws and regulations of Iceland.

The Central Bank is responsible for implementing monetary policy consistent with the goal of maintaining price stability. The Central Bank imposes a reserve requirement on all the commercial banks and savings banks, currently 2% of total disposable funds with a maturity of less than two years. The use of reserves as collateral in payments systems also is limited to half the negotiated collateral amount in order to ensure that credit institutions have sufficient margin on the reserve requirement account to meet fluctuations in their liquidity positions.

Brief Overview of the Icelandic Financial Crisis

The recent global financial crisis precipitated the Icelandic financial crisis. However, a number of factors made the Icelandic economy, including the banks, more susceptible to, and less resilient in the face of, an economic downturn. The Icelandic banks had expanded rapidly. Deregulation or liberalization of regulations permitted the banks to expand their operations. Given the relatively small size of the Icelandic economy, the banks' rapid growth relied principally on growth outside of Iceland. Financing for the banks was relatively cheap given their own ratings and the Icelandic sovereign ratings. Also, from 2002 to 2006, the krona appreciated significantly. Cheap and accessible financing permitted the banks to extend credit; and borrowing levels by Icelandic households increased significantly. Most of the foreign debt accumulated by the banks was through US and European financial institutions and financial products. In addition, the expansion in bank balance sheets created a dependency on the short-term funding market to maintain liquidity, particularly as the banks began to experience difficulties beginning in early 2008. Their dependence on foreign financing made the banks more sensitive to external financial shocks, particularly volatility in the exchange rate and investor speculation.

The financial crisis began with the US sub-prime mortgage crisis in 2007. As US housing prices fell, the value of mortgage-related securities, including securitized products, declined, which led to writedowns of these portfolios that depleted the capital of many large institutions and resulted in a loss of investor confidence and falling stock prices. All of these developments caused a liquidity and credit crunch that quickly spread to non-US financial institutions, including the Icelandic banks, despite the fact that they were financially sound, maintained adequate capital ratios, and did not invest in sub-prime mortgages or other toxic assets or securities. The deterioration in investor confidence in Icelandic banks was further magnified by the small size of the Icelandic economy and its small currency. Relatively small changes in financial flows had a dramatic impact on Icelandic asset prices, particularly on the exchange rate. Speculation then began in the international financial markets regarding a financial meltdown, which resulted in widening spreads on credit derivatives related to Icelandic banks, including credit default swaps, and sharply decreasing access to short-term credit for Icelandic banks. With the flight away from

Icelandic assets, the banks then faced debt servicing issues that was exacerbated by the fact that the Icelandic government and the Central Bank did not provide sufficient liquidity to the banking system as the lender of last resort before the collapse of the Icelandic banks.

The Icelandic government then nationalized the three major commercial banks in early October 2008 in order to shore up investor confidence, but instead both the krona and the ICEX continued to fall sharply. Shortly after the nationalization, the krona was trading at 80% of its value in domestic markets, domestic interest rates rose rapidly and the ICEX quickly lost 90% of its value. On October 6, 2008, the FME suspended trading in the Icelandic banks on the ICEX; and on October 9, 2008, it suspended all trading on the ICEX for two days in an attempt to prevent a contagion effect in the financial market. Nevertheless, share prices continued to decline by 30% since the beginning of the month and the FME extended the trading suspension through October 13, 2008.

The Icelandic government and the Central Bank also took measures to stabilize the krona. On October 6, 2008, the Central Bank temporarily pegged the krona against the euro and imposed currency controls, but was forced to abandon the exchange rate peg two days later. The Central Bank imposed more stringent currency controls in November 2008, including daily currency auctions for the importation of necessary goods. These controls prevented the krona from falling further. On December 6, 2008, the Central Bank introduced a new currency regime, which led to the krona rising by 25% within three days. In order to stabilize the krona, the government and the Central Bank abandoned inflation targeting, which had been the traditional focus of Iceland's monetary policy. On October 28, 2008, the Central Bank raised interest rates from 12% to 18%, as trading resumed in the krona after a one-week suspension. The Central Bank also indicated that it was prepared to raise interest rates even further, although the IMF plan contemplates that the Central Bank will return to inflation targeting within a floating exchange rate regime by the end of 2010.

On October 7, 2008, the Central Bank announced that it was in negotiations to receive a €4 billion loan from Russia in order to strengthen its foreign currency reserves. Although no formal agreement was reached, these discussions created concern in the Nordic countries and brought further international attention to the financial crisis. On October 12, 2008, the Icelandic government announced that it was formally engaged in talks with the IMF regarding the stabilization of the krona and interest rate targeting. On October 19, 2008, the IMF tentatively agreed to an emergency loan to the Central Bank of €1.58 billion.

After discussions in the international press questioning the solvency of the Icelandic banks on October 4 and 5, 2008, UK depositors increased their withdrawals from their online savings accounts with Landsbanki. On October 6, 2008, the Icelandic government issued an emergency law stating that domestic deposits would be fully guaranteed. On October 8, 2008, Landsbanki announced that it would not process any deposit or withdrawal requests through online accounts. By that point, UK depositors had already withdrawn £200 million from their Landsbanki accounts. In response to concerns that the banks and the Icelandic government might not completely guarantee foreign deposits, the UK government invoked anti-terrorism legislation to freeze the UK deposits of Kaupthing (Edge) and seize the UK assets of Landsbanki (Icesave), thus ensuring the complete collapse of these two banks. The deposits with Kaupthing were guaranteed by UK deposit insurance, in contrast to the deposits with Landsbanki which were covered by EEA legislation. After the collapse of the three major commercial banks, the Icelandic government owed \$8.2 billion to foreign online depositors, almost 50% of Iceland's GDP.

On November 16, 2008, as a condition to approval of the IMF plan, Iceland committed to guarantee each online depositor a minimum payment of €20,887 (approximately \$26,400), in compliance with EEA legislation. Also, as part of the IMF plan, IMF loans could not be used to repay depositors. The UK then agreed to loan \$3.3 billion to Iceland to cover the estimated 300,000 UK depositors with online savings accounts with Landsbanki and Kaupthing. The Netherlands and Germany also agreed to loan €1.3 billion and €1.1 billion, respectively, to Iceland to cover Dutch and German online depositors. Although the seizure of Icesave accounts enraged the Icelandic public and soured relations between Iceland and the United Kingdom, relations between the countries have improved in recent months. On March 31, 2009, foreign ministers from the two countries met to discuss matters related to the financial crisis, and on June 6, 2009, the Icelandic government agreed to reimburse the United Kingdom and the Netherlands for compensation paid out to UK and Dutch depositors with Icesave accounts.

On November 19, 2008, in response to the Icelandic government's request for assistance, the IMF approved a two-year SDR1.4 billion (approximately \$2.1 billion) standby arrangement for Iceland to support the country's

efforts to restore investor confidence and stabilize the economy. Under the IMF plan, SDR560 million (approximately \$827 million) is immediately available for use by the Icelandic government and the remainder will be available in eight equal installments of SDR105 million (approximately \$155 million), subject to quarterly reviews. The plan also provides for access to IMF resources, amounting to 1,190% of Iceland's IMF quota. The IMF approved the plan under its fast-track Emergency Financing Mechanism procedures, which had as its main objectives restoring confidence in the economy and stabilizing the exchange rate in the short term, implementing a sound banking system strategy and limiting the socialization of losses in the collapsed banks, and implementing a multi-year fiscal consolidation program. In order to prevent further krona depreciation, the plan focuses on maintaining a tight monetary policy in the context of a flexible exchange rate policy, with restrictions on near-term capital outflows.

The IMF plan is expected to fill approximately 42% of Iceland's financing gap for the years 2008 to 2010. Agreements with bilateral creditors will fill in the remainder of the financing gap. These agreements include funding support from Iceland's Nordic neighbors Finland, Sweden, Norway, and Denmark, in the amount of \$2.5 billion, as well as \$200 million from Poland and \$50 million from the Faroe Islands. The IMF package, combined with additional funding support, will be worth \$10.2 billion in total, which is more than half of Iceland's GDP. Although Iceland initially engaged in discussions with Russia for funding support, no agreement was reached.

On March 13, 2009, the IMF conducted its first review of the Icelandic economy under the standby arrangement. The IMF indicated that the macroeconomic outlook for Iceland was broadly in line with programme expectations, with the financial crisis leading to a sharp decrease in economic activity, but suggested that a late-year turnaround is within reach. The IMF also noted that the krona had stabilized and inflation appeared to have peaked, suggesting that the programme was having a positive macroeconomic effect. However, the IMF noted that Iceland's monetary and fiscal policies are still in transition and emphasized that the financial sector restructuring needed to move forward. On August 1, 2009, the IMF announced that it had reached an agreement with the Icelandic government on policies underpinning the first review under the standby arrangement, but that the review, which would release the second installment of the \$2.1 billion loan, had been delayed until late August or September 2009.

Icelandic government measures have thus far focused on the stabilization of the krona, fiscal policy adjustments and the recapitalization of the banking sector. The Central Bank has allowed the krona to float since its inability to support an exchange rate peg to the euro in mid-October 2008. The krona appreciated briefly after the Central Bank implemented a new currency regime in early December 2008. However, since then, it has fallen in value. The Central Bank has also adopted new legislation restricting all currency flows related to capital account transactions and requiring all exporters to deposit foreign currency with domestic banks. In addition, foreign investors that hold more than ISK500 billion of krona-denominated assets will be prohibited from exporting such assets for up to two years. The adjustments to fiscal policy have included expenditure cuts; reduction of foreign debt; tax increases; and planned interest rate decreases. In addition, the Icelandic government has taken steps towards improving financial regulation by appointing a new board of directors for the FME on February 9, 2009, and passing legislation to amend the Central Bank Act on February 26, 2009 in order to reduce bureaucratic inefficiencies and establish a monetary policy committee.

The Icelandic government presented its 2009 budget in mid-December 2009. This provided for substantial expenditure cuts on both current and capital spending, as well as a 1% increase in personal income tax rates. Assuming a 20% decrease in domestic demand, the government is targeting a public finance deficit of just over 10% of GDP, although the IMF has required further fiscal consolidation measures in order to reduce the deficit starting in 2010. In addition, despite initially maintaining interest rates at 18%, the Central Bank announced that it would gradually lower interest rates, without disrupting exchange rate stability, once the IMF changes its fiscal policy recommendations. For example, the Central Bank reduced interest rates to 15.5% on April 8, 2009 and to 13% on May 7, 2009.

The Icelandic Banks

Limited information has been made publicly available regarding the three principal Icelandic banks (Islandsbanki, New Landsbanki and New Kaupthing) following the intervention by the FME.

The IMF has published the following preliminary data regarding the banks. The information below is repeated from the IMF report. We have not independently verified its accuracy.

IMF Published Balance Sheet of the New and Old Icelandic Banks ¹
(In billions of krona)

	Landsbanki		Glitnir		Kaupthing	
	New Bank	Old Bank	New Bank	Old Bank	New Bank	Old Bank
Asset						
Cash and cash balance with financial institutions	238	3.9	146	0.1	77	0
Loans to credit institutions	64	603	19	536	27	1,021
Loans to the public	1,673	614	632	884	1,409	700
Provisions ²	-848	-13	-	-	-954	0
Market securities ³	216	183	11	224	65	712
Derivatives ⁴	-4	196	40	396	0	41
Other assets	67	156	23	331	76	463
Total assets	1,406	1,743	870	2,371	700	2,937
Liabilities						
Deposits from credit institutions and central bank	107	700	17	133	78	158
Deposits	463	1,124	338	69	339	47
Syndicated loans and other borrowings ⁵	0	1,255	0	2,464	0	2,900
Derivatives		66	0	144	0	208
Other liabilities	48	52	0	270	36	457
Total liabilities	618	3,197	355	3,080	453	3,770
Bond issue to new bank	586	-586	405	-405	172	-172
Equity	201	-867	110	-304	75	-661
Total liabilities and equity	1,406	1,743	870	2,371	700	2,937

Source: The FME.

¹ Data are preliminary and tentative.

² Asset impairment in the New Bank is not available, but is netted out in loans to the public.

³ Includes bonds, equities and other market instruments.

⁴ Includes derivatives held for trading and those held for hedging.

⁵ Includes subordinated loans.