

## FINAL TERMS

20 June 2007 (amended and restated as of 29 June 2007)

**Kaupthing Bank hf.**  
**Issue of EUR250,000,000 Non Cumulative Undated 6.75 per cent. Capital Notes**  
**under the EUR12,000,000,000**  
**Euro Medium Term Note Programme**

### PART A - CONTRACTUAL TERMS

This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "*Prospectus Directive*") and must be read in conjunction with the Prospectus dated 31 August 2006, as supplemented by the supplement dated 2 February 2007 (together, the "*Prospectus*"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing at the office of the Issuer at Borgartun 19, 105 Reykjavik, Iceland and copies may be obtained from the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB and from the Luxembourg Stock Exchange's website ([www.bourse.lu](http://www.bourse.lu)).

- |     |   |  |
|-----|---|--|
| 1.  | Issuer:   | Kaupthing Bank hf.   |
| 2.  | (i) Series Number:  | 55   |
|     | (ii) Tranche Number:                                      | 1  |
| 3.  | Specified Currency or Currencies:                         | EUR  |
| 4.  | Aggregate Nominal Amount:                                 |  |
|     | (i) Series:   | EUR250,000,000   |
|     | (ii) Tranche:   | EUR250,000,000   |
| 5.  | Issue Price:  | 100 per cent. of the Aggregate Nominal Amount                      |
| 6.  | Specified Denominations:                                  | EUR 1,000  |
| 7.  | (i) Issue Date:   | 6 July 2007  |
|     | (ii) Interest Commencement Date:                          | Issue Date   |
| 8.  | Maturity Date:  | Undated  |
| 9.  | Interest Basis:   | 6.75 per cent. Fixed Rate<br>(further particulars specified below) |
| 10. | Redemption/Payment Basis:                                 | Redemption at par  |
| 11. | Change of Interest Basis or Redemption/<br>Payment Basis: | Not Applicable   |

- |     |   |  |
|-----|---|--|
| 12. | Put/Call Options:                                       | Issuer Call<br>(further particulars specified below) |
| 13. | (a) Status of the Notes:                                | Capital Notes  |
|     | (b) Date Board approval for issuance of Notes obtained: | 22 February 2006                                     |
| 14. | Method of distribution:                                 | Syndicated   |

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

- |     |   |                           |
|-----|---|---------------------------|
| 15. | <b>Fixed Rate Note Provisions</b>             | Applicable – see Appendix |
| 16. | <b>Floating Rate Note Provisions</b>          | Not Applicable            |
| 17. | <b>Zero Coupon Note Provisions</b>            | Not Applicable            |
| 18. | <b>Index Linked Interest Note Provisions</b>  | Not Applicable            |
| 19. | <b>Dual Currency Interest Note Provisions</b> | Not Applicable            |
| 20. | <b>Target Redemption Note Provisions</b>      | Not Applicable            |
| 21. | <b>Range Accrual Note Provisions</b>          | Not Applicable            |

**PROVISIONS RELATING TO REDEMPTION**

- |     |  |  |
|-----|--|--|
| 22. | Issuer Call:   | Applicable – see Appendix                              |
| 23. | Investor Put:  | Not Applicable   |
| 24. | Target Redemption Note Provisions:   | Not Applicable   |
| 25. | Final Redemption Amount of each Note:  | EUR 1,000 per Note of EUR 1,000 Specified Denomination |
| 26. | Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(f)): | EUR 1,000 per Note of EUR 1,000 Specified Denomination |
| 27. | Capital Notes Provisions:  | Applicable – see Appendix                              |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

- |     |                      |   |
|-----|----------------------|---|
| 28. | (a) Form of Notes:   | Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event |
|     | (b) New Global Note: | Yes   |

29. Additional Financial Centre(s) or other special provisions relating to Payment Dates: Not Applicable
30. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): Applicable – see Appendix
31. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and, consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: Not Applicable
32. Details relating to Instalment Notes:
- (i) Instalment Amount(s): Not Applicable
- (ii) Instalment Date(s): Not Applicable
33. Redenomination applicable: Redenomination not applicable
34. Other final terms: The full terms and conditions applicable to the Notes are set out in the Appendix

#### DISTRIBUTION

35. (i) If syndicated, names of Managers:
- Citigroup Global Markets Limited  
Citigroup Centre  
Canary Wharf  
London E14 5LB
- Credit Suisse Securities (Europe) Limited  
One Cabot Square  
Canary Wharf  
London E14 4QJ
- Deutsche Bank AG, London Branch  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB
- HSBC Bank plc  
8 Canada Square  
London E14 5HQ
- Underwriting Commitments:
- |  |               |
|--|---------------|
| Citigroup Global Markets Limited:          | EUR62,500,000 |
| Credit Suisse Securities (Europe) Limited: | EUR62,500,000 |
| Deutsche Bank AG, London Branch:           | EUR62,500,000 |
| HSBC Bank plc:                             | EUR62,500,000 |
- Date of Subscription Agreement: 29 June 2007

- Commissions and Concessions: 2.00 per cent.
- (ii) Stabilising Manager (if any): Citigroup Global Markets Limited
36. If non-syndicated, name and address of relevant Dealer: Not Applicable
37. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D
38. Additional selling restrictions: **Hong Kong**

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

## Singapore

The Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the Securities and Futures Act). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Notes, namely a person who is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act;

(ii) where no consideration is given for the transfer; or

(iii) by operation of law.

## General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes the Prospectus and will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and the Issuer shall not have any responsibility therefor.

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

## LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the EUR12,000,000,000 Euro Medium Term Note Programme of Kaupthing Bank hf.

## RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:   
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: Luxembourg
- (ii) Admission to trading: Application has been made for the Notes to be admitted to trading on the regulated market of the Luxembourg Stock Exchange with effect from on or about 6 July 2007.

### 2. RATINGS

- Ratings: The Notes to be issued are expected to be rated:
- Moody's: A2
- Fitch: A -

### 3. NOTIFICATION AND AUTHORISATION

The Issuer has authorised the use of these Final Terms, the Prospectus dated 31 August 2006 and the Supplement to the Prospectus dated 2 February 2007 by the Managers in connection with offers of Notes to the public in Luxembourg, Belgium, The Netherlands, Germany, Austria, France, Ireland, Portugal, Spain and the United Kingdom (the **Passported Jurisdictions**) for the period set out in paragraph 4 below. The *Commission de Surveillance du Secteur Financier* has provided the *Commission Bancaire, Financière et des Assurances*, the *Autoriteit Financiële Markten*, the *Bundesanstalt für Finanzdienstleistungsaufsicht*, the *Finanzmarktaufsicht*, the *Autorité des marchés financiers*, the *Central Bank and Financial Services Authority of Ireland*, the *Comissão do Mercado de Valores Mobiliários*, the *Comisión Nacional del Mercado de Valores* and the *UK Listing Authority* with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.

### 4. PUBLIC OFFERS

- (i) Offer Period: 21 June 2007 to 6 July 2007.
- (ii) Offer Price: 100 per cent.
- (iii) Conditions to which the offer is subject: Offers of the Notes are conditional on their issue.
- (iv) The time period, including any possible amendments, during which the offer will be open and description of the application process: See Offer Period
- (v) Details of the minimum and/or maximum amount of application: Not Applicable

- |        |  |  |
|--------|--|--|
| (vi)   | Description of possibility to reduce subscriptions and manner for refunding excess amount paid by applicants:                                | Not Applicable   |
| (vii)  | Details of the method and time limits for paying up and delivering the Notes:  | Investors will be notified by the Managers of their allocations of Notes and the settlement arrangements in respect thereof. The Notes will be issued on the Issue Date against payment to the Issuer of the net subscription moneys.                |
| (viii) | Manner and date in which results of the offer are to be made public:   | The final amount of the Notes will be filed with the CSSF after the end of the Offer Period in accordance with Article 14(2) of the Prospectus Directive.  |
| (ix)   | Procedure for exercise of any right of pre-emption, negotiability of subscription rights and treatment of subscription rights not exercised: | Not Applicable   |
| (x)    | Categories of potential investors to which the Notes are offered:  | Offers may be made by the Managers in Luxembourg and each of the Passported Jurisdictions to any person. In other EEA countries, offers will only be made pursuant to an exemption under the Prospectus Directive, as implemented in such countries. |
| (xi)   | Process for notification to applicants of the amount allotted and the indication whether dealing may begin before notification is made:      | Not Applicable<br><br>No dealings in the Notes on a regulated market for the purposes of the Investment Services Directive 93/22/EC may take place prior to the Issue Date.  |
| (xii)  | Amount of any expenses and taxes specifically charged to the subscriber or purchaser:  | Not Applicable   |

## 5. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

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

- |       |                           |   |
|-------|---------------------------|---|
| (i)   | Reasons for the Offer:    | For the purpose of improving the Issuer's capital structure |
| (ii)  | Estimated net proceeds:   | EUR245,000,000  |
| (iii) | Estimated total expenses: | Up to EUR 270,000   |



**7. YIELD**

Not Applicable

**8. HISTORIC INTEREST RATES**

Not Applicable

**9. PERFORMANCE OF INDEX, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING INDEX**

Not Applicable

**10. PERFORMANCE OF RATES OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

Not Applicable

**11. OPERATIONAL INFORMATION**

- (i) ISIN Code: XS0308636157
- (ii) Common Code: 030863615
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): Not Applicable
- (iv) Delivery: Delivery against payment
- (v) Names and addresses of additional Paying Agent(s) (if any): Not Applicable
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: Yes

## APPENDIX TO THE FINAL TERMS

### TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes which, subject to completion and amendment, will apply to the Notes. The applicable Final Terms will be endorsed upon, or be attached to, each Global Note and definitive Note.*

The EUR 250,000,000 Non-cumulative Undated 6.75 per cent. Capital Notes (the **Notes**) of Kaupthing Bank hf. (the **Issuer**) are issued subject to and with the benefit of an Amended and Restated Agency Agreement dated 31 August 2006 (the **Agency Agreement**) made between the Issuer, Deutsche Bank Aktiengesellschaft (the **Agent**) and Fortis Banque Luxembourg S.A. (together with the Agent, the **Paying Agents**). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons**, respectively) at the specified office of each of the Paying Agents. Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Terms and Conditions to the Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

#### 1. Form, Denomination and Title

- (1) The Notes are initially represented by a temporary global Note (the **Temporary Global Note**) without Coupons attached which has been deposited on or about 6 July 2007 with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Upon deposit of the Temporary Global Note, each subscriber will be credited with a principal amount of Notes equal to the principal amount thereof for which such subscriber had subscribed and paid. Payments of principal and interest on the Temporary Global Note will be made only upon certification as to non-U.S. beneficial ownership as provided therein.

The Temporary Global Note is exchangeable in whole or in part as provided therein for a further global Note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes** and each a **Global Note**) without Coupons attached on and after 15 August 2007, provided certification as to non-U.S. beneficial ownership has been received. Each Global Note is or will be in bearer form and transferable by delivery. The Permanent Global Note will be exchangeable in whole, but not in part, for definitive Notes with Coupons attached only upon an Exchange Event as described therein.

For these purposes, **Exchange Event** means that Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days or more (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor or alternative clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 11 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Permanent Global Note) may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The Issuer undertakes that, in the event that any Notes are to be represented by Notes in definitive form, it will make any amendments necessary prior to the issue of such Notes in definitive form to the Notes and the Agency Agreement to permit the issue of Notes in definitive form with talons attached thereto. Any reference herein to **Coupons** or **coupons** shall, unless the context otherwise requires, be deemed to include a reference to talons.

- (2) The Notes are in bearer form, serially numbered (in the case of the definitive Notes), in the denomination of EUR 1,000. Definitive Notes (if issued) will have Coupons attached.
- (3) Whenever there is any adjustment to the principal amount of any Note pursuant to these Terms and Conditions, upon presentation of such Note to the Agent at its specified office, a record of such adjustment shall be endorsed by it on such Note provided that any failure to so present or

record shall not in any way affect the decrease or increase pursuant to Condition 3.

- (4) Subject as set out below, title to the Notes and to the Coupons will pass by delivery.
- (5) The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Note and the holder of any Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon) but, in the case of a Global Note, without prejudice to the, provisions set out in Condition 1(6).
- (6) For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and Clearstream, Luxembourg each person who is for the time being shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a particular principal amount of the Notes (in which as to the principal amount of the Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Paying Agents as the holder of such principal amount of the Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer and the Paying Agents as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

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

References to Euroclear and Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include reference to any additional or alternative clearing system approved by the Issuer and the Agent.

## 2. Status and Subordination

- (1) The Notes and the Coupons constitute and will constitute direct, unsecured and subordinated debt obligations of the Issuer.

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

- (a) the Noteholders and Couponholders to payments of the principal amount of the Notes and any other amounts including interest due in respect of the Notes; and
- (b) where the whole or any part of the principal amount of the Notes has been converted into conditional capital contributions as described below and such conditional capital contributions have not been reconverted and reinstated as provided below, the providers of such conditional capital contributions, in respect of such conditional capital contributions,

shall rank:

- (i) *pari passu* without any preference among the Noteholders, the Couponholders and such providers;
- (ii) at least *pari passu* with the rights of the holders of any other outstanding Capital Securities whether or not such Capital Securities have been converted in the manner described below and at least *pari passu* with the rights of the holders of any other obligations of the Issuer constituting or eligible ("eligible" to be construed, *mutatis mutandis*, as provided in the definition of Capital Event) as constituting Tier I Capital of the Issuer, in each case in relation to their rights as such holders and to payments in respect thereof;
- (iii) in priority to the rights of holders of all classes of ordinary share capital, preferred share capital and other share capital, of the Issuer and in priority to the rights of holders of any obligation of the Issuer expressed to rank junior to the Notes, in each case in relation to their rights as such holders and to payments in respect thereof; and
- (iv) junior in right of payment to the payment of any present or future claims of (a) depositors of the Issuer, (b) other unsubordinated creditors of the Issuer and (c)

subordinated creditors of the Issuer in respect of Subordinated Indebtedness (other than Capital Securities).

- (2) No Noteholder or Couponholder or provider of any conditional capital contribution who shall in the event of the voluntary or involuntary liquidation or bankruptcy of the Issuer be indebted to the Issuer shall be entitled to exercise any right of set-off or counterclaim against moneys owed by the Issuer in respect of the Notes or conditional capital contributions held or provided by such Noteholder, Couponholder or provider, as the case may be.
- (3) The Issuer reserves the right to issue other Capital Securities in the future or other obligations constituting or eligible as constituting Tier I Capital of the Issuer, provided, however, that any such obligations may not in the event of voluntary or involuntary liquidation or bankruptcy of the Issuer rank in priority to the Notes.
- (4) *Utilisation and conversion*

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

Upon utilisation of the Converted Amount as above, the Issuer shall give notice to the Noteholders in accordance with Condition 14.

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

Where, pursuant to this Condition 2(4), writing down and conversion applies to part only of the principal amount of the Notes, the part of the principal amount of each Note to be subject to such writing down and conversion shall bear the same proportion to the total amount of the principal amount in respect of such Note as the aggregate amount of the principal amount of all the Notes to be subject to such writing down and conversion bears to the aggregate outstanding principal amount of all the Notes respectively. Any reconversion and reinstatement as provided below will be made on the same basis.

Utilisation of the Converted Amount as aforesaid may only be made provided that the Agent has received prior to such utilisation a certificate signed by two Directors of the Issuer (copies of such certificate will be available for inspection at the specified office of the Agent) confirming that:

- (i) following such conversion to a Converted Amount (a) the rights of the providers thereof in respect of such amounts will rank as provided in Condition 2(1); and (b) such amount will be a conditional capital contribution and will be accounted for as such in the balance sheet of the Issuer; and
- (ii) prior to such conversion to a Converted Amount, the Issuer had consulted with the Financial Supervisory Authority of Iceland (Fjarmalaeftirlitid) or any successor (the **FSA**) and the FSA expressed no objection thereto.

Utilisation as described above of the whole or part of the principal amount of the Notes shall not constitute an Event of Default under Condition 10.

(5) *Reconversion and Reinstatement*

Reconversion and reinstatement (in whole or in part) as obligations in respect of the Notes of the Converted Amount may only be made out of Unallocated Distributable Profits of the Issuer and subject to a resolution of the Board of Directors of the Issuer.

Reconversion and reinstatement shall first be made in respect of perpetual/undated subordinated debt (other than Capital Securities) issued by the Issuer that may have been converted into conditional capital contributions.

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

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

If and to the extent that any Converted Amount has been reconverted and reinstated as an obligation in respect of such Note in the balance sheet of the Issuer, such amount shall be reconverted and reinstated as principal and shall be added to the principal amount of such Note not converted to a Converted Amount for all purposes thereafter (and references to "principal" and "principal amount" shall be construed accordingly) and interest shall start to accrue on such amount and become payable in accordance with the terms of the Notes as from the date of such reconversion and reinstatement.

Upon reconversion and reinstatement as obligations in respect of the Notes of the Converted Amount as described above, the Issuer shall give notice to Noteholders in accordance with Condition 14.

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

**3. Negative Pledge**

Not Applicable.

**4. Redenomination**

Not Applicable.

**5. Interest**

*Rate of Interest*

- (1) (i) The Notes bear interest from and including 6 July 2007 at the rate of 6.75 per cent. per annum.

Interest on the Notes is payable, subject as provided below, quarterly in arrear on 6 January, 6 April, 6 July and 6 October in each year (each an **Interest Payment Date**) commencing on 6 October 2007.

- (ii) Whenever it is necessary to compute an amount of interest in respect of the Notes for a period other than an Interest Period, such interest shall be calculated by applying the rate of interest (a) while the Notes are represented by a Global Note, to the aggregate principal amount of the Notes (taking into account any adjustment to such amount during such period), multiplying such sum by the Day Count Fraction and rounding the resultant figure to the nearest euro cent, half a euro cent being rounded upwards or otherwise in accordance with applicable market

convention, and (b) upon delivery of definitive Notes, to the principal amount of such Note (taking into account any adjustment to such amount during such period), multiplying such sum by the Day Count Fraction and rounding the resultant figure to the nearest euro cent, half a euro cent being rounded upwards or otherwise in accordance with applicable market convention.

*Interest accruing after the due date for redemption in certain circumstances*

- (2) Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day.

*Sufficiency of Available Distributable Funds*

- (3) (a) (i) Payments of interest on any Interest Payment Date may not exceed, taking into account all payments previously made in the fiscal year in which the Interest Payment Date falls in respect of the Notes, Junior Securities and Other Tier I Securities, the Available Distributable Funds.
- (ii) To the extent that, on any Interest Payment Date, Available Distributable Funds are insufficient to pay or provide for payment in full of all accrued but unpaid interest under the Notes, other Capital Securities ranking *pari passu* with the Notes and Other Tier I Securities (in each case falling due on that Interest Payment Date), the Issuer will make partial payment of all accrued but unpaid interest under the Notes, such other Capital Securities and Other Tier I Securities *pro rata* to the extent of such Available Distributable Funds.
- (iii) If, and to the extent that Available Distributable Funds are insufficient or nonexistent and the Issuer makes partial payment of, or does not pay, accrued but unpaid interest, the right of the Noteholders to receive accrued but unpaid interest in respect of the relevant Interest Period will be deferred until the Deferral End Date.
- (iv) At the Deferral End Date, the Issuer will make full or partial payment of all deferred but unpaid interest under these Notes and such other Capital Securities and Other Tier I Securities *pro rata* to the extent the Issuer has accrued any Unallocated Distributable Profits, as determined by the Board of Directors of the Issuer after consultation with the Issuer's auditors, in such fiscal year.
- (v) To the extent that the principal amount of the Notes has been converted in part into Converted Amounts and has not reconverted and reinstated prior to such Deferral End Date, payment will be made under (iv) above on a Deferral End Date only out of Unallocated Distributable Profits remaining after reconversion and reinstatement in full of such Converted Amounts and converted amounts in respect of any Capital Security ranking *pari passu* with the Notes.

If, and to the extent that, any deferred payments remain unpaid after the applicable Deferral End Date, the right of the Noteholders to receive such deferred payments will be lost. The Issuer will have no obligation to make such payments of unpaid deferred interest or to pay interest thereon, whether or not payments of interest in respect of subsequent Interest Periods are made, and such unpaid deferred interest will not be deemed to have "accrued" or been earned for any purpose.

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

- (b) The Issuer covenants that, so long as any Note is outstanding, if the most recent scheduled payments on the Notes have not been made in full or utilisation of a Converted Amount has been made, as aforesaid:

- (i) subject to sub-clause (a) above, it shall not declare (nor shall its Board of Directors propose the declaration of), pay or distribute interest, a dividend or any other amount on, or in respect of, any Other Tier I Securities or any Junior Securities or make any payment on a Tier I Guarantee (except, in the case of Capital Securities ranking *pari passu* with the Notes, any payments made on a *pro rata* basis as contemplated above);
- (ii) subject to sub-clause (a) above, it shall not redeem, purchase or otherwise acquire any Other Tier I Securities or Junior Securities or purchase or otherwise acquire any security benefiting from a Tier I Guarantee (save where those shares or securities being redeemed, purchased or acquired are replaced contemporaneously by an issue of shares or securities of the same aggregate principal amount and the same ranking in a voluntary or involuntary liquidation or bankruptcy of the Issuer to those shares or securities being redeemed purchased or acquired); and
- (iii) it will procure that no payment is made, or any redemption, purchase or acquisition is effected, by any Subsidiary on any security (however named or designated) benefiting from a Tier I Guarantee,

in each case until the Dividend Stopper End Date or, as the case may be, until an amount equal to any Converted Amount has been reconverted and reinstated in full as an obligation in respect of the Notes in the balance sheet of the Issuer, or such amount has been redeemed (such redemption having been approved by the FSA).

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

The Issuer shall also give not more than 14 nor less than five days' prior notice to the Noteholders in accordance with Condition 11 in case of a deferred payment of interest out of Unallocated Distributable Profits.

On any occasion when the Issuer determines it has insufficient Available Distributable Funds to pay accrued interest on the next Interest Payment Date or Unallocated Distributable Profits to make a full or partial payment of accrued interest on any deferred Interest Payment Date prior to the Deferral End Date, it will procure that its auditors certify this to be the case and a copy of such certificate will be available for inspection at the specified office of each Paying Agent.

## **6. Payments**

### **(1) Method of payment**

Subject as provided below, payments will be made by credit or transfer to an account in euro maintained by or on behalf of the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

A holder shall be entitled to present a Global Note, a definitive Note or a Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if a Presentation Date is after the due date.

### **(2) Presentation of definitive Notes and Coupons**

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (1) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest (if any) in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office or any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Upon the date on which any Note in definitive form becomes due and repayable, unmatured Coupons shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

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

(3) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of the Temporary Global Note will be made only upon certification as to non-U.S. beneficial ownership as provided therein. On and after 15 August 2007, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused.

Payments of principal and interest (if any) in respect of Notes represented by a Global Note will (subject as provided below) be made in the manner specified in paragraph (1) above and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

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

**7. Redemption and Purchase**

(1) Subject to paragraph (6) below, on 6 July 2012 or on any Interest Payment Date thereafter the Issuer may, subject to prior approval of the FSA and having given not less than fifteen nor more than 30 days notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at an amount equal to the principal amount of the Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make payment of interest in accordance with Condition 5(3)).

(2) Subject to paragraph (6) below, if:

(a) as a result of any change in, or amendment to, the laws or regulations of Iceland or any political subdivision of, or any authority in, or of, Iceland having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 6 July 2007, on the occasion of the next payment due in respect of the Notes the Issuer would be required to pay additional amounts as provided or referred to in Condition 8; and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may, at any time subject to the prior approval of the FSA and after having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the Notes at an amount equal to the principal amount of the Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make payment of interest in accordance with Condition 5(3)), provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Agent a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the occasion of the next payment due in respect of the Notes and cannot be avoided by the Issuer taking reasonable measures available



to it and an opinion of an independent Icelandic law firm of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

- (3) Subject as provided in paragraph (6) below, upon the occurrence of a Special Event, the Issuer may, subject to the prior approval of the FSA (and provided that such approval can validly be given in accordance with the rules, regulations and policies of the FSA), at its option, having given not less than 30 days nor more than in 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the Notes on any Special Event Redemption Date prior to 6 July 2012 at an amount equal to the principal amount of the Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make payment of interest in accordance with Condition 5(3)).
- (4) The Issuer or any of its Subsidiaries may, subject to the prior approval of the FSA (and provided that such approval can validly be given in accordance with the rules, regulations and policies of the FSA) at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price. Notes purchased by the Issuer or any of its Subsidiaries shall be cancelled.
- (5) All Notes which are redeemed will forthwith be cancelled, together, in the case of definitive Notes, with all relative unmatured Coupons and accordingly may not be reissued or resold.
- (6) Save as provided in Condition 10, where any principal amount has been converted into Converted Amounts as described in Condition 2, the Issuer shall not redeem the Notes until all Converted Amounts have been reconverted and reinstated in full as an obligation in respect of the Notes.

Furthermore any redemption pursuant to this Condition 7 prior to, but excluding, 6 July 2017, shall also be subject to the satisfaction of the Redemption Condition.

## **8. Taxation**

All payments of principal and interest in respect of the Notes by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders and Couponholders after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon presented for payment:

- (i) by or on behalf of a holder who is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon;
- (ii) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Presentation Date;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting such Note to another Paying Agent in a Member State of the European Union.

## **9. Prescription**

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless the Global Note is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

Claims against the Issuer in respect of definitive Notes and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the

case of interest) after the Relevant Date therefor.

#### **10. Events of Default**

- (1) The following events or circumstances (each an **Event of Default**) shall be an event of default in relation to the Notes:
  - (i) the Issuer shall default in the payment of principal for a period of 3 days in respect of any Note which has become due and payable in accordance with these Terms and Conditions; or
  - (ii) the Issuer shall, to the extent that it is obliged to pay interest under Condition 5(3), default for a period of 7 days in the payment of interest due on any Note in accordance with these Terms and Conditions; or
  - (iii) a court or agency or supervisory authority in Iceland (having jurisdiction in respect of the same) shall have instituted a proceeding or entered a decree or order for the appointment of a receiver or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or all or substantially all of its property and such proceedings, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 14 days; or
  - (iv) the Issuer shall file a petition to take advantage of any insolvency statute or shall voluntarily suspend payment of its obligations.
- (2) If any Event of Default shall have occurred and shall be continuing, any Noteholder may give notice to the Issuer that the Note is, and it shall accordingly, subject to this Condition 10, forthwith become, immediately due and repayable whether or not the whole or any part of any Converted Amount has been reconverted and reinstated as an obligation in respect of the Notes at an amount equal to the principal amount (construed as provided above) of the Notes, together with interest (if any) on the principal amount accrued to, but excluding, the due date for redemption (provided that the Issuer is obliged to make such payment of interest in accordance with Condition 5(3)).
- (3) If a Note has been declared due and payable under this Condition 10, the Noteholder may claim payment in respect of the Notes only in the bankruptcy or liquidation of the Issuer and may therefore institute such steps, including the obtaining of a judgment against the Issuer for any amount due in respect of the Notes, as it thinks desirable with a view to having the Issuer declared bankrupt or put into liquidation.
- (4) A Noteholder may institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Notes (other than, without prejudice to sub-paragraphs (2) and (3) above, any obligation for the payment of any principal or interest in respect of the Notes) provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

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

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

#### **11. Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying Agent subject to all applicable laws and market practice upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

#### **12. Paying Agents**

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

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

- (a) there will at all times be an Agent; and
- (b) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may or admitted to listing by any other relevant authority be required by the rules and regulations of the relevant stock exchange (or other relevant authority); and
- (c) the Issuer undertakes that it will maintain a paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 14.

#### **13. Exchange of Talons**

Not Applicable.

#### **14. Notices**

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

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

Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

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

#### **15. Meetings of Noteholders and Modification**

- (1) The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement although any modification cannot be made without the prior approval of the FSA (provided that such approval can be validly given in accordance with the rules, regulations and policies of the FSA).
- (2) Such a meeting may be convened by the Issuer or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.
- (3) The Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to:
  - (a) any modification (except as mentioned above) of the Notes, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
  - (b) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

#### **16. Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) so as to form a single series with the Notes.

#### **17. Third Party Rights**

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

#### **18. Governing Law and Submission to Jurisdiction**

- (1) The Agency Agreement, the Notes and the Coupons are governed by, and will be construed in accordance with, English law except that the provisions of Conditions 2,5(3) and 7 shall be governed by the laws of Iceland.

- (2) The Issuer irrevocably agrees for the benefit of the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, **Proceedings** and **Disputes**) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

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

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

- (3) *Appointment of Process Agent*

The Issuer appoints Kaupthing Singer & Friedlander Limited of One Hanover Street, London W1S 1AX, United Kingdom as its agent for service of process, and undertakes that, in the event of Kaupthing Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

## 19. Regulatory matters

Any reference herein to the approval of the FSA being required prior to any action of the Issuer shall only be required to the extent such approval is required for such action under the then prevailing rules, regulations and policies of the FSA.

## 20. Definitions

For the purposes of these Terms and Conditions:

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

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

A **Capital Event** means the determination by the Issuer (such determination to be evidenced by a certificate signed by two Directors of the Issuer and to be binding on the Noteholders without further investigation (copies of such certificate to be available for inspection at the specified office of the Agent)), having received confirmation or similar proof thereof from the FSA, that the Notes are no longer eligible for inclusion in Tier I Capital (*Eiginfjarthattur A*) of the Issuer and for these purposes the Notes shall be deemed to be so "eligible" notwithstanding that any limits in respect of obligations which can be included in determining such eligibility would be exceeded by including in such determination all or any part of the Notes and accordingly for these purposes any such limits shall be disregarded.

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

**Day Count Fraction** means the number of days in the period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the period is the 31st day of a month but the first day of the period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)).

**Deferral End Date** means the earlier of (i) the date on which the Issuer accrues enough Unallocated Distributable Profits during the fiscal year of the Issuer in which such interest payments were otherwise due, as determined by the Board of Directors of the Issuer after consultation with the Issuer's auditors, to pay the aggregate amount of deferred payments due under the Notes and under any other Capital

Securities ranking *pari passu* with the Notes and Other Tier I Securities, and makes such payments or (ii) 31 December of the fiscal year of the Issuer in which such payments were otherwise due.

**Dividend Stopper End Date** means the later of (a) if all such scheduled payments are paid on the Deferral End Date applicable to such payment, such Deferral End Date or (b) the date which is twelve calendar months after the earlier of the date (i) on which a full interest payment is not paid on the Notes and (ii) on which a full scheduled dividend, interest payment or distribution on any Capital Security ranking *pari passu* with the Notes has not been paid.

**Interest Period** means the period from, and including, 6 July 2007 to, but excluding, the first Interest Payment Date and each successive period from, and including, an Interest Payment Date to, but excluding, the next Interest Payment Date.

**Junior Securities** means (i) ordinary share capital of the Issuer, (ii) each class of preference share capital of the issuer and any other instrument of the Issuer ranking *pari passu* herewith or junior hereto, and (iii) preference share capital or any other instrument of any Subsidiary of the Issuer subject to any guarantee or support agreement of the Issuer ranking junior to the obligations' of the Issuer under these Notes.

**Other Tier I Securities** means any securities which are Tier I Capital of the Issuer and which rank on a voluntary or involuntary liquidation or bankruptcy of the Issuer *pari passu* with the Notes.

**Presentation Date** means (subject to Condition 9) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and New York City and, in any case where presentation and/or surrender of a Note is required to be made in order to receive such payments, in the place in which the Notes is presented.

The **Redemption Condition** shall have been satisfied if the Issuer has proceeds available from an issue of Replacement Capital that has been issued for the purpose of funding the redemption in an amount at least equal to the redemption price payable on the relevant date fixed for redemption.

**Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 14.

**Replacement Capital** means share capital or other securities issued by the Issuer or a Subsidiary which, as of the date of issue thereof, would be included in the Tier I Capital of the Issuer.

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

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

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

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

**Tax Jurisdiction** means Iceland or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and/or interest on the Notes.

**Tier I Capital** means capital which is treated as issued tier I capital ("*Eiginfjartattur A*") by the FSA either on a solo or on a consolidated basis.

**Tier I Guarantee** means any guarantee, indemnity or other contractual support arrangement entered into by the Issuer in respect of securities (regardless of name or designation) issued by a Subsidiary which constitutes Tier I Capital of the Issuer.

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