Glitnir Banki hf.

Registration Document July 2008

GLITNIR

1. RISK FACTORS

Prospective investors should carefully review the following prominent risk factors, which are specifc to us, in conjunction with the other information contained in the Registration Document prior to deciding to invest in securities issued by us. The risks described below are not the only ones we face. Additional risk factors not currently known or which are currently deemed immaterial may also impair our operations. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our securities could decline due to any of these risks, and investors may lose all or part of their investment. The Registration Document also contains forward-looking statements that involve inherent risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us, described below.

We may be materially adversely affected by general economic and other business conditions, particularly in Iceland and the Nordic countries

Our results are affected by general economic and other business conditions. These conditions include changing economic cycles that affect demand for the services and products we offer. These cycles are also influenced by global political events, such as terrorist acts, war and other hostilities as well as by market specific events, such as shifts in consumer confidence and consumer spending, the rate of unemployment and industrial output, labour or social unrest and political uncertainty.

In particular, our business, results of operations and financial condition are affected by economic and political conditions in Iceland, as 49% of our profit before tax were derived from our activities in Iceland in 2007. Because of our position as a leading Icelandic bank, some of our business outside of Iceland is undertaken for Icelandic clients, increasing our exposure to conditions in Iceland more than those figures suggest.

The Icelandic economy's growth rate slowed in 2007 following several years of strong growth. After growing by over 7% annually in 2004 and 2005, real GDP growth slowed to 4.4% in 2006, and further decreased to 3.8% in 2007 (source & further information: Statistics Iceland, www.statice.is) This slowdown was due primarily to a contraction in domestic demand, notably in business investment as a number of large-scale industrial projects neared completions. In addition, our largest credit exposures are to Icelandic companies so any downturn in Iceland could impact the credit quality of our counterparties and reduce the level of products and services used by such counterparties. These developments may have a materially adverse effect on our business, results of operations and financial condition.

Furthermore, our business, financial condition and results of operations are affected by economic and political conditions in the Nordic region and Europe, where we derived 24% and 20% of our profit before tax, respectively, in 2007. An economic downturn and other changes in general economic and other business conditions in these regions could impact our results of operations and financial condition by affecting demand for our products and services. Such a downturn could also impact the credit quality of our counterparties in these regions. In addition, the recent concerns over losses relating to the higher default level of sub-prime mortgages in the United States have negatively affected the credit markets globally, raising our costs of funding. If we are unable to pass on the higher cost of funding to our customers, our interest margin could be negatively affected. These developments and others may have a material adverse effect on our business, results of operations and financial condition.

We may be materially adversely affected by changes in interest rates

Interest rates are highly sensitive to many factors beyond our control, including interest rate and other monetary policies of governments and central banks in the jurisdictions in which we operate and changes to such policies. In particular, the policies of the Economic and Monetary Union of the European Union, the United Kingdom, the United States, Iceland and Norway significantly affect us and are subject to change. Income from financial operations such as ours is particularly vulnerable to interest rate volatility.

Changes in interest rates affect our operations, as fluctuations in interest rates have an impact on our interest income, our cost of borrowing and funding (our interest expense) and the timing and the amount of our loan loss provisions. In particular, 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 our banking businesses.

For example, if the maturity profile of our liabilities is longer than the maturity profile of our assets, in a decreasing interest rate environment, we would increasingly receive lower interest income on our assets as they are replaced by lower yielding assets, while we would continue to incur higher interest expenses on our liabilities.

Conversely, in an increasing interest rate environment, if the maturity profile of our liabilities is shorter than the maturity profile of our assets, we would increasingly make higher interest payments on our liabilities as they are replaced by liabilities with higher interest rates, while we would continue to receive lower interest income on our assets. To minimize such risks, we seek to match our assets and liabilities by maturity and by covering the remaining exposure through the use of derivative instruments. However, we cannot assure you that our risk management policies will always be effective.

Moreover, a change in interest rates would also have an effect on our interest margin. For example, in a decreasing interest rate environment, we generally find it more difficult to maintain our interest margin, as interest margin tend to narrow in a lower interest rate environment. In recent years, our results of operations have been dependent to a great extent on earnings attributable to net interest income. Net interest income represented approximately 46%, 51% and 61% of our net operating income in 2007, 2006 and 2005, respectively. Any changes in interest rates that negatively impact net interest income could have a material adverse effect on our business, financial condition and results of operations.

We also face exposure to interest rate risk with respect to our investment and proprietary trading portfolios, as movements in short- and long-term interest rates cause gains and losses on debt securities held in these portfolios. A decrease in interest rates reduces the yield on interest-bearing assets, as higher yielding assets are called or mature and the proceeds of these assets are reinvested or lent at lower interest rates. Such decreases in interest rates also increase the market value of the fixed income debt securities in our portfolio. Conversely, an increase in interest rates increases the yield on interest-bearing assets, as the lower yielding assets mature and the proceeds of these assets are reinvested or lent at higher interest rates. An increase in interest rates also decreases the market value of fixed income debt securities in our investment and proprietary trading portfolios. Changing interest may also impact the value of shares held in our investment and proprietary trading portfolios. Depending on the duration and maturity profile of our assets and liabilities, as well as the difference in the aggregate size of our assets and liabilities, the effects of the change in interest rates could have a material adverse effect on our business, financial condition and results of operations.

We may be materially adversely affected by changes in currency exchange rates

Our functional and presentation currency is the Icelandic krona (ISK). However, a significant portion of our operations is located outside Iceland. Accordingly, a significant portion of our assets, liabilities, revenues and expenses are denominated in currencies other than the ISK, particularly the Norwegian krona (NOK) and Euros (EUR). In particular, our subsidiaries outside Iceland prepare their financial statements in their functional currency, which is generally not ISK. Revenues and expenses denominated in currencies other than ISK are translated into ISK, for purposes of our income statement, on the basis of average exchange rates during the period. Consequently, even if amounts of revenues and expenses remain unchanged in local currencies, changes in exchange rates could have a material adverse effect on our reported results of operations. For the purposes of our consolidated balance sheet, we convert non-ISK denominated assets and liabilities into ISK at the exchange rate prevailing at the balance sheet date. Balance sheet translation effects (or changes in the value of balance sheet items resulting from movements in exchange rates) are recognized as an increase or decrease of the translation reserve in our equity. We hold long positions in foreign currencies to hedge our capital ratios against fluctuations in the ISK. We do however not hedge directly the translation of revenues/cost in foreign currencies.

Our general strategy is to match assets and liabilities with respect to currencies. An exception is made for non-ISK positions taken on to reduce the sensitivity of our capital ratios to currency fluctuations and for our trading position that is monitored within limits set by our market risk committee. To the extent that we have a currency mismatch between our assets and liabilities, we are exposed to the risk of currency fluctuation. For instance, if our ISK-denominated assets are funded partly by non-ISK liabilities, depreciation of the ISK relative to these non-ISK currencies would cause an increase in the value of the liabilities relative to the value of the assets, all else remaining equal. This in turn would have a negative impact on our profits before taxes and could have a material adverse effect on our business, financial condition and results of operations.

In addition, we trade currency on behalf of our clients and for our own account and maintain open currency positions in currencies other than ISK. We do not fully hedge our non-ISK exposure at all times. There can be no assurance that future mismatches will not occur or that trading limits will not be breached, which could have a material adverse effect on our business, financial condition and results of operations.

Our risk management methods may leave us exposed to unidentified, unanticipated, or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

We devote significant resources to develop risk management policies, procedures and assessment methods for our businesses. We, like other financial institutions, use a value-at-risk (VaR) model, duration analysis and sensitivity analysis as well as other risk assessment methods. Nonetheless, these risk management techniques and strategies may not be fully effective in mitigating risk exposure in all market environments or against all types of risk, including risks that we fail to identify or anticipate. Some of our qualitative tools and metrics for managing risk are based upon use of observed historical market behaviour. We apply statistical and other tools to these observations to arrive at quantifications of risk exposures. These tools and metrics may fail to predict or predict incorrectly future risk exposures. As a result, our losses could be significantly greater than these measures would indicate. In addition, our quantified modelling does not take all risks into account. Our more qualitative approach to managing risks takes into account a broader set of risks, but is less precise than quantified modelling and could prove insufficient. Unanticipated or incorrectly quantified risk exposures or failure to fully consolidate risks which impact the Group could result in a material adverse effect on our business, financial condition and results of operations.

Our performance is subject to substantial competitive pressures that could materially adversely affect our results of operations

There is substantial competition for our products and services in the regions in which we conduct our business, including Iceland and Norway. We compete on the basis of a number of factors, including transaction execution, the type and breadth of products and services we offer, innovation, reputation and price. Such competition is affected by consumer demand, technological changes, the impact of industry consolidation, regulatory actions and other factors. Competition could intensify as continued merger activity in the financial services industry produces larger, better-capitalized companies that are capable of offering a wider array of products and services at more competitive prices.

We face challenges from domestic and international competitors in the various markets in which we operate. Some of our competitors, including well-established domestic banks in each of the markets in which we operate, as well as international banks with operations in most of the markets in which we operate, may have better relationships with our target customers and may have greater resources and better local market knowledge than we do. These and other factors related to competition could have a material adverse effect on our ability to compete effectively in these markets, and could materially adversely affect our business, financial condition and results of operations.

Regulatory changes or enforcement initiatives could materially adversely affect our business

Like other financial institutions, we operate within a complex regulatory framework. We are regulated by the Icelandic Financial Supervisory Authority with respect to our operations within the European Union under the home member state authorization and supervision rule and, with respect to our operation outside the European Union, by regulators in relevant jurisdictions.

According to our operating license as a commercial bank in Iceland and Act No. 161/2002 on Financial Undertakings (the "Act on Financial Undertakings"), we are subject to laws and regulations governing us and our operations, and any breach of those laws or regulations could result in severe fines, liability for damages and/or the revocation of our license. In addition, we are subject to banking and financial services laws and government regulation in each of the jurisdictions in which we operate. Regulatory agencies have broad administrative power over many aspects of the financial services industry, which may include liquidity, capital adequacy and permitted investments, ethical issues, money laundering, privacy, record keeping, and marketing and selling practices. Banking and financial services laws, regulations and policies currently governing us and our subsidiaries may change at any time in ways which have a material adverse effect on our business. Furthermore, we cannot predict the timing or form of any future regulatory initiatives. Changes in existing banking and financial services laws and regulations, for example the implementation of Basel II and MiFID (Markets in Financial Instruments Directive), may materially affect the way in which we conduct business, the products or services we could offer and the value of our assets. If we fail to address, or appear to fail to address, appropriately these changes or initiatives, our reputation could be harmed and we could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and penalties. Regulatory agencies have the power to bring administrative or judicial proceedings against us, which could result, among other things, in suspension or revocation of our licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm our results of operations and financial condition.

Failure to manage operational risk associated with our industry could have a material adverse impact on our results of operations and financial condition.

As all other financial institutions, we are 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. Given our high volume of transactions, certain errors may be repeated or compounded before they are discovered and rectified. In addition, our 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. We may be subject to disruptions of our operating systems, arising from events that are wholly or partially beyond our 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. We are further exposed to the risk that external vendors may be unable to fulfil their contractual obligations to us (or will be subject to the same risk of fraud or operational errors by their respective employees as we are), and to the risk that their (or their vendors') business continuity and data security systems prove not to be sufficiently adequate. We also face the risk that the design of our controls and procedures prove inadequate, or are circumvented, thereby causing delays in detection of errors in information. Although we maintain a system of controls designed to keep operational risk at appropriate levels we have suffered losses from operational risk and there can be no assurance that we will not suffer losses from operational risks in the future that may be material in amount, which could have a material adverse effect on our results of operations, financial condition and reputation.

We may be unable to adequately assess the credit risk of potential borrowers and may provide advances to certain customers that increase our credit risk exposure

We are exposed to the risk that third parties who are obligors on securities we own or who owe us money will not meet, or will be unable to meet, their obligations to us. The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for SMEs as defined as small- and medium-sized enterprises, which form a large part of our client base, than for large corporate clients, and is even more limited for individuals. SMEs usually have less capital and business experience than large businesses and are hence more likely to default on their loans. Loans to SMEs and individuals represented approximately 29% and 22%, respectively, of our total loan portfolio as of December 31, 2007. Further, in making credit decisions, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information, and may also rely on representations of customers and counterparties as to the accuracy and completeness of such information. In some cases, such information or representations could be materially misleading. Despite the credit risk determination procedures which we have in place, we may be unable to evaluate correctly the current financial condition of each prospective borrower and, in the case of SMEs, to determine their long-term financial viability. In addition, we have exposure to credit risk related to acquisition finance loans, which typically involve higher degrees of leverage than general corporate borrowing and make these borrowers more exposed to increases in interest rates and downturns in the economy. The failure of any member of our group to accurately assess the credit risk of prospective borrowers and lending to higher risk borrowers could have a material adverse effect on our business, financial condition and results of operations.

A decline in the value or illiquidity of the collateral securing our loans may materially adversely affect our loan portfolios.

A substantial portion of our loans to corporate and individual borrowers are secured by collateral such as real estate, securities, ships, 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 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 us to 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 us to losses which could have a material adverse effect on our business, financial condition and results of operations.

Adverse price fluctuations of the securities in our proprietary trading portfolios could have a material adverse effect on our results of operations and financial condition

We have proprietary trading portfolios, that include Icelandic and international equity, fixed income securities and currencies. As of December 31, 2007, our proprietary trading portfolios totalled ISK 38.4 billion and accounted for approximately 1.3% of our total assets. A decrease in the price of securities held in our proprietary trading portfolios could substantially reduce the value of our proprietary trading portfolios and could cause operating losses or reduce the amount of our income attributable to trading gains. As of December 31, 2007, VaR for our proprietary trading portfolios was ISK 353 million (over one trading day and with a 99% degree of certainty).

Under IFRS, securities "held for trading" (principally those in our proprietary trading portfolios) are measured at their fair value at the end of each financial period, with changes in value during the period recognized in our income statement under "net gain on financial assets measured at fair value". As a result, declines in the market value of our proprietary trading portfolios could materially adversely affect our profitability, even if those declines have not been realized.

In certain instances, including in relation to leveraged finance transactions, we have given loans to companies whose securities we hold in our proprietary trading portfolios, which increases our total exposure to these companies. Furthermore, market liquidity constraints can limit our ability to sell large blocks of these securities at attractive prices and some of the securities we hold are unlisted and illiquid. Adverse developments affecting these issuers or liquidity of their shares could have a material adverse effect on our business, financial condition and results of operations.

We are subject to liquidity risk, and our difficulty to fund our operations could materially adversely affect our financial condition

Ready access to funds is essential to any banking business, including ours. We rely in great part on continuous access to financial markets for short- and long-term financing. An inability on our part to access the markets through which we raise funds may lead us to be unable to finance our operations adequately. These and other factors could also lead creditors to form a negative view of our liquidity, which could result in less favourable credit ratings, higher borrowing costs and decreased access to funding. In addition, because we receive a portion of our funding from deposits, in particular wholesale deposits, we also are subject to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, resulting in liquidity strains. Further, any difficulty in funding could interfere with our asset-liability management, whereby we match the maturity of our liabilities with the length of our loan commitments to avoid adverse effects of changes in interest rates. Accordingly, any such difficulty in funding our operations could have a material adverse effect on our business, financial condition and results of operations.

Our policy is to have immediately available funds to cover all financial liabilities expected to mature for the following six months. In addition, all financial liabilities expected to mature within the following 12 months must be covered with immediately available funds and other liquid assets. As at 31 December 2007, the average maturity of our outstanding senior bonds was approximately 2.4 years and we had approximately ISK 292 billion of issued bonds and other long-term borrowing in 2008. There is no guarantee that we will be able to access further sources of funding to meet additional funding requirements in the future. Furthermore, approximately 24% of our total interest-bearing liabilities at December 31, 2007 were deposits that were on demand or with a maturity of less than three months. These can be withdrawn quickly in the event of adverse economic developments in Iceland or in the other markets in which we operate, or in reaction to competitive moves, which could have a material adverse effect on our business, financial condition and results of operations.

Because we meet a significant portion of our funding requirements in the capital markets, we are exposed to conditions in the different markets in which we seek funding. We raise funds in a variety of markets though such funding mechanisms as our €15 billion Global Medium-Term Note (MTN) program, $5 billion U.S. MTN program and AU$1.5 billion Australian MTN program. Some key transactions in the first quarter of 2008 include ISK 15 billion mandatory convertible bond and ISK 56 billion Covered Bond. In addition, we placed several EUR and USD private placements to investors in Europe and the US. However, adverse economic conditions in Iceland and elsewhere may make it more difficult for us to access funds even through such programs.

In addition, our ability to raise or access funds may be impaired by factors that are not specific to our operations, such as general market conditions, the sovereign rating of Iceland and Norway, severe disruption of the financial markets or negative views about the prospects for the industries to which we provide a large proportion of our loans. For example, in the second half of 2007, concerns over losses relating to the higher default level of sub-prime mortgages in the United States have negatively affected the credit markets globally, significantly raising funding costs for banks. Strains on our liquidity caused by any of these factors or otherwise could adversely affect our financial performance and competitive position. Furthermore, we believe that the other large banks domiciled in Iceland have similar funding requirements and may be competing for funding from a similar pool of investors. This also may materially adversely affect our access to funds and our cost of funding.

Unexpected events, economic or market conditions, unforeseeable declines in our earnings or other situations beyond our control could cause either a short- or long-term liquidity crisis, which could have a material adverse effect on our business, financial condition and results of operations.

A downgrade in our credit ratings could materially adversely affect our liquidity and operations

Our credit ratings are important for our liquidity. A downgrade in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowings costs, limit our access to the capital markets or trigger obligations under certain bilateral provisions in some of our trading and collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with us or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

Our current credit ratings are illustrated in the table below. A more detailed description of the development of our credit ratings can be found in Chapter 21.1.2 - Funding

	Standard and Poor's	Moody's	Fitch
Long-term Debt	BBB+	A2	A-
Short-term Debt	A-2	P-1	F2
Financial Strength	N/A	C-(stable outlook)	N/A
Individual	N/A	N/A	B/C
Support	N/A	N/A	2
Outlook	Outlook Negative	Stable	Negative

Although our ratings are not directly linked to the ratings assigned to the Republic of Iceland or Norway, there can be no assurance that a downgrade in credit ratings assigned to the Republic of Iceland or Norway by any of the rating agencies would not have an adverse effect on our liquidity and competitive position or impact our access to capital markets, without impacting the rating agencies' views on our credit rating.

Further, a rating is not a recommendation to purchase, hold or sell securities issued by us, since such rating does not address the market price or suitability for a particular investor. A rating may not remain for any given period of time and may be lowered or withdrawn entirely by a rating agency, if, in its judgment, circumstances in the future so warrant. If any rating assigned to us is lowered or withdrawn, the market value of securities issued by us may be adversely affected.

Systemic risk could materially adversely affect our 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 materially adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges with which we interact on a daily basis, and could have a material adverse effect on our business, financial condition and results of operations.

Increases in our loan losses or allowances for loan losses may have a material adverse effect on our results

Our banking businesses establish provisions for loan losses, which are reflected under "Impairment losses" in our IFRS income statement. We maintain our provisions 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 us, industry standards, past due loans, economic conditions and other factors related to the collectability of our loan portfolio. Although management uses its best efforts to establish the provision for loan losses, that determination is subject to significant judgment, and our banking businesses may have to increase or decrease their provisions for loan losses in the future as a result of increases or decreases in non-performing assets or for other reasons.

For example, since the second half of 2007, concerns over the higher default level of sub-prime mortgages in the United States have led to a significant reduction in demand for collateralized debt obligations based on such mortgages. However, due to the difficulty in valuing such structured products, many investors have failed to write down the value of such securities or recognize losses immediately, and in some cases, declared unexpectedly large write-downs at a later date. Some of our borrowers may be so affected and any future write-downs or losses relating to such securities may have a materially adverse effect on their ability to service their loans, and accordingly force us to increase our loan loss provisions unexpectedly.

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 a material adverse effect on our results of operations and financial condition.

We are subject to legal risk which may have an adverse impact on our results of operations and financial condition

It is inherently difficult to predict the outcome of possible litigation, regulatory proceedings and other adversarial proceedings involving our businesses, 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. In presenting our consolidated financial statements, 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 defences and previous experience in similar cases or proceedings. Changes in these estimates may have a material adverse effect on our results of operations and financial condition.

Our income from investment banking activities and principal investments is subject to fluctuation

In 2007, we derived 24% of our profit before taxes from our investment banking activities, compared to 15% in 2006 and 16% in 2005. Income from our investment banking activities is principally comprised of net fee and commission income. Our net fee and commission income is in large part related to the number and size of the capital markets transactions in which we participate and our corporate advisory mandates and on underlying market conditions. Fees generated by these transactions in any given financial period are typically not recurring and are subject to volatility. Accordingly, income from our investment banking business tends to be variable, and any reduction in the number and/or size of such transactions will affect our results of operations in that period. In addition, our investment banking unit may invest in unlisted and listed companies in connection with an advisory mandate with a view towards exiting these investments over the short to medium term from the date of acquisition. We also engage in proprietary trading for our own account and market making, taking both medium- and short-term positions in debt and equity instruments. We could be materially adversely affected by a decline in the value of our holdings or the illiquid nature of certain holdings in our investment portfolio, which is subject to factors affecting the industries in which the companies in the portfolio operate as well as to general market conditions. Such development could have a material adverse effect on our results of operations and financial condition.

We are subject to indexation risk which may have a material adverse effect on our results of operations

Our indexation risk derives from imbalances in our indexed assets and liabilities. As of December 31, 2007, we had ISK 367 billion of such indexed assets. Over 32% of our indexed assets are ISK-denominated long-term mortgage loans issued in Iceland, the principal amount of which fluctuates based on the consumer price index (CPI) in Iceland. Our indexed assets also include assets and derivatives based on indexed trading securities, which are short-term investments. 62% of our indexed assets are balanced with corresponding indexed liabilities, leaving us with exposure on the indexation component of such assets. Should the Icelandic economy experience deflation and the CPI become negative, to the extent of our net exposure to the indexation component, the principal amount of our assets and the interest income on such assets will decrease, while the principal amount of and the interest payment relating to our corresponding liabilities will remain the same, increasing our net liabilities and exposing us to negative cash flow. Should the Icelandic economy experience a sustained period of deflation, we may experience a significant increase in our net liabilities, which could have a material adverse effect on our business, financial condition and results of operations. It is worth mentioning in this respect that the Icelandic economy has not experienced annual deflation since 1953 where there was a 0.5% deflation between years.

Our loan portfolio is concentrated in certain currencies, industries and borrowers

Our loan portfolio is exposed to relatively high concentration in certain currencies and industry sectors. As of December 31, 2007, 21% of our loans were denominated in ISK, 29% were denominated in NOK and 50% in other currencies. As of December 31, 2007, 21% of our loans were made to customers in the real estate industry, 32% were made to services, 26% were made to individuals and 7% were made to industry and contractors. Of the total loan portfolio 13% is related to our specialised industry sectors.

Our financial condition is sensitive to downturns in these countries and industries and the consequent inability of our customers to meet their obligations towards us. Declines in the financial condition of our largest borrowers and adverse currency movements relative to ISK or NOK could also materially affect our business, financial condition and results of operations.

Our interest bearing debt includes financial and other covenants, that could lead to our debt becoming immediately due and payable, in the event we would fail to meet them

Our outstanding debt, loan agreements and debt issuance include traditional debt covenants. The bank is in compliance with all covenants, however in the event that we would fail to comply with any debt covenant, the related debt may become due immediately and the bank's fund flows might be adversely affected. Cross default provisions might also be triggered leading to substantial and material change in the Bank's general prospects.

Trading and investment activities in our Treasury unit are exposed to significant risks

Our Treasury unit maintains trading and investment positions in various financial and other assets, including currency and related derivative instruments as principal. These positions are exposed to a number of risks related to the movement of market prices in the underlying instruments. This includes the risk of unfavourable market price and interest rate movements relative to our long positions, a decline in the market liquidity of related instruments, volatility in market prices or non-ISK exchange rates relating to these positions, and the risk that instruments chosen to hedge certain positions do not track the market value of those positions.

At December 31, 2007, our VaR (A historical VaR method is used based on the previous 250 days using end of day exposures, reporting is based on a probability level of 99% and a one-day holding period) was ISK 349 million, or 0.2% of Total Tier I capital and 0.15% of CAD capital.

We have experienced rapid growth partly through acquisitions and may continue to acquire complementary businesses. If we cannot adequately manage our growth, our results of operations and financial condition could suffer.

In the last several years, our business has grown rapidly partly through acquisitions. We have made a number of acquisitions in line with our strategy of broadening our product offering and diversifying our income in key geographic areas. From 2005 to 2007, we acquired 9 entities with the aggregate enterprise value of ISK 76,624 million. Our total assets increased by 53% from ISK 1,472 billion as of December 31, 2005, to ISK 2,246 billion as of December 31, 2006, and by 31% to ISK 2,949 billion as of December 31, 2007. The number of full-time equivalents employees increased from 1,518 on December 31, 2006 to 2,248 on December 31, 2007 and 2,078 on March 31, 2008. There may be high costs associated with retaining highly qualified employees when we make such acquisitions, as the employees are the principal assets of many of these businesses. To manage our anticipated future growth, we may need to expand our operations and recruit additional personnel, which may significantly strain our existing managerial, operational, financial and other resources. Failure to manage our future growth effectively could result in increased costs and harm our results of operations.

In addition, in the past we have acquired additional complementary businesses and we may continue to do so. We might not be successful in integrating any acquired businesses, and may not achieve anticipated benefits. Should any of the following problems, or others, occur as a result of our acquisition strategy, the impact could be material:

Difficulties integrating personnel and other corporate cultures into our business;

Difficulties integrating information systems;

The potential loss of key employees;

The assumption of liabilities and exposure to undisclosed liabilities of acquired companies; or

The diversion of management attention from existing operations.

As a result of these problems and risks, businesses we acquire may not generate the revenues, earnings or business synergies that we anticipated, and acquired products, services or technologies might not perform as we expected. As a result, we may incur higher costs and realize lower revenues than we had anticipated. We may not be able to successfully address these problems.

We may be unable to continue to grow through acquisitions

A significant proportion of our growth in recent years has been driven by acquisitions, including the acquisitions of BNbank in 2005 and FIM Group in 2007. We estimate that acquisitions have contributed approximately 40% of our growth in profit before tax from 2004 to 2007, with the rest of our growth attributable to our organic development (the growth from acquired entities is counted as such in all years). Our loan portfolio has also grown partly due to acquisitions. For example, in 2005, our loan portfolio grew by 124% to ISK 1,175 billion, primarily due to the consolidation of the loan portfolio of BNbank, following its acquisition in the first quarter of 2005.

We continue to evaluate potential acquisition and investment opportunities that could further expand our international banking operations and we plan to leverage our existing client base and banking operations to expand our business through cross-selling of our products. These efforts will require significant financial resources and the attention of our Bord of Directors and senior management, which could place a strain on management resources and materially adversely impact the management of our current operations. No assurance can be given that we will be successful in identifying and acquiring appropriate acquisition targets in the key markets in which we operate, or that acquired businesses in the future will achieve the return on investments similar to what we have achieved in prior periods. As a result, the level of growth that the Group has experienced in the last three years may not be sustainable.

We are subject to the risk of failure of our IT systems and breaches of our security system

We rely on the proper functioning and continuity of our IT systems. Any significant interruption, degradation, failure or lack of capacity of our IT systems or any other systems in our clearing operations or elsewhere could cause us to fail to complete transactions on a timely basis or at all. A sustained failure of our IT systems centrally or across our branches would have a significant impact on our operations and the confidence of our customers in the reliability and safety of our banking systems.

The secure transmission of confidential information is a critical element of our operations. We cannot guarantee that existing security measures will prevent security breaches, including break-ins, viruses or disruptions. Persons that circumvent the security measures could use our or our clients' confidential information wrongfully, which could expose us to a risk of loss, adverse regulatory consequences or litigation.

We may be unable to recruit or retain experienced and qualified personnel, and we are highly dependent on key members of management

Our continued success depends, in part, on our ability to continue to attract, retain and motivate qualified and experienced banking and management personnel, particularly those individuals who are experienced in our investment banking, acquisition finance and markets activities. Competition for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals, particularly in Iceland. Competition for qualified personnel, including senior management, is also intense in Norway, where the unemployment rate is currently 2.3% (source & further information: Statistics Norway, www.ssb.no/en/). Geographical location of employment may also make it less attractive to a large portion of potential applicants who may come from outside Iceland or Norway. Due to these factors, the compensation level for qualified personnel in these markets is relatively high and has been increasing in the last several years.

In addition, we are highly dependent on our Chief Executive Officer and Senior Management. The loss of the services of key members of our Senior Management or staff with institutional and client knowledge may significantly delay our business objectives and could have a material adverse effect on our business, financial condition and results of operations.

Catastrophic events, terrorist attacks and other acts of war could have a material adverse impact on our business and results of operations

Various external events beyond our control and the control of our management could have a major impact on our operations, performance and share price. Examples of this are natural catastrophes, war, vandalism and terrorist attacks. We cannot assure you that any plans will be adequate to deal with such a situation and that such external events would not materially adversely affect our business, results of operations and financial condition.

Our insurance coverage may not adequately cover losses resulting from the risks for which we are insured

We maintain customary insurance policies for our operations, including insurance for liquid assets, money transport and directors' and officers' liability, as well as insurance against computer crimes and for employee dishonesty and mistakes. Due to the nature of our operations and the nature of the risks that we face, there can be no assurance that the coverage that we maintain is adequate.

2. STATEMENTS

2.1. COMPANY'S STATEMENT

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

Reykjavík, Iceland, July 14, 2008

On behalf of Glitnir banki hf.

Lárus Welding

Chief Executive Officer

Icelandic ID No. 111276-4399

Þorsteinn Már Baldvinsson

Chairman of the Board of Directors

Icelandic ID No. 071052-4539

(On behalf of the Board of Directors)

2.2. AUDITOR'S STATEMENT

KPMG hf., ID-No. 590975-0449, registered office being Borgartún 27, 105 Reykjavík, Iceland, hereby declares that it has audited and expressed an opinion on the consolidated financial statements of the Company for the financial year ended December 31, 2005 and declares that nothing has come to its attention that causes it to believe that the consolidated financial statements for the financial year ended December 31, 2005 does not give a true and fair view of the financial position of the Company as at December 31, 2005 and of the results of the Company's operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU. KPMG also conducted a review and issued a review report on the condensed consolidated interim financial information for the first quarter ended March 31, 2006 and declares that nothing has come to its attention that causes it to believe that the interim financial information of the Company for the first quarter ended March 31, 2006 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting". Furthermore KPMG hf. confirms that any information in this Registration Document regarding such financial statements is consistent with the said financial statements.

Reykjavík, Iceland, July 14, 2008

On behalf of KPMG hf.

Sæmundur Valdimarsson

State Authorised Public Accountant

PricewaterhouseCooopers hf., ID-No. 690681-0139, registered office being Skógarhlíð 12, 105 Reykjavík, Iceland, hereby declares that it has audited and expressed an opinion on the consolidated financial statements of the Company for the financial years ended December 31, 2006 and December 31, 2007 and declares that nothing has come to its attention that causes it to believe that the consolidated financial statements of the Company for the financial years ended December 31, 2006 and December 31, 2007 do not give a true and fair view of the financial position of the Company as at December 31, 2006 and December 31, 2007 and of the results of the Company's operations and cash flows for the financial years then ended in accordance with International Financial Reporting Standards as adopted by the EU. PricewaterhouseCoopers hf. has also conducted a review and issued a review report on the condensed consolidated interim financial information for the the first quarters ended March 31, 2007 and March 31, 2008 and declares that nothing has come to its attention that causes it to believe that the interim financial information of the Company for the first quarters ended March 31, 2007 and March 31, 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting". Furthermore PricewaterhouseCoopers hf. confirms that any information in this Registration Document which can be directly traced to such financial statements is consistent with the said financial statements.

Reykjavík, Iceland, July 14, 2008

On behalf of PricewaterhouseCoopers hf.

Ómar H. Björnsson

State Authorised Public Accountant

3. DOCUMENTS ON DISPLAY AND INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Registration Document:

The Company's audited consolidated financial statements in respect of the year ended December 31, 2005, together with the audit report prepared in connection therewith.

The Company's audited consolidated financial statements in respect of the year ended December 31, 2006, together with the audit report prepared in connection therewith. The 2006 financial statements were corrected in February 2007 after an error was observed; this has been corrected in all versions currently available to the public. The auditor's statement covers the changes made due to this error.

The Company's audited consolidated financial statements in respect of the year ended December 31, 2007, together with the audit report prepared in connection therewith.

The Company's reviewed condensed consolidated interim financial statement in respect of the quarter ended March 31, 2006.

The Company's reviewed condensed consolidated interim financial statement in respect of the quarter ended March 31, 2007.

The Company's reviewed condensed consolidated interim financial statement in respect of the quarter ended March 31, 2008.

Copies of the aforementioned documents can be obtained from the registered office of the Issuer or electronically from the Company's website www.glitnir.is.

For the life of this Registration Document, the following documents are available for viewing:

The Registration Document, Security Note and Summary dated July 14, 2008 may be inspected on the issuer's website, www.glitnir.is.

The issuer's Articles of Association may be inspected on the issuer's website, www.glitnir.is.

The consolidated historical financial information for the Issuer's undertakings for more than three financial years preceding the publication of the Registration Document may be inspected on the Issuer's website, www.glitnir.is.

4. REFERENCES

References to “Glitnir”, “we”, “us”, “the Group”, “the Bank”, the “Issuer”, and “the Company” in this Registration Document shall be construed as referring to Glitnir banki hf., incorporated under the laws of Iceland, ID-No. 550500-3530 and its subsidiaries unless otherwise clear from the context. Glitnir banki hf. is the legal Icelandic name of the Company.

References to “ALCO” shall be construed as referring to the Asset & Liability Committee

References to “BNbank” in the Registration Document shall be construed as referring to Bolig- og Næringsbanken ASA, incorporated under the laws of Norway, ID-No. 914864445, Munkegata 21, N-7005 Trondheim, Norway, unless otherwise clear from the context.

References to the “Companies Act” shall be construed as referring to Act No. 2/1995 on Public Limited Companies.

References to the “European Union” or “EU” shall be construed as referring to the members states of the European Union.

References to the “European Economic Area” or “EEA” shall be construed as referring to the European Union, Iceland, Liechtenstein and Norway;

References to “Europe” shall be construed as referring to the European Union, excluding the Nordic countries.

References to “the Financial Undertakings Act” shall be construed as referring to Act No. 161/2002 on Financial Undertakings.

References to “FME” shall be construed as referring to the Financial Supervisory Authority in Iceland.

References to “the ISD” in this Registration Document shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfaskráning Íslands hf., incorporated under the laws of Iceland, ID-No. 500797-3209, unless otherwise clear from the context. Eignarhaldsfélagið Verðbréfaþing hf., incorporated under the laws of Iceland, ID-No. 650602-4390, the sole owner of Verðbréfaskráning Íslands hf., is currently fully owned by OMX AB, a Nordic securities exchange group, incorporated under the laws of Sweden, currently operating exchanges in Copenhagen, Stockholm, Helsinki, Iceland, Riga, Tallinn and Vilnius.

References to “KredittBanken” or “Glitnir Bank ASA” in this Registration Document shall be construed as referring to Glitnir Bank ASA (previously named KredittBanken ASA), incorporated under the laws of Norway, ID-No. 963929196, St. Olavs plass 1, 6002 Ålesund, Norway.

References to “the Manager” in this Registration Document shall be construed as referring to Glitnir, unless otherwise clear from the context.

References to the “Nordic countries” or the “Nordic region” shall be construed as referring to Denmark, Finland, Norway and Sweden, excluding Iceland.

References to “North America” shall be construed as referring to the United States and Canada.

References to “OMX ICE” in this Registration Document shall be construed as referring to the OMX Nordic Exchange Iceland hf., incorporated under the laws of Iceland, ID-No. 681298-2829 a part of the Nasdaq OMX Group.

References to the “ OMX ICE Main Market” in this Registration Document shall be construed as referring to the Main Market at OMX ICE, unless otherwise clear from the context.

References to “the Prospectus” in this Registration Document shall be construed as referring to the Prospectus dated July 14, 2008, comprising of a Summary, a Registration Document and a Securities Note.

References to the “Securities Act” in this Registration Document shall be construed as referring to Act No. 108/2007 on Securities Transactions.

References to “Sjóvá” in this Registration Document shall be construed as referring to Sjóvá-Almennar tryggingar hf., incorporated under the laws of Iceland, ID-No. 701288-1739, unless otherwise clear from the context.

References to “SME” in this Registration Document shall be construed as referring to small- and medium sized enterprises.

We present our financial statements in Icelandic krona and references in the Registration Document to “ISK” 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.

For purposes of analysis of our financial information, we define "organic growth" as growth from businesses and activities that were part of our operations at the beginning of the period under review. "Acquisition growth" represents growth from businesses and activities that were acquired and became part of our operations after the beginning of the period under review.

Certain numerical information and other amounts and percentages presented in the Registration Document may not sum up due to rounding. In addition, certain figures in the Registration Document have been rounded to the nearest whole number.

Where data is not provided from March 31, 2008 but from December 31, 2007, to the extent known to management, no material changes have taken place during that period.

5. THIRD PARTY INFORMATION

Where third party information has been used in this Registration Document, the information has been accurately reproduced and the source of such information has been identified. As far as the Company is aware and able to ascertain from information published by those third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

6. NOTICE TO INVESTORS

The Prospectus is compiled in accordance with Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (“the Prospectus Directive”). The Prospectus Directive has been implemented into Icelandic law.

The Prospectus and any document forming a part of it is prepared in relation to the admission to trading of ISK 15 billion five year mandatory convertible bonds issued and sold by us.

The Prospectus is not being distributed in, and must not be mailed or otherwise distributed or sent in or into any country in which distribution would require any additional registration measures or other measures to be taken, other than as applicable under Icelandic law and regulations, or would be in conflict with any law or regulation in such country. The Prospectus may be passported in accordance with the provisions of the Prospectus Directive into other jurisdictions within the European Economic Area.

The admission to trading will proceed pursuant to Icelandic law and regulations. OMX ICE has, in its authority under agreement between it and the Icelandic Financial Supervisory Authority, scrutinised and approved this Prospectus, which is published in English only.

This Prospectus has been prepared to provide clear and thorough information on the consolidated company Glitnir banki hf. Investors are encouraged to acquaint themselves thoroughly with this Prospectus. They are advised to pay particular attention to Risk Factors in Chapter 1.

This Prospectus should by no means be viewed or construed as a promise by us, the Manager or other parties of future success either in operations or return on investments. Investors are reminded that investing in securities entails risk, as the decision to invest is based on expectations and not promises. Investors must rely primarily on their own judgement regarding any decision to invest in our securities, bearing in mind inter alia the business environment in which we operate in, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts, such as licensed financial institutions, to assist them in their assessment of the securities issued by us as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of our securities and seek external and independent advice in that respect.

Notwithstanding a special statement to the contrary references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

7. SELECTED FINANCIAL INFORMATION

The following table presents our selected consolidated financial data as of the dates or for the periods indicated and is qualified in its entirety by, and should be read in connection with Chapter 8 - Operating and Financial Review, and audited consolidated financial statements and related notes incorporated by reference, see Chapter 3 – Documents on Display and Incorporated by Reference. The selected consolidated income statement data for the years ended December 31, 2005, 2006 and 2007 and the selected consolidated balance sheet data as of December 31, 2005, 2006 and 2007 have been derived from our audited consolidated financial statements prepared in accordance with IFRS. The selected consolidated income statement for the quarters ended 2006, 2007 and 2008 have been derived from our reviewed financial statements prepared in accordance with IFRS.

Income statement (ISK million)	**2005**	**2006**	**2007**
Net interest income	22,351	37,084	39,082
Net insurance premium	229	0	0
Net fee and commission income	8,773	26,459	37,644
Realized gains on financial assets available for sale	181		
Net gains/losses on financial assets and financial liabilities held for trading	3,993	5,999	-879
Net gains/losses on financial assets at fair value through profit or loss	491	2,097	5,202
Fair value adjustments in hedge accounting	-59	-185	-448
Net foreign exchange gains (losses)	-179	581	280
Other net operating income	631	555	4,214
Net operating income	36,411	72,601	85,095
Administrative expenses	-15,731	-27,301	-48,144
Impairment losses	-2,205	-4,759	-5,516
Share of profit of associates	1,262	1,470	-54
Net gains on non-current assets classified as held for sale	3,323	4,244	2,523
Profit before income tax	23,060	46,255	33,904
Income tax	-4,174	-8,024	-6,253
Net profit	18,886	38,231	27,651
Net profit attributable to:			
Shareholders of Glitnir banki hf.	18,886	37,360	26,680
Minority interest	0	871	971
Net profit	18,886	38,231	27,651

Income statement

(ISK million)	Q1 2006	Q1 2007	Q1 2008
Net interest income	7,830	7,943	13,793
Net fee and commission income	5,626	7,298	10,604
Net gains/losses on financial assets and financial liabilities held for trading	3,229	651	-7,358
Net gains/losses on financial assets at fair value through profit or loss	748	1,844	2,980
Fair value adjustments in hedge accounting	-4	54	662
Net foreign exchange gains (losses)	-185	340	4,528
Other financial income	0	24	0
Other net operating income	47	59	415
Net operating income	17,291	18,213	25,624
Administrative expense	-5,872	-8,636	-13,800
Impairment losses	-1,424	-1,232	-4,119
Share of profit of associates	1,186	-136	0
Net gains on non-current assets classified as held for sale	0	208	4
Profit before income tax	11,181	8,416	7,710
Income tax	-2,083	-1,408	-1,851
Net profit	9,098	7,008	5,859
Net profit attributable to:			
Shareholders of Glitnir banki hf.	9,098	6,615	5,867
Minority interest	0	393	-8
Net profit	9,098	7,008	5,859

Balance sheet

(ISK million)	2005	2006	2007	Q1 2008
Cash and balances with central banks	20,861	20,417	55,500	26,893
Derivatives	18,852	72,603	118,706	295,351
Bonds and debt instruments	146,085	231,675	278,960	319,594
Shares and equity instruments	89,360	108,846	105,581	123,150
Loans to banks	75,488	177,010	278,469	396,851
Loans to customers	1,078,383	1,596,184	1,974,907	2,516,183
Investments in associates	8,081	4,379	2,820	587
Investment property	0	0	5,539	5,539
Property and equipment	1,987	3,296	4,202	4,915
Intangible assets	10,824	18,310	46,955	62,197
Deferred tax assets	268	264	1,269	1,840
Non-current assets held for sale	551	409	476	599
Other assets	21,205	12,947	75,526	111,177
Total assets	1,471,945	2,246,340	2,948,910	3,864,876
Short positions	0	4,877	15,023	11,939
Derivatives	36,024	60,721	77,497	171,711
Deposits from central banks	17,801	36,045	4,653	36,196
Deposits from banks	12,855	42,532	50,524	40,016
Deposits from customers	304,136	438,272	725,349	814,857
Debt issued and other borrowed funds	937,794	1,377,787	1,746,199	2,374,776
Subordinated loans	47,464	108,998	101,669	147,338
Post-employment obligations	418	529	425	654
Current tax liabilities	1,404	7,526	4,362	2,871
Deferred tax liabilities	3,682	3,121	5,641	4,826
Other liabilities	25,830	19,813	47,599	74,002
Total liabilities	1,387,408	2,100,221	2,778,941	3,676,186
Equity				
Total equity attributable to the equity holders of Glitnir banki hf.	84,537	144,578	169,201	187,954
Minority interest	0	1,541	768	736
Total equity	84,537	146,119	169,969	188,690
Total liabilities and equity	1,471,945	2,246,340	2,948,910	3,864,876

Other Financial and Operating Data and Key Ratios

(ISK million)	**2005**	**2006**	**2007**	**Q1 2008**
Return on equity after taxes	30.3%	39.4%	19.3%	15.0%
Net interest margin	2.0%	2.0%	1.6%	1.7%
Cost to income ratio	37.9%	38.0%	57.0%	54.0%
Impairment losses:				
as a proportion of average total assets	0.2%	0.3%	0.2%	0.5%
CAD ratio	12.6%	15.0%	11.2%	11.0%
Total tier 1 ratio	9.9%	10.8%	8.1%	7.7%
Core ratio	7.8%	8.2%	6.2%	5.2%
Average number of full-time employees	1,216	1,392	1,976	2,291
Earnings per share (ISK)	1.47	2.68	1.86	0.40
Share price (end of period) (ISK)	17.3	23.3	22.0	17.35
Share price per earnings (end of period) (ISK)	11.8	8.6	11.7	10.8
Dividends per share (ISK)	0.38	0.66	0.37	N/A
Payout ratio	28.0%	24.6%	20.0%	N/A
Outstanding shares (end of period) (in thousands)	13,112	14,161	14,730	14,730
Share price per book value (end of period) (ISK)	2.7	2.3	1.9	1.3
Market capitalization (end of period)(ISK billion)	226,838	329,951	323,302	252,737
Assets under management	344,975	490,321	936,010	1,010,891
Guarantees *	19,788	42,826	44,932	77,022

* Which we have granted to customers

8. OPERATING AND FINANCIAL REVIEW

The following discussion should be read in conjunction with Chapter 7 – Selected Financial Information contained herein and our consolidated financial statements and the notes thereto incorporated into this document by reference see Chapter 3 – Documents on Display and Incorporated by Reference. This discussion contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements as a result of these risks and uncertainties, including those set forth in Chapter 27 - Forward-Looking Statements and in Chapter 1 - Risk Factors included elsewhere in the Registration Document.

8.1. FACTORS AFFECTING RESULTS OF OPERATIONS AND CAPITAL STRUCTURE

8.1.1. ICELANDIC AND NORWEGIAN ECONOMIES

Our results of operations are affected by general market conditions, primarily in Iceland and Norway. Due to the extent of our established banking operations in Iceland across all of our business segments and our market share in Iceland (as of December 31, 2007, 24% in terms of loan volume (source & further information: Central Bank of Iceland, www.sedlabanki.is and Glitnir banki hf., www.glitnir.is)), our results of operations are affected by trends and market conditions in Iceland, including economic cycles, banking industry cycles, volatility in financial markets, fluctuations in interest rates and exchange rates, monetary policies and competition. Although Norway is our second core market and general economic conditions in Norway affect our business in Norway, our market share in Norway is only 1.5% based on loans to customers (source & further information: Norwegian Financial Services Association, www.fnh.no). Our activities in Norway are principally focused on residential and commercial real estate lending, as well as our specialized industry sectors of offshore service vessels for the oil and gas industry and shipping and seafood. Accordingly, our results of operations for our lending business in Norway are affected by conditions in the residential housing market and the market for commercial real estate lending. Our results of operations in relation to our offshore service vessels specialized industry sector are affected by trends in the oil and gas industry, including changes in commodity prices for oil and gas. Our results of operations in relation to our seafood specialised industry sector are affected by demand for seafood and related products and seafood prices. See Chapter 1 – Risk Factors.

The Icelandic economy slowed in 2007 following several years of strong growth due to substantial industrial investments (primarily in the geothermal and aluminium sector), structural changes in the mortgage market, rapidly increasing purchasing power of consumers and successful foreign expansion of the largest Icelandic companies, including the major domestic banks. After growing by over 7% annually in 2004 and 2005, GDP growth slowed to 4.4% in 2006, and further decreased to 3.8% in 2007 (source & further information: Statistics Iceland, www.statice.is). This slowdown was due primarily to a contraction in domestic demand, notably in business investment as a number of large-scale industrial projects neared completion. Private consumption has however sustained, even as the business cycle has matured, growing by 4.2% in 2007 following a 4.4% growth in 2006. Stable growth in private consumption has led to strong development in our private banking business in Iceland, as less risk adverse private investors in Iceland have increasingly invested in our funds under management and engaged in trading and leveraging transactions. Demand for individual lending and banking services remained strong in 2007, although the liquidity challenges in the international financial markets began to affect demand at the end of 2007 and continue to affect markets in 2008.

Among the reasons for continued growth in private consumption has been the consistently high level of employment, population growth caused by immigration, growth in purchasing power due to wage increases and tax cuts, and wealth effects due to rising prices of the main asset classes held by the public. Residential house prices in the urban parts of Iceland increased by approximately 14% in the year 2007 following an increases of about 7% and 28% in 2006 and 2005, respectively (source & further information: Statistics Iceland, www.statice.is), and the OMX Iceland 15 stock index declined by 3.2% in 2007 after increasing by 13.4% and 65.5% in 2006 and 2005, respectively (source & further information: OMX Nordic Exchange, www.omxnordicexchange.com). As the residential housing market in Iceland began to cool in 2007, our new mortgage lending in Iceland in 2007 decreased by 17% as compared to 2006.

Rising interest rates during 2007 have been one of the main factors driving changes in the value of the ISK, with the ISK depreciating by 23% in the first quarter of 2008, appreciating by 4% in 2007 after an 18% depreciation in 2006 against a trade-weighted basket of currencies (sources & further information: http://www.sedlabanki.is).

In Norway, the economy is in its fourth consecutive year of stable economic growth. Following approximately 4% annual GDP growth from 2004 to 2006, the economy grew by 5.9% in 2007 (source & further information: Statistics Norway, http://www.ssb.no/en/). This growth has been driven by expansionary fiscal and monetary policies, rapid productivity growth and significant foreign demand for Norway's main export commodities, which in turn has encouraged growth in private consumption through a strong labour market, solid growth in real wages and rising asset prices. Although the economy has proven quite flexible, not least due to increased foreign labour immigration which totalled 30% of the growth in the Norwegian labour pool from 2005 to 2006, capacity constraints have appeared in some regions. Unemployment was 3.4% in 2006 but decreased to 2.5% in 2007 as wages increased by 5.5% on an annual basis (source & further information: Statistics Norway, http://www.ssb.no/en/).

The steady economic growth in Norway has had the greatest positive impact on our Corporate Banking business, as heavy investment and high oil prices have fuelled the offshore services vessels, shipping, trade and manufacturing sectors in which we have substantial customer relationships in Norway. Generally, the favourable economic climate in Norway has had a positive impact on most of our target industries; however, it has also increased competition as Norway has become an attractive market due to stable economic growth.

Despite rapid economic growth in Norway, inflation has been relatively contained, due to favourable developments in the prices of consumer imports, significant increases in labour supply and technologically driven productivity growth. Recently, domestic price pressures have started to appear and the NOK has been fluctuating significantly, depreciating most recently. The Central Bank of Norway has remained concerned about increasing inflationary pressures and has raised its benchmark policy interest rates from the record-low level of 1.75% in 2004 to the current level of 5.25%. Due to the rising interest rates, as well as pressures in the global credit markets, asset markets have cooled recently in Norway. Despite the cooling of the housing market, at the date of the Registration Document, we have not experienced a negative impact on our residential mortgage lending business in Norway. The rise in interest rates and increased competition in Norway has created some pressure on our net interest margin in Norway; under Norwegian law, we are required to notify customers six months in advance for raising interest rates on loans, with the effect that interest rates on loans continually lag behind interest rate rises by the Central Bank of Norway.

8.1.2. INFLATION IN ICELAND

Rapid economic growth in Iceland from 2005 to 2007 has entailed increased economic imbalances most evident in persistent inflation and a high current account deficit (15.8% of GDP in 2007 (source & further information: Central Bank of Iceland, www.sedlabanki.is). Inflation (on an annual basis) was 6.9% in 2006, 5.8% in 2007 and 9.4% as of April 2008 as a tight labour market and rising house prices contributed to inflationary pressures (source & further information: Statistics Iceland, www.statice.is). The Central Bank of Iceland has a 2.5% inflation target and has endeavoured to counteract high inflation by raising its benchmark policy interest rates from 8.75% in January 2005 to 15.5% as of April 10, 2008 (source & further information: Central Bank of Iceland, www.sedlabanki.is).

We are exposed to Icelandic inflation as our Consumer Price Index (CPI)-linked assets exceed our CPI-linked liabilities. Our CPI-linked assets include ISK-denominated long-term mortgages issued in Iceland and assets and derivatives based on indexed trading securities, which are short-term investments. All indexed assets and liabilities are re-valued according to the CPI measure on a monthly basis and changes in the CPI are recognized in our income statement. This exposure is limited to our ISK based assets and liabilities.

To the extent that our CPI-linked assets exceed our CPI-linked liabilities, increases in the rate of inflation in Iceland will result in increased net interest income with respect to our CPI-linked interest-bearing assets and offset increases in borrowing costs with respect to our CPI-linked liabilities. During the period 2005 to 2007, our CPI-linked assets exceeded our CPI-linked liabilities in the range of ISK 89 to 141 billion. Changes in net interest income generated by our Icelandic operations year-on-year may reflect fluctuations as well as increased asset volumes or interest rates. We are also exposed to the risk of deflation in the Icelandic economy. Furthermore, we are also exposed to the risk of de-indexation of these assets and liabilities in Iceland, should trends develop such that assets and liabilities are no longer linked to the CPI, such as if Iceland were to adopt the Euro as its currency, or legislation or regulations are introduced prohibiting such indexation. See Chapter 1 - Risk Factors, “We are subject to indexation risk which may have an adverse effect on our results of operations” and Chapter 20.7 - Inflation Risk.

8.1.3. INTEREST RATES

During the periods under review, Iceland and Norway have experienced a general rise in interest rates. In Iceland, the benchmark policy interest rate of the Central Bank of Iceland rose from 8.75% at the beginning of 2005, to 10.5% at the beginning of 2006, to 14.25% at the beginning of 2007 and to the current level of 15.5%. The Central Bank of Iceland has raised its benchmark policy interest rate twenty one times since interest rates began to rise in May 2004 (source & further information: Central Bank of Iceland, www.sedlabanki.is). Interest rates in Norway rose from 1.75% in the beginning of 2005, to 2.25% at the beginning of 2006, 3.75% at the beginning of 2007 and to the current level of 5.50%. The Central Bank of Norway has raised interest rates in Norway 15 times during this period. See Chapter 1 - Risk Factors, “We may be adversely affected by changes in interest rates”.

Changes in interest rates affect our operations, as fluctuations in interest rates have an impact on our interest income as well as the cost of borrowing and funding (our interest expense). Net interest income represented 61%, 51% and 46% of our net operating income in 2005, 2006 and 2007, respectively. Changes in our net interest income from 2006 to 2007 are due to change in volume and change in interest rate. The total interest change in net interest income between 2006 and 2007 was ISK 1,996 million where ISK 9,297 is attributable to change in volume and ISK -7,301 million due to change in interest rate. Changes in net interest income due to changes in volume were calculated by multiplying the change in volume during the year times the average rate for the preceding year. Changes to net interest income due to changes in rates were calculated by multiplying the change in the current year average rate times the volume of the current year

Over the periods under review, movements in short- and long-term interest rates have affected the amount of gains and losses on securities held in our investment and proprietary trading portfolios. A decrease in interest rates reduces the yield on interest-bearing assets, as higher yielding assets are called or mature and the proceeds of these assets are reinvested or lent at lower interest rates, but also increases the market value of the fixed income debt securities in our portfolio. Conversely, rising interest rates increase our net interest income and the value of interest-bearing assets in our investment and proprietary trading portfolios, but decrease the market value of the fixed interest debt securities in our portfolio.

8.1.4. EXCHANGE RATE FLUCTUATIONS AND REPORTING CURRENCY

While the ISK is our reporting currency, a large part of our assets and liabilities are denominated in foreign currencies and a significant portion of our revenues and expenses originate in currencies other than ISK. Our subsidiaries outside Iceland prepare their financial statements in their functional currency, which is generally not the ISK. The following table demonstrates the division of our assets and liabilities into currencies as of December 31, 2007.

	ISK	NOK	SEK	EUR	USD	GBP	CHF	JPY	Other
Asset	873,785	739,487	65,413	554,005	280,421	148,312	118,665	80,195	88,627
As a % of total assets	29.6%	25.1%	2.2%	18.8%	9.5%	5.0%	4.0%	2.7%	3.0%
Liabilities	563,376	525,635	24,544	932,590	512,108	220,270	61,895	16,536	91,956
As a % of total liabilities	19.1%	17.8%	0.8%	31.6%	17.4%	7.5%	2.1%	0.6%	3.1%

At December 31, 2007, the predominant non-ISK currencies in which our net income from operations outside Iceland in 2007 was originated in NOK 19% and EUR 6%. Income and expenses originating in currencies other than ISK are translated into ISK for financial reporting purposes on the basis of average exchange rates during the period under review. Assets and liabilities denominated in currencies other than ISK are translated into ISK on the basis of year end exchange rates. Accordingly, changes in our net income or value of our assets and liabilities year on year may not completely be due to increases in volume or underlying business performance, but also due to translation of income, expenses, assets and liabilities into ISK. The changes resulting from the translation of non-ISK income, expense, assets and liabilities into ISK are reflected on our income statement and balance sheet as translation differences. The weakening of the ISK against the NOK and EUR in 2006 caused an increase in our profit before tax of approximately ISK 1,000 million in 2006. The strengthening of the ISK in 2005 against the NOK and EUR resulted in a decrease in our profit before tax of approximately ISK 100 million in 2005. The strengthening of the ISK against the NOK and EUR in 2007 caused a minor decrease in our profit before tax in 2007.

We seek to minimize currency risk by matching assets and liabilities with respect to the currencies in which they are denominated. Any currency mismatch in assets and liabilities is treated as a trading position and subject to strict limits set by our Market Risk Committee.

As our equity is denominated in ISK but our assets are predominantly denominated in currencies other than the ISK, our capital ratios are sensitive to fluctuations in exchange rates. Accordingly, we maintain long positions in non-ISK currencies in order to hedge the sensitivity of our capital ratios to changes in exchange rates. These positions are managed within limits set by ALCO. As of December 31, 2007, we had long positions in NOK, SEK and EUR amounting to ISK 72 billion. As a result, a 10% decline in the value of the ISK at the end of 2007 would have resulted in 0.2%-0.3% lower capital ratios. Our foreign exchange position changed substantially in the first quarter of 2008. At the end of March this year we held long foreign exchange positions amounting to ISK 157 billion, reducing the sensitivity of capital ratios to 0.1% against 10 % depreciation of the ISK.

It is our policy to minimize non-ISK interest rate risk in our banking book. Assets and liabilities with fixed terms are hedged with interest rate swaps or other derivatives and hedge accounting is utilized where possible to minimize the impact on our income statement. Interest rate exposures in ISK are not hedged to the same extent and our banking book is therefore exposed to fluctuations in ISK interest rates.

8.2. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with IFRS.

During the preparation of these financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates and assumptions, including those related to determination of the fair value of financial assets and financial liabilities, impairment losses on loans and receivables and judgments regarding securitizations and special purpose vehicles. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances as well as facts as they are known to us at the time. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. As these estimates and judgments often relate to assets and liabilities, the value of which will not actually be known until such assets and liabilities are disposed of or discharged, to the extent that the cash received on settlement is different than the value we had previously attributed to the asset or liability we will recognize a gain or loss in our income statement. To the extent that any differences are within reasonable limits we do not view the difference between an estimate and the realized value upon disposal or discharge as material. During the period under review, we have not realized any differences between our estimates and actual values above this threshold. Our critical accounting policies have been discussed with our Board of Directors.

Determination of Fair Value of Financial Assets and Financial Liabilities

We have positions in financial assets and financial liabilities, such as loans, fixed income and equity securities, which we intend to hold for more than one year and the majority of which are unlisted and not quoted on active markets. We determine the fair value of these financial assets and financial liabilities using valuation techniques. These valuation techniques are validated and periodically reviewed by qualified Bank personnel. All of the valuation models we use are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, we use only observable data in our models; however, areas such as credit risk (both our own credit risk and that of our counterparties), volatilities and correlations require management to make assumptions, estimates and judgments.

Impairment

We recognize losses for impaired loans and receivables. For this purpose, management reviews our loan portfolios to assess impairment on a semi-annual basis. In determining whether an impairment loss should be recognized in the income statement, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans and receivables with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

We assess whether there is any indication of impairment of goodwill,commissioning expert analysis if necessary. Goodwill is written down for impairment. Gains or losses realized on the disposal of a subsidiary include any unamortized balance of goodwill relating to such subsidiary.

We determine that available-for-sale equity investments are impaired when there has been a significant decline in the fair value below its cost. The determination of what is significant requires judgment. In making this judgment, we evaluate among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial strength of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The amount of impairment loss is recognized in the income statement.

8.3. KEY INCOME STATEMENT LINE ITEMS

Set forth below is a brief description of the principal revenue captions in our income statement.

Net Interest Income

Net interest income includes interest income on: (a) cash and cash balances with central banks, (b) loans and receivables, (c) financial assets held for trading, (d) financial assets designated at fair value through profit or loss, (e) financial assets available-for-sale and (f) other assets. Net interest income is presented net of expenses on:

(i) deposits from credit institutions and central banks, (ii) other deposits, (iii) borrowings, (iv) subordinated loans, (v) financial liabilities held for trading and (vi) other interest expenses. Interest-earning assets consist principally of loans to corporate clients, small and mid-sized companies and individuals, together with loans to banks, corporate debt securities and sovereign bonds. Interest-bearing liabilities consist primarily of bonds issued by us, borrowings from financial institutions and deposits from customers and financial institutions. Our net interest income is affected by a number of factors. It is determined primarily by the volume of our interest-earning assets and interest-bearing liabilities, together with the difference between the rates earned on interest-earning assets and the rates paid on interest-bearing liabilities.

Net Fee and Commission Income

We provide various services to our clients from which we earn income. Fee and commission income depend in large part on the volume and value of services we provide to clients, which in turn is contingent on conditions in the markets in which we operate as well as other factors such as competition from other banks. Net fee and commission income includes fee and commission income from: (a) asset management, (b) securities brokerage, (c) payment processing, (d) loans and guarantees, (e) non-ISK brokerage commission, (f) advisory and (g) other fees and commissions income. Fee and commission income is presented net of expenses due to: (i) inter-bank charges, (ii) brokerage, (iii) clearing and settlement and (iv) other commission expenses.

Net Gains (Losses) on Financial Assets and Financial Liabilities Held for Trading

Net gains (losses) on financial assets and financial liabilities held for trading includes gains and losses arising from disposals, extinguishments and changes in fair value of: (i) shares and related derivatives, (ii) bonds and related derivatives and (iii) other derivatives. These are assets and liabilities that we intend to trade within one year primarily as part of our proprietary trading activities, but also include short positions in assets and liabilities, forward contracts and derivatives in our banking book that are not eligible for hedge accounting treatment. Under IFRS, changes in the market value of these derivative instruments are required to be reflected in our income statement on a mark-to-market basis.

Net Gains (Losses) on Financial Assets Designated at Fair Value through Profit or Loss

Net gains (losses) on financial assets designated at fair value through profit or loss include gains and losses on financial assets that we own as part of our longer-term investment portfolio, including (i) shares, (ii) bonds and (iii) loans related to derivatives. These assets and liabilities are predominantly unlisted and are rarely traded on active markets (if at all).

Administrative Expenses

Our administrative expenses include: (i) employee salaries and related expenses, (ii) other administrative expenses and (iii) depreciation and amortization costs of our assets. Salaries and related expenses include salaries of our employees, pension and similar expenses, employee benefits including salary equivalents such as stock options, social security charges, share based payments and other related expenses. As of March 31, 2008, we had 2,078 full-time employees. Other administrative expenses include related personnel expenses, such as information technology expenses, marketing and branding expenses and contractors and non-full time employees.

Impairment Losses

Impairment losses recognized in profit and loss on our income statement constitute impairment losses on loans, receivables, goodwill and financial assets available for sale.

Share of Profit of Associates

Share of profit of associates constitutes our minority investment in companies in which our ownership percentage is less than 50%. During the periods under review, this item mainly represented our share of the results of operations of Sjóvá-Almennar tryggingar hf. (Sjóvá), which was sold in 2006.

Net Gains on Non-current Assets Classified as Held for Sale

Net gains on non-current assets held for sale include net losses or profits from the sale of foreclosed mortgages and net profits from the sale of our subsidiaries and interest in associates.

8.4. RESULTS OF OPERATIONS

8.4.1. YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2007

Income statement

Income statement for the years 2006 and 2007	**Year ended December 31,**		
(ISK million)	**2006**	**2007**	**Change**
Interest income	119,115	187,576	57%
Interest expense	-82,031	-148,494	81%
Net interest income/(expense)	37,084	39,082	5%
Fee and commission income	30,307	44,059	45%
Fee and commission expense	-3,848	-6,415	67%
Net fee and commission income	26,459	37,644	42%
Net financial income	8,503	4,155	-51%
Other net operating income	555	4,214	659%
Net operating income	72,601	85,095	17%
Administrative expenses	-27,301	-48,144	76%
Net impairment losses on financial assets	-4,759	-5,516	16%
Net gain on non-current assets classified as held for sale	4,244	2,523	-41%
Share of (loss) profit of associates	1,470	-54	-
Profit before income tax	46,255	33,904	-27%
Income tax	-8,024	-6,253	-22%
Profit for the year	38,231	27,651	-28%
Attributable to:			
Equity holders of Glitnir Banki hf.	37,360	26,680	-29%
Minority interst	871	971	11%
Profit for the year	38,231	27,651	-28%
Basic earnings per share	2.68	1.86	-31%
Diluted earnings per share	2.66	1.85	-30%

Net Interest Income

Net interest income in 2007 amounted to ISK 39,082 million, as compared to ISK 37,084 million in 2006, representing an increase of 5%. The average position of total capital increased from ISK 1,846 billion in 2006 to ISK 2,478 billion in 2007, or by 34%. The interest rate margin as a percentage of average capital position was 1.6%, compared to 2.0% the year before. Among items that contribute to lower interest margin are lower inflation over the year compared to 2006 and the growth of the Bank's liquidity portfolio which consists mainly of low-risk assets carrying low interests. The net interest spread (average rata on total interest earning assets minus the average cost of total interest bearing liabilities) was 2.0% for the year ended December 31, 2007, compared to 2.3% for the year ended December 31, 2006. This decrease was primarily due to lower inflation in the year 2007 compared to 2006.

The average interest rate on interest-bearing assets was 8.5% in 2007 compared to 7.0% in 2006, reflecting an increasing interest rate environment. The benchmark policy interest rate of the Central Bank of Iceland was 10.5% at the beginning of 2006 and 14.25% at the beginning of 2007. See Chapter 8.1.3 – Interest Rates.

Interest expense increased from ISK 82,031 million in 2006 to ISK 148,494 million in 2007, an increase of ISK 66,463 million. The average interest rate on interest-bearing liabilities was 6.5% in 2007, compared with 4.7% in 2006. The increase in average interest bearing assets from 2006 to 2007 was around 26%.

Risk weighted assets during this period grew from ISK 1,564,300 million at December 31, 2006 to ISK 2,017,470 million at December 31 2007, an increase of 29%.

In 2007, 47% of net interest income was derived from Iceland, 21% from Nordics, 32% from International, as compared with 55% from Iceland, 20% from Nordics, and 25% from International in 2006.

Net Fee and Commission Income

Net fee and commission income increased by 42%, from ISK 26,459 million in 2006 to ISK 37,644 million in 2007. Excluding fee income from our acquired businesses, fee income generated through organic grew by 22%. This organic growth in fee income was principally due to our continued focus on fee and commission income as part of our efforts to diversify our sources of income. In addition to organic growth, the increase is by a large part explained by acquisition of a Finnish operation, now Glitnir Oyj, which contributed ISK 6,613 million to gross fee income from April 1, 2007. The growth can also be explained by the fact that Kreditkort, Borgun and Glitnir AB are now included for 12 months in the 2007 consolidated accounts but were only included for 6 months in 2006.

Gross fee and commission income from asset management in 2007 nearly tripled from 2006, amounting to ISK 9,107 million in 2007 (ISK 3,269 million in 2006). This increase is to a large extent attributable to the acquisition of Glitnir Oyj. Assets under management increased from ISK 490,321 million as of December 31, 2006, to ISK 936,010 million as of December 31, 2007, an increase of 91%. Assets held in custodial accounts with the Bank increased by 89%, from ISK 697,735 million as of December 31, 2006 to ISK 1,317,827 million as of December 31, 2007.

Gross fee and commission income from securities brokerage activities increased from ISK 6,127 million in 2006 to ISK 11,493 million in 2007. Non-ISK currency brokerage commissions amounted to ISK 5,543 million in 2007, an increase of ISK 1,313 million from 2006

Payment processing fees and commissions increased from ISK 2,892 million in 2006 to ISK 3,953 million in 2007, an increase of 37%.

Gross fee and commission income from advisory services decreased from ISK 9,856 million in 2006 to ISK 8,099 million in 2007.

Our fee and commission expenses increased from ISK 3,848 million in 2006 to ISK 6,415 million in 2007, an increase of 67%, slightly greater than the increase in fee and commission income for the same period. Inter-bank charges increased by 70.8%, from ISK 1,353 million in 2006 to ISK 1,688 million in 2007. Brokerage expenses amounted to ISK 1,200 million, an increase of ISK 464 million from 2006. Clearing and settlement expenses more than doubled, amounting to ISK 1,221 million in 2007 compared with ISK 526 million in 2006. Other commission expenses totalled ISK 2,306 million in 2007, an increase of ISK 1,073 million from 2006.

In 2007, 48% of net fee and commission income was derived from Iceland, 42% from Nordics, 8% from Europe and 2% from International, as compared with 61% from Iceland, 27% from Nordics, 10% from Europe and 2% from International in 2006, reflecting our international expansion and growth.

Net Financial Income

Net financial income decreased by 51% or from 8,503 in 2006 to 4,155 in 2007 mainly due to unfavourable market conditions. Net financial income constitutes of the following four elements:

Net Gains/Losses on Financial Instruments Held for Trading

Net loss on financial instruments held for trading was ISK 879 million in 2007 compared to a net gain of 6,010 in 2006, a fluctuation of ISK 6,889 million between years. This development can mainly be attributed to unfavourable market for our bonds and shares held for trading in the latter months of 2007.

Net Gains on financial instruments designated at fair value through profit or loss

Net gains on financial assets and financial liabilities designated at fair value through profit or loss more than doubled from 2,097 in 2006 to 5,202 in 2007. These gains were principally due to shares which are mostly unlisted, returning a profit of ISK 7,853 million in 2007 compared to 2,707 in the year 2006.

Fair Value Adjustments in Hedge Accounting

Fair value adjustments in hedge accounting are income statement adjustments made in order to correlate the value of our borrowings to the corresponding hedging instrument we entered into in connection with that borrowing. While the value of the borrowing is fixed, the value of the hedging instrument is required to be marked to market under IAS 39. Accordingly, there may be a mismatch between the value of the borrowing and the fair value of the corresponding hedging instrument, requiring us to make an adjustment to account for the mismatch. Fair value adjustments in hedge accounting amounted to a negative adjustment of ISK 448 million in 2007 as compared to a negative adjustment of ISK 185 million in 2006. As the level of borrowings increased over the previous year (ISK 1,746 million in 2007 as compared to ISK 1,378 million in 2006), our hedging activities increased.

Net Foreign Exchange Gains

We aim to match our assets in each currency with our liabilities denominated in the same currency. As we are a market maker in foreign currencies, we realize foreign exchange gains and losses to the extent of our foreign exchange trading activities. Our gains from foreign exchange amounted to ISK 280 million in 2007 as compared to ISK 581 million in 2006, primarily due to less fluctuation in the Icelandic currency in 2007 compared to 2006. See Chapter 8.1.4. - Exchange Rate Fluctuations and Reporting Currency.

Other net operating income

Other net operating income in 2007 amounted to ISK 4,214 million in 2007 compared to ISK 555 million in 2006. Of that, rental income increased from ISK 38 million in 2006 to ISK 158 million in 2007. Gain on investment property and realized gain on property and equipment was ISK 2,678 million and ISK 1,237 million in 2007 respectively, but almost none in either case in 2006. These changes can be explained by two things, revaluation of investment property and gains on sale of building rights. Other net operating income decreased from ISK 514 million in 2006 to ISK 141 million in 2007.

Administrative Expenses

Administrative expenses totalled ISK 48,144 million in 2007 as compared to ISK 27,301 million in 2006, a 76% increase. The increase in administrative expenses was largely driven by an increase in salaries and related expenses from ISK 15,747 million in 2006 to ISK 27,896 million in 2007, an increase of 77%. Other administrative expenses also increased significantly or by 69% from 10,892 in 2006 to 18,359 in 2007 which can largely be attributed to infrastructure projects such as BASEL II, a compliance project, MIFID and investments in IT projects. Salaries increased from ISK 12,074 million in 2006 to ISK 20,527 million in 2007, a 70% increase resulting in the cost per employee going up by 25% from 2006. This cost increase is by a large part related to the management changes over the year.

Net Impairment Losses on Financial Assets

The provisions for loan losses charged to the income statement in 2007 amounted to ISK 5,516 million, compared to ISK 4,759 million in 2006, an increase of 16%. The total provision for loan losses amounted to ISK 14,371 million at year-end, compared to ISK 12,462 million at the beginning of the year, which corresponds to 0.7% of total lending and guarantees. The portfolio provision for loan losses at year-end corresponded to 0.8% of lending and guarantees. Final write-offs were ISK 3,534 million in 2007, compared to ISK 2,010 million in 2006.

Net Gain on Non-current Assets Classified as Held for Sale

Net gain on non-current assets classified as held for sale decreased by 41% from ISK 4,244 million in 2006 to ISK 2,523 million in 2007. Net profit from sale of foreclosed mortgages was ISK 462 million compared to a loss of ISK 6 million in 2006. Net profit from sale of subsidiaries and associates decreased by 50% from ISK 4,159 million in 2006 to ISK 2,061 million in 2007.

Share of Profit/Loss of Associates

The share of loss of associates amounted to ISK 54 million in 2007, compared to a profit of ISK 1,470 in 2006. Our share of results for Eignarhaldsfélagið Fasteign hf., Reiknistofa bankanna, and other principal associates was ISK 103 million, ISK 0 million and ISK -157 million respectively.

Profit before Income Tax

We posted a profit before income tax of ISK 33,904 in 2007, a decrease of 27% from 2006. This change can mainly be explained by increase in administrative expenses by ISK 20,843 million and increase in net fee and commission income by ISK 11,185 million.

Of our profit before tax in 2007, approximately ISK 280 million was attributable to currency exchange rate fluctuations principally reflecting changes in the exchange rate between the ISK and the NOK and the EUR and the SEK and the USD.

The cost to income ratio rose to 57% in 2007 from 38% in 2006 which reflects, to some extent, the difference in our revenue mix which has changed for the past two years from a focus on interest revenue to a good balance between net interest income and fee income. Fee-generating units have a higher cost income ratio than interest generating units.

Income Tax

Income tax was ISK 6,253 million in 2007, as compared to ISK 8,024 million in 2006, a decrease of 22%. The income tax payable in 2008 amounts to ISK 4,362 million. The Bank filed a court case against Icelandic authorities for the repayment of income tax of ISK 589 million which was charged in 2006 in accordance with tax authorities' ruling in relation to a merger with Framtak fjárfestingabanki hf. in 2004. The corporate income tax rate in Iceland is 18.0%, whereas our effective tax rate in 2007 was 18.4%, compared to 17.3% in 2006. The corporate tax rate in Norway is 28%.

Net Profit

Net profit amounted to ISK 27,651 million in 2007, compared with ISK 38,231 million in 2006, a decrease of 28%.

Balance sheet

Balance sheet as of year end 2006 and 2007 (ISK million)	**As of December 31,**		
	2006	**2007**	**Change**
Assets:			
Cash and balances with central banks	20,417	55,500	172%
Derivatives	72,603	118,706	64%
Bonds and debt instruments	231,675	278,960	20%
Shares and equity instruments	108,846	105,581	-3%
Loans to banks	177,010	278,469	57%
Loans to customers	1,596,184	1,974,907	24%
Investments in associates	4,379	2,820	-36%
Investment property	0	5,539	-
Property and equipment	3,296	4,202	27%
Intangible assets	18,310	46,955	156%
Deferred tax assets	264	1,269	381%
Non-current assets held for sale	409	476	16%
Other assets	12,947	75,526	483%
Total assets	2,246,340	2,948,910	31%
Liabilities:			
Short positions	4,877	15,023	208%
Derivatives	60,721	77,497	28%
Deposits from central banks	36,045	4,653	-87%
Deposits from banks	42,532	50,524	19%
Deposits from customers	438,272	725,349	66%
Debt issued and other borrowed funds	1,377,787	1,746,199	27%
Subordinate loans	108,998	101,669	-7%
Post-employment obligations	529	425	-20%
Current tax liabilities	7,526	4,362	-42%
Deferred tax liabilities	3,121	5,641	81%
Other liabilities	19,813	47,599	140%
Total liabilities	2,100,221	2,778,941	32%
Equity:			
Share capital	14,161	14,730	4%
Share premium	51,847	58,329	13%
Other reserves	7,504	9,456	26%
Retained earnings	71,066	86,686	22%
Total equity attributable to the equity holders of Glitnir Banki hf	144,578	169,201	17%
Minority interest	1,541	768	-50%
Total equity	146,119	169,969	16%
Total equity and liabilities	2,246,340	2,948,910	31%

Assets

Our total assets as of December 31, 2007 were ISK 2,948,910 million, an increase of 31% compared to total assets of ISK 2,246,340 million as of December 31, 2006. This growth is mainly explained by increased lending.

Derivatives amounted to ISK 118,706 million as of December 31, 2007 compared to ISK 72,603 million in December 31, 2006, representing a 64% increase. The derivatives included in this category are derivatives held for trading, derivatives to which hedge accounting is applied and derivatives used to hedge of net investment in foreign operations. These increased hedging activities can be explained by an increase in borrowing activities to fund acquisitions and organic growth.

As of December 31, 2007 bond and debt instruments amounted to ISK 278,960 million compared to ISK 231,675 million at December 31, 2006, representing a 20% increase. Of that, approximately ISK 97 billion were held as hedge against forward contracts with customers in 2007 compared to ISK 77 billion in 2006. Of our net exposure, ISK 2.5 billion were held in the trading book and ISK 170 billion in the banking book compared to ISK 3.8 billion and ISK 150 billion respectively in 2006.

Loans to customers amounted to ISK 1,974,907 million at December 31, 2007 compared to ISK 1,596,184 million at December 31, 2006 representing an increase of 24%. This is mainly due to increased emphasis on corporate lending in Norway and support of international growth of Norwegian and Icelandic customers. No major changes have occurred during 2007 in geographical concentrations of our lending whereas Iceland and Norway remain the two most important markets comprising 82% of the total loan portfolio.

The Bank's Investment property was valued at the year end by independent professionally qualified evaluator. This property is measured at fair value and changes in the fair values are included in the income statement.

Property and equipment amounted to ISK 4,202 million as of December 31, 2007 compared to ISK 3,296 million as of December 31, 2006. The increase of 27% can mainly be attributed to an increase of 74% in fixtures, equipment and vehicles as opposed to a decrease in book value of real estate by 31%.

Intangible assets increased from ISK 18,310 million as of December 31, 2006 to ISK 46,955 million as of December 31, 2007. This represents an increase of 156% which can be explained by a more than a double amount of goodwill, as of December 31, 2007 than at the same time in 2006, mainly due to the acquisition of FIM Group, along with an increase of ISK 6,071 million in the investments of brands and other in 2007 compared to no investments in the same activity in the year 2006.

Deferred tax assets increase by 381% in 2007, an increase from ISK 264 million as of December 31, 2006 compared to ISK 1,269 million as of December 31, 2007. This increase can be explained by deferred tax assets that can be attributed to; tax loss of subsidiary carried forward which tripled from 2006 to 2007, other intangible assets which were ISK 131 million in 2007 compared to ISK 0 in 2006 and then assets and liabilities denominated in foreign currencies which amounted to ISK 299 million in 2007 compared to ISK 0 in 2006.

Other assets increased from ISK 12,947 million at December 31, 2006 to ISK 75,526 million at December 31, 2007. This increase can be explained by the fact that other receivables at December 31, 2007 amounted to ISK 70,906 million compared to ISK 11,633 million December 31, 2006 and other assets had increased by more than three times from 2006 to 2007

Liabilities

Short positions in listed bonds amounted to ISK 15,023 million as of December 31, 2007 compared to ISK 4,877 million as of December 31, 2006, an increase of 208% between years.

Deposits from central banks and banks decreased from ISK 78,577 million at December 31, 2006 to ISK 55,177 million at December 31, 2007. The most significant factor causing this decrease is a 87% decrease in the amount of repurchase agreements with central banks whereas deposits from banks increase by 19% in the same period. Deposits from customers increase from ISK 438,272 million at December 31, 2006 to ISK 725,349 million, an increase of 66%.

As of December 31, 2007 38.6% of deposits were attributable to our banking activities in Iceland, 35.2% to Norway, 22.1% to the United Kingdom and 4.1% in Finland. Deposits represented 25.9% of our total funding as of December 31, 2007, compared to 20.4% as of December 31, 2006.

Borrowings increased from ISK 1,377,787 million as of December 31, 2006, to ISK 1,746,199 million as of December 31, 2007, an increase of 27%, reflecting increased funding needs due to the growth of our assets and business. As of December 31, 2007, borrowings represented 62% of our total funding, remaining relatively unchanged from 64% as of December 31, 2005.

Deferred tax liabilities increased from ISK 3,121 million as of December 31, 2006 to ISK 5,641 million as of December 31, 2007. This is mainly due to more leasing contracts.

Other liabilities increased by 140% in 2007, from ISK 19,813 million at December 31, 2006 to ISK 47,599 million at December 31, 2007. The most significant factors affecting this increase are almost three times the amount of accruals between end of year 2007 and 2006 and more than six times the amount of deferred income between the same period.

Our CAD ratio was 11.2% as of December 31, 2007, compared with 15.0% as of December 31, 2006. Our Tier I capital ratio was 8.1% as of December 31, 2007, compared with 10.8% as of December 31, 2006

Shareholders' Equity

Our total shareholders' equity was ISK 169,969 million as of December 31, 2007, compared with ISK 146,119 million as of December 31, 2006, representing an increase of 16% between years. In 2007 the Bank issued ISK 616 million new shares at ISK 24.8 per share. Of these, 172 million shares were paid as dividend to shareholders as a part of the total dividend payment in 2007 of ISK 9,403 million and 444 million shares were delivered to shareholders of FIM group in exchange for their shares in FIM Group. At the end of December 2007 treasury shares were ISK 151 million.

8.4.2. SEGMENT ANALYSIS FOR YEARS ENDED DECEMBER 31, 2006 AND DECEMBER 31, 2007

The numerical information contained in this chapter has been extracted from our books and is unaudited.

The segment analysis for the years ended December 31, 2006 and December 31, 2007 is not wholly comparable to the segment analysis for the years ended December 31, 2005, and December 31, 2006, that can be found in Chapter 8.4.4. This results from the fact that the definition of business lines and organizational structure has been changed in the course of the last three years and numbers from financial statements have therefore been restated between years.

Corporate Banking

	Year ended December 31,		
(ISK million)	**2006**	**2007**	**Change**
Net interest income	19,961	23,198	16%
Net fee income	2,989	2,919	-2%
Net financial income	-18	1,427	-
Other operating income	89	11	-88%
Administrative expenses	-6,705	-10,812	61%
Impairment	-2,729	-4,316	58%
Other income	18	307	1606%
Profit before tax	13,605	12,734	-6%

Net interest income increased by 16% from 2006 to 2007 and can mainly be attributable to a strong growth in Corporate Banking's loan portfolio. Net financial income was ISK 1,427 million at year end 2007 compared to ISK -18 million at year end 2006. Administrative expenses increased by over ISK 4.1 billion between years or 61% as a result of increased activities and as a result of enlarged staff and costs incurred in the course of developing our fisheries and geothermal energy businesses. Impairment increased by 58% between years resulting from increased specific provisions for losses, but an increase was also made in general provisions to reflect the growth of the loan portfolio. These results can also be explained by the fact that business suffered in the second half of 2007 from restricted access to loan capital, deteriorating loan terms and higher operating costs. Profit before tax decreased slightly between years and was ISK 12,734 million in 2007.

Investment Banking

	Year ended December 31,		
(ISK million)	**2006**	**2007**	**Change**
Net interest expense	-370	-562	52%
Net fee income	6,161	6,230	1%
Net financial income	2,335	5,187	122%
Other operating income	-	423	
Administrative expenses	-1,764	-3,230	83%
Impairment	-25	-7	-72%
Other income	-	56	
Profit before tax	6,337	8,097	28%

Net interest expenses for Investment Banking increased by 52% from 2006 to 2007 due to the increased size of the portfolio as Equity Investments is charged interest on the funds used for their investments. Net fee income remained unchanged between years. Net financial income increased by 122% from 2006 to 2007 and other operating income was ISK 423 million, these representing the increased activity of the Equity Investment unit resulting in a larger portfolio. Other operating income consists, among other things, of fair value adjustments to equity investments, which are booked at fair value at each time. Administrative expenses increased by 83% to ISK 3,230 million in 2007. This is mainly attributable to increased headcount as a result of the strengthening of the Investment Banking unit with the addition of new teams in Finland and Sweden and with the establishment of a new office in New York. Profit before tax increased by 28% from 2006 to 2007 being ISK 8,097 million ISK in 2007.

Markets

	Year ended December 31,		
(ISK million)	**2006**	**2007**	**Change**
Net interest income	3,078	2,914	-5%
Net fee income	11,978	17,182	43%
Net financial income	1,339	-140	-
Other operating income	209	105	-50%
Administrative expenses	-6,228	-12,890	107%
Impairment	-7	5	-
Other income	1,295	-	-
Profit before tax	11,664	7,176	-38%

Net Interest income for Markets was ISK 2,914 million in 2007. The net interest Income is primarily due our customers continued high interest in forward contracts. Net fee and commission income increased from ISK 11,978 million in 2006 to ISK 17,182 million in 2007. The increase is explained by a strong increase in turnover on the Nordic Exchanges, the acquisition of FIM in Finland and increased product offering in Iceland.

Administrative expenses increased by ISK 6,662 million from 2006 to 2007 due to increased headcount in all markets and the acquisition of FIM. The increase in number of employees was due to increased product offering, focus on research and strengthening of support functions. Profit before income tax was ISK 7,176 million in 2007 compared to ISK 11,664 million in 2006. The decrease in profit is mainly due to the increased cost as a result of general build up of the markets activities and increased competition for talented employees.

Commercial Banking

	Year ended December 31,		
(ISK million)	**2006**	**2007**	**Change**
Net interest income	12,974	13,521	4%
Net fee income	3,057	4,408	44%
Net financial income	-136	892	-
Other operating income	209	3	-99%
Administrative expenses	-9,334	-12,831	37%
Impairment	-1,970	-1,067	-46%
Other income	97	35	-64%
Profit before tax	4,897	4,961	1%

Net interest income for Commercial Banking increased by ISK 547 million, or 4.2%, primarily due to growth in our lending portfolio in Iceland as the average loan portfolio in 2007 for Commercial Banking in Iceland increased by ISK 46 billion compared to the average loan portfolio in 2006. Of this increase in the loan portfolio, ISK 9 billion, or 20% was attributable to inflation in Iceland during the year. Net fee and commission income increased by ISK 1,351 million or by 44%. The increase was mostly in Commercial Banking in Iceland due to increased activities but about ISK 860 million was related to an increase in shareholding in Kreditkort ehf. in 2006 and consolidation for the whole year. Other operating income and Net financial income increased by ISK 822 million from 2006 to 2007 due to extraordinary items such as gains in non-ISK currencies and revaluations of shares. Net operating income increased by ISK 2,720 million or by 17%. Administrative expenses increased by 37% from 2006 to 2007, reflecting the consolidation of expenses for Kreditkort for the whole year as well as expanding operations. Impairment losses decreased by ISK 903 million, or 46%. Profit before tax increased by ISK 64 million between the years 2006 and 2007.

Investment Management

(ISK million)	Year ended December 31, 2006	2007	Change
Net interest income	785	797	2%
Net fee income	3,061	8,551	179%
Net financial income	-27	-65	141%
Other operating income	14	6	-57%
Administrative expenses	-2,191	-7,641	249%
Impairment	5	-136	-
Other income	-	-	
Profit before tax	1,647	1,512	-8%

Net interest income increased slightly from ISK 785 million in 2006 to ISK 797 million in 2007. Even though the business environment was in many ways favourable in early 2007, market sentiment turned more uncertain in late summer 2007. Net fee income increased by 179% despite the financial turbulence and can mainly be attributable to strong growth in assets under management in all units. Total assets under management at the end of 2007 amounted to ISK 936 billion, compared to ISK 490 billion at year-end 2006, representing a 91% increase between years. The growth in assets under management in Iceland and Finland grew by 63% and 23% respectively. In Iceland, short-term interest rates soared during the year and Glitnir's Fund 9, an Icelandic money market fund, did extremely well, returning 15.3% in 2007 and more than doubling in size. In Finland, assets under management in emerging markets funds showed strong growth and many emerging markets had yet another year of very good returns. Administrative expenses increased by 249% from 2006 to 2007 mainly attributable to the five fold increase in investment management personnel due to the acquisition of FIM. Impairment was negative by ISK 136 million compared to a gain of ISK 5 million in 2006. This difference can be explained by the transfer of a loan book from private banking to Corporate Banking. Profit before tax decreased slightly between years and was ISK 1,512 billion in 2007.

Treasury and Other

(ISK million)	Year ended December 31, 2006	2007	Change
Net interest income	656	-786	-
Net fee income	-787	-1,646	109%
Net financial income	5,010	-3,146	-
Other operating income	34	3,666	10682%
Administrative expenses	-1,079	-740	-31%
Impairment	-33	5	-
Other income	4,304	2,071	-52%
Profit before tax	8,105	-576	-

Net interest income for Treasury and other business units, which include our smaller Icelandic subsidiaries, decreased from ISK 656 million in 2006 to ISK -786 million in 2007. The decrease in net interest income is attributable to the decrease in inflation in Iceland in 2007, from 6.9% in 2006 to 5.8% in 2007, as our CPI linked assets exceed our CPI linked liabilities and this mismatch is recognized as net interest income in Treasury. Inflation-indexed assets in excess of inflation-indexed liabilities stood at ISK 141 billion at year-end 2007, compared to ISK 127 billion at year-end 2006. Net fee and commission expenses increased from ISK -787 to ISK -1,649, attributable to our increased funding costs in 2007 that was mainly due to volatile and difficult market conditions that prevailed for a large part of 2007. Net financial income decreased from ISK 5,010 million in 2006 to ISK -3,146 million in 2007. Net financial income includes income from equities trading, currency related assets and liabilities, fair value adjustments of other derivatives, trading in fixed income securities and fair value adjustments due to hedge accounting. The decrease in net financial income in 2007 was primarily due to loss on the Bank's liquidity portfolio. Other net operating income increased from ISK 34 million in 2006 to ISK 3,666 million due to revaluation of investment property and gains on sale of building rights. Administrative expenses for Treasury and Other decreased from ISK -1,079 million in 2006 to ISK -740 million in 2007. Impairment increased from ISK -33 to ISK 5 in 2007. Other income decreased by more than 50% between years which can mainly be attributable to changes in fair value adjustments of derivatives. Profit before tax went from ISK 8,105 million in 2006 to a loss of ISK -576 million in 2007 primarily driven by loss in net financial income in 2007.

Breakdown of total revenues by geographic market

The following table illustrates the breakdown of total revenues by our geographic markets, Iceland, Nordics and International.

(ISK million)	2006		2007	
Iceland	40,430	56%	42,707	50%
Nordics	14,691	20%	27,747	33%
International	12,567	17%	16,570	19%
Other*	4,913	7%	-1,929	-2%
Total	72,601		85,095	

*Other are revenues that can't be allocated to one specific geographical region

8.4.3. YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2006

Income Statement

Income statement for the years 2005 and 2006 (ISK million)	Year ended December 31, 2005	2006	Change
Interest income	61,526	119,115	94%
Interest expense	-39,175	-82,031	109%
Net interest income	22,351	37,084	66%
Net fee and commission income	8,773	26,459	202%
Net gains on financial assets/liabilities held for trading	3,993	5,999	50%
Net gains on financial assets/liabilities at fair value through profit or loss	491	2,097	327%
Realized gains on financial assets available-for-sale	181	0	—
Fair value adjustments in hedge accounting	-59	-185	214%
Net foreign exchange gains (losses)	-179	581	—
Net insurance premium	229	0	—
Dividend income	0	11	—
Other net operating income	631	555	-12%
Net operating income	36,411	72,601	99%
Administrative expenses	-15,731	-27,301	74%
Impairment losses	-2,205	-4,759	116%
Share of profit of associates	1,262	1,470	16%
Net gains on non-current assets classified as held for sale	3,323	4,244	28%
Profit before income tax	23,060	46,255	101%
Income tax	-4,174	-8,024	92%
Profit for the year	18,886	38,231	102%
Basic earnings per share	1.47	2.68	82%
Diluted earnings per share	1.47	2.66	81%

Net Interest Income

Net interest income in 2006 amounted to ISK 37,084 million, as compared to ISK 22,351 million in 2005, representing an increase of 66%. The primary factors affecting net interest income were higher lending volumes (particularly in Iceland), growth in the loan portfolio in 2006 due to acquired businesses such as BNbank and higher inflation in Iceland.

The increase in volume of our loan portfolio in Iceland in 2006 was mainly attributable to the increased funding needs of Icelandic corporations in line with expansion in the Icelandic corporate sector. The proportion of our loan portfolio originating outside of Iceland also increased due to our continued expansion outside Iceland, particularly with our acquisitions in the Nordic region, including the acquisition of BNbank which was completed in April 2005. The percentage of our net interest income originating outside Iceland increased from 38% in 2005 to 45% in 2006. The acquisition of BNbank, which we included in our financial statements on a consolidated basis from

April 1, 2005 affected our net interest income during the period under review. BNbank contributed ISK 979 million to our net interest income in the first quarter of 2006, excluding the contribution of BNbank in the first quarter of 2006, net interest income increased by 62% from 2005 to 2006. In total, net interest income attributable to our Norwegian operations amounted to ISK 7,486 million in 2006, compared to ISK 2,745 million in 2005, an increase of 173%. Norway accounted for 20% of our net interest income in 2006, compared to 12% in 2005.

The average interest rate on interest-bearing assets was 7.0% in 2006 as compared with 5.0% in 2005, reflecting an increasing interest rate environment. The benchmark policy interest rate of the Central Bank of Iceland was 8.8% at the beginning of 2005 and 10.5% at the beginning of 2006. See Chapter 8.1.3 - Interest Rates. The average interest rate on interest-bearing liabilities was 4.7% in 2006, compared with 3.5% in 2005. Interest expense increased from ISK 39,175 million in 2005 to ISK 82,031 million in 2006, an increase of ISK 42,856 million. The increase in average interest bearing assets from 2005 to 2006 was around 67%. Of that increase majority was due to higher levels of borrowings and subordinated loans relating to our funding activities in connection with our acquisitions and growth of our business in 2006. Risk weighted assets during this period grew from ISK 946,428 million at December 31, 2005 to ISK 1,564,300 million at December 31, 2006, an increase of 65%.

Net interest margin was 2.0% in 2006, compared with 1.9% in 2005. Among the factors causing the increase in our net interest margin from 2005 to 2006 was the establishment of our liquidity portfolio in 2006, as the interest revenue on the interest-bearing assets in our liquidity portfolio was lower than the carrying costs of these assets. See Chapter 21.1 - Liquidity and Funding. The net interest spread was 2.3% for the year ended December 31, 2006, compared to 1.7% for the year ended December 31, 2005. This increase was primarily due to the higher rate of inflation in 2006 and its impact on our CPI-indexed assets, which were greater than our CPI-indexed liabilities.

In 2006, 55% of net interest income was derived from Iceland, 20% from Nordics, 17% from Europe and 8% from International, as compared with 59% from Iceland, 23% from Nordics, 12% from Europe and 6% from International in 2005.

Net Fee and Commission Income

Net fee and commission income tripled, from ISK 8,773 million in 2005 to ISK 26,459 million in 2006. In the fourth quarter of 2006, income from fees and commissions exceeded net interest income for the first time, illustrating the transformation of our revenue mix in 2006. Excluding fee income from our acquired businesses, fee income generated through organic growth almost doubled from ISK 8,773 million in 2005 to ISK 19,359 million in 2006. This organic growth in fee income was principally due to our increased focus on fee and commission income generation in 2006 as part of our efforts to diversify our sources of income. As part of these efforts, we introduced new product lines and provided additional advisory services, in respect to both new and existing product lines, primarily in Iceland. We also renewed our focus on our specialized industry sectors as part of our efforts to increase our sources of fee and commission income, introducing sustainable energy as a new specialized industry sector of focus in addition to the existing specialized industry sectors of seafood and offshore service vessels. Fee income from our acquired businesses (Norse Securities ASA, Union Gruppen AS, Kreditkort hf. (Mastercard) and Fischer Partners) amounted to approximately ISK 7,100 million in 2006, as the majority of our acquisitions in 2006 were attributable to Markets.

Gross fee and commission income from asset management in 2006 nearly tripled from 2005, amounting to ISK 3,269 million in 2006 (ISK 1,183 million in 2005). Assets under management increased from ISK 344,975 million as of December 31, 2005 to ISK 490,321 million as of December 31, 2006, an increase of 30.0%. Assets held in custodial accounts with the Bank increased by 68%, from ISK 415,662 million as of December 31, 2005 to ISK 697,735 million as of December 31, 2006.

Gross fee and commission income from securities brokerage activities increased nearly five-fold, from ISK 1,043 million in 2005 to ISK 6,127 million in 2006. Non-ISK currency brokerage commissions amounted to ISK 4,230 million in 2006, an increase of ISK 2,561 million from 2005. The increase in these two categories of net fee and commission income was primarily attributable to strong market conditions in both Iceland and Norway, which led to an increase in securities and non-ISK currency trading in these markets and related brokerage activities.

Payment processing fees and commissions increased from ISK 1,514 million in 2005 to ISK 2,892 million in 2006, an increase of 91%. The increase was primarily due to our interest in Kreditkort hf. (Mastercard), which we increased from 35% to 55% in March 2006. Payment and processing fee revenue from Kreditkort for the period from July 1, 2006 (the date on which we accounted for Kreditkort as a consolidated subsidiary) to December 31, 2006 amounted to ISK 1,233 million. Excluding the contribution of Kreditkort, payment processing fees and commissions in 2006 amounted to ISK 1,659 million, an increase of 9.6% over payment processing fees and commissions in 2005.

Gross fee and commission income from advisory services increased from ISK 1,520 million 2005 to ISK 9,856 million in 2006, an increase of over six-fold. This increase was primarily due to increased mergers and acquisitions activity in Iceland, itself due to favourable market conditions and increased growth by Icelandic corporations in 2006.

Our commission expenses increased from ISK 1,155 million in 2005 to ISK 3,848 million in 2006, an increase of 233%, which reflects the increase in fee and commission income. Inter-bank charges increased by 71%, from ISK 792 million in 2005 to ISK 1,353 million in 2006. Brokerage expenses amounted to ISK 736 million, an increase of ISK 663 million from 2005. Clearing and settlement expenses more than tripled, amounting to ISK 526 million in 2006 compared with ISK 145 million in 2005. Other commission expenses totalled ISK 1,233 million in 2006, an increase of ISK 1,088 million from 2005.

In 2006, 61% of net fee and commission income was derived from Iceland, 27% from Nordics, 10% from Europe and 2% from International, as compared with 90% from Iceland, 5% from Nordics, 2% from Europe and 3% from International in 2005, reflecting our international expansion and growth.

Net Gains on Financial Assets / Liabilities Held for Trading

Net gains on financial assets and financial liabilities held for trading increased by 50% from ISK 3,993 million in 2005 to ISK 5,999 million in 2006. Fluctuations in gains on shares held for trading amounted to ISK 2,334 million in 2006 as compared to ISK 3,182 million in 2005, representing a decrease of 27%. Loss on bonds held for trading amounted to ISK 1,023 million in 2006 as compared to a loss of ISK 463 million in 2005. The gains on shares and losses on bonds were principally due to changes in the market for these securities. Equity markets were strong during 2006 and 2005, while rising interest rates, particularly in Iceland, impacted our bond portfolio. Our profits from derivative instruments included in our trading portfolio amounted to ISK 4,688 million in 2006 compared to ISK 1,274 million in 2005, an increase of ISK 3,414 million. The portfolio of derivatives to which this gain was attributable relates to hedging in connection with our funding activities. The increase in profits from derivatives related to a greater volume of derivative instruments included in our trading portfolio, as our funding activities increased in 2006 to fund our acquisitions and organic growth.

Net Gains on Financial Assets/Liabilities at fair value through Profit or Loss

Net gains on financial assets and financial liabilities designated at fair value through profit or loss increased three-fold by ISK 1,606 million, driven primarily by net gains on shares amounting to ISK 2,707 million as compared to ISK 6 million in 2005. These gains were principally due to realized gains from sales of shares and the revaluation of unlisted shares included in our longer-term investment portfolio based on prices for such shares according to the last transactions for such shares. These gains were offset in part by realized losses on loans and related derivatives in 2006 in the amount of ISK 748 million. These losses related to loans in the loan portfolio of BNbank, for which we elected to use a mark-to-market method of accounting. We elected this method under IAS 39 to avoid substantial mismatches between these loans and the derivatives used for hedging in relation to these loans, which are not eligible for hedge accounting treatment.

Realized Gains on Financial Assets Available-for-sale

The category of financial assets available for sale forms a small part of our total assets and includes approximately ISK 4 billion in government, municipal and corporate bonds that we do not intend to sell within one year or less. The realized gain of ISK 181 million in 2005 was attributable to the disposal of government and corporate bonds during this period. We did not dispose of any bonds relating to this category of the income statement during 2006.

Fair Value Adjustments in Hedge Accounting

Fair value adjustments in hedge accounting are income statement adjustments made in order to correlate the value of our borrowings to the corresponding hedging instrument we entered into in connection with that borrowing. While the value of the borrowing is fixed, the value of the hedging instrument is required to be marked to market under IAS 39. Accordingly, there may be a mismatch between the value of the borrowing and the fair value of the corresponding hedging instrument, requiring us to make an adjustment to account for the mismatch. Fair value adjustments in hedge accounting amounted to a loss of ISK 185 million in 2006 as compared to a loss of ISK 59 million in 2005. The greater loss corresponded to increased hedging activities, as we entered into swaps and other hedging contracts in connection with our borrowing activities. As the level of these borrowings increased over the previous year (ISK 1,378 billion in 2006 as compared to ISK 938 billion in 2005), our hedging activities increased.

Net Foreign Exchange Gains/Losses

We aim to match our assets in each currency with our liabilities denominated in the same currency. As we are a market maker in foreign currencies, we realize foreign exchange gains and losses to the extent of our foreign exchange trading activities. Our gains from foreign exchange amounted to ISK 581 million in 2006 as compared to losses of ISK 179 million in 2005, primarily due to our foreign exchange trading activities and more favourable foreign exchange market conditions. See Chapter 8.1.4 – Exchange Rate Fluctuations and Reporting Currency.

Net Insurance Premium

Income from insurance premiums in relation to our insurance business and premiums from reinsurance decreased from ISK 229 million in 2005 to zero in 2006 due to the sale of our remaining interest in Sjóvá, which was completed in 2006.

Administrative Expenses

Administrative expenses totalled ISK 27,301 million in 2006 as compared to ISK 15,731 million in 2005, a 74% increase. The increase in administrative expenses was largely driven by an increase in salaries and related expenses from ISK 8,848 million in 2005 to ISK 15,747 million in 2006, an increase of 78.0%. This increase can mainly be attributable to the acquired growth that took place in 2006 and the increased focus on fee generating services resulting from increased performance based payments. The cost of support functions also increased together with the expansion of the Group.

Depreciation of property and equipment amounted to ISK 662 million in 2006, a 38% increase compared to ISK 481 million in 2005. The increased depreciation expense was principally attributable to an increase in property and equipment in connection with our acquisitions and organic growth. Other administrative expenses increased from ISK 6,402 million in 2005 to ISK 10,892 million in 2006, a 70% increase, due to increased headcount in connection with our acquisitions and organic growth and rebranding costs associated with our change in brand name from Íslandsbanki to Glitnir.

Impairment Losses

Impairments on loans and receivables increased by ISK 2,554 million from ISK 2,205 million in 2005 to ISK 4,759 million in 2006. Of this amount, the increase in general provisions (decreases in expected future cash flows from a portfolio of loans, which cannot be identified with any individual loan in our loan portfolio) totalled ISK 1,536 million and the increase in specific provisions (decreases in expected future cash flows that are identified with individual loans in the portfolio) totalled ISK 3,223 million. General provisions increased as a result of the expansion of our loan portfolio due to an increase in our lending activities. The increase in specific provisions was attributable to losses on two specific loans, one of which related to a failed leveraged financing and the other to other lending activities. The increase in impairment losses was primarily due to a below average level of impairments in 2005.

Share of Profit of Associates

Our share in the profit of associates was ISK 1,470 million in 2006, as compared to ISK 1,262 million in 2005, a 16% increase, which is reflected by the fact that Sjóvá was accounted for as an associate for the first four months of 2006.

Profit before Tax

We posted a profit before income tax of ISK 46,255 million in 2006, an increase of ISK 23,195 million from 2005, or 100.6%, for the reasons described above. The contribution of the companies we acquired in 2006 to our profit before tax was ISK 4,257 million, or 9% of our profit before tax in 2006. The remainder of our profit before tax was due to organic growth.

Of our profit before tax in 2006, approximately ISK 581 million was attributable to currency exchange rate fluctuations principally reflecting changes in the exchange rate between the ISK and the NOK and EUR.

The cost ratio in 2006 was 38% compared to 38% 2005.

Income Tax

Income tax was ISK 8,024 million in 2006, as compared to ISK 4,174 million in 2005, an increase of 92%. Of this income tax expense, ISK 589 million (including penalties) was attributable to a ruling by Icelandic tax authorities in connection with our treatment of our merger with Framtak fjárfestingabanki hf. ("Framtak") in 2004. We acquired 100% of the shares of Framtak and then subsequently Framtak merged with and into the Bank. Due to the proximity in time of the acquisition of the shares and the merger, the Icelandic tax authorities took the position that the acquisition of the shares and the merger constituted a single act and therefore we were not entitled to carry forward losses on the Framtak shares we acquired. The charge assessed by the tax authorities constitutes the amount of the loss we had carried forward plus penalties. We have appealed this ruling and our appeal is currently pending, but the full amount was charged to our income statement in December 2006. We are expecting a conclusion to this matter before the end of the year 2008. The corporate income tax rate in Iceland was 18.0% in 2006 and 2007, whereas our effective tax rate in 2006 was 17.3%, compared to 18.1% in 2005. The corporate tax rate in Norway is 28%.

Net Profit

Net profit amounted to ISK 38,231 million in 2006, compared with ISK 18,886 million in 2005, an increase of 102.4%.

Balance Sheet

Balance sheet as of year end 2006 and 2007 (ISK million)	**As of December 31, 2005**	**2006**	**Change**
Assets:			
Cash and cash balances with central banks	20,861	20,417	-2%
Loans and receivables	1,174,428	1,760,368	50%
Financial assets held for trading	151,897	227,251	50%
Financial assets designated at fair value through profit or loss	96,438	200,864	108%
Financial assets available-for-sale	3,611	3,746	4%
Derivatives used for hedging	2,352	5,721	143%
Investments in associates	8,081	4,379	-46%
Property and equipment	1,987	3,296	66%
Intangible assets	10,824	18,310	69%
Tax assets	268	264	-1%
Non-current assets held for sale	551	409	-26%
Other assets	647	1,314	103%
Total assets	1,471,945	2,246,339	53%
Liabilities:			
Deposits from credit institutions and central banks	30,656	78,576	156%
Other deposits	304,136	438,272	44%
Borrowings	937,794	1,377,787	47%
Subordinated loans	47,464	108,998	130%
Financial liabilities held for trading	28,791	51,729	80%
Derivatives used for hedging	7,233	13,869	92%
Post-employment obligations	418	529	27%
Tax liabilities	5,086	10,647	109%
Other liabilities	25,830	19,814	-23%
Total liabilities	1,387,408	2,100,220	51%
Equity:			
Share capital	13,112	14,161	8%
Share premium	32,888	51,847	58%
Other reserves	(465)	7,504	—
Retained earnings	39,002	71,066	82%
Total shareholders’ equity	84,537	144,578	71%
Minority interest	0	1,541	—
Total equity	84,537	146,119	73%
Total equity and liabilities	1,471,945	2,246,340	53%

Assets

Our total assets as of December 31, 2006 were ISK 2,246,339 million, an increase of 53% compared to total assets of ISK 1,471,945 million as of December 31, 2005. The increase of 53% can mainly be explained by the devaluation of the Icelandic krona and a 20% real growth in loans and receivables.

Loans and receivables totalled ISK 1,760,368 million as of December 31, 2006 a 50% increase over loans and receivables as of December 31, 2005 of ISK 1,174,428 million. This increase primarily reflected organic growth in our lending activities which was attributable to an increase in the volume of our loan portfolio due to our efforts in 2006 to increase our lending activities both in Iceland, Norway and internationally. The increase in our loan portfolio was primarily related to an increase in loans and leasing contracts to customers, which amounted to ISK 1,571,726 million as of December 31, 2006 an increase of 46% over loans and leasing contracts to customers as of December 31, 2005 ISK 1,078,383 million. Of these loans, direct commercial loans to corporate entities totalled ISK 1,187,298 million as of December 31, 2006 compared with ISK 825,643 million as of December 31, 2005, an increase of 44%.

Financial assets held for trading totalled ISK 227,251 million as of December 31, 2006 compared with ISK 151,897 million as of December 31, 2005, an increase of 50%. Of total financial assets held for trading as of December 31, 2006, ISK 70,532 million consisted of bonds issued by public bodies, ISK 10,667 million of bonds issued by others and ISK 79,170 million of shares. The carrying amount of derivatives included in this category of assets was ISK 66,882 million as of December 31, 2006 compared to ISK 16,500 ISK million as of December 31, 2005.

Financial assets designated at fair value through profit or loss increased from ISK 96,438 million at December 31, 2005 to ISK 200,864 million at December 31, 2006, an increase of 108%. This increase was primarily due to the establishment of our liquidity portfolio, which consists of highly liquid assets such as government bonds, AAA and AA-rated bonds and money market funds in order to ensure a ready source of cash for our activities. See Chapter 21.1 - Liquidity and Funding below for a description of the assets included in our liquidity portfolio.

Derivatives used for hedging totalled ISK 5,721 million as of December 31, 2006, an increase of 143% over derivatives used for hedging as of December 31, 2005, ISK 2,352 million, reflecting increased hedging activities in connection with our increased borrowing activities in 2006 to fund our acquisitions and organic growth. The derivatives included in this category of assets include swaps, options and related derivative instruments we use to hedge the interest rate and currency exposure on our borrowings.

Our investments in associates decreased by 46%, from ISK 8,081 million as of December 31, 2005, to ISK 4,379 million as of December 31, 2006, reflecting the sale of Sjóvá-Almennar tryggingar hf. in 2006, which had a book value of ISK 5,932 million as of December 31, 2005.

Property and equipment increased by 66%, from ISK 1,987 million as of December 31, 2005 to ISK 3,296 million as of December 31, 2006. Our property and equipment assets increased during this period due to our acquisitions in 2006.

Intangible assets increased by 69%, from ISK 10,824 million as of December 31, 2005, to ISK 18,310 million as of December 31, 2006, as a result of four acquisitions in 2006. See Chapter 15 – Investments.

Non-current assets held for sale. Our management determines whether an asset should be included as “held for sale” on our balance sheet and this determination requires the approval of our Board of Directors. This category of assets primarily includes properties we acquire through foreclosures on mortgages. Non-current assets held for sale decreased from ISK 551 million as of December 31, 2005, to ISK 409 million as of December 31, 2006, a 26% decrease.

Liabilities

Total deposits from credit institutions and central banks amounted to ISK 78,576 million as of December 31, 2006, an increase of 156% over deposits from credit institutions and central banks of ISK 30,656 million as of December 31, 2005. Deposits other than deposits from credit institutions totalled ISK 438,272 million as of December 31, 2006, of which ISK 259,156 million were demand deposits and ISK 179,116 were time deposits. Of these deposits, 49% were from individuals, 39% were from other companies, 9% were from municipalities and 3% were from central government and state-owned enterprises. Deposits other than deposits from credit institutions increased by 44% compared to the prior period.

As of December 31, 2006, 38% of deposits were attributable to our banking activities in Iceland, 51% to Norway and 10% to the United Kingdom (where we began accepting wholesale deposits in October 2006). Deposits represented 24.0% of our total funding as of December 31, 2006, remaining relatively unchanged from 23.8% as of December 31, 2005.

Borrowings increased from ISK 937,794 million as of December 31, 2005, to ISK 1,377,787 million as of December 31, 2006, an increase of 47%, reflecting increased funding needs due to the growth of our assets and business, including our acquisitions during 2006. As of December 31, 2006, borrowings represented 64% of our total funding, remaining relatively unchanged from 67% as of December 31, 2005.

Subordinated loans increased from ISK 47,464 million as of December 31, 2005, to ISK 108,998 million as of December 31, 2006, an increase of 130%, reflecting our increased funding needs relating to the growth of our assets and business through organic growth and acquisitions in 2006. Subordinated loans include both our loans that qualify as Tier I capital and loans that qualify as Tier II capital. As of December 31, 2006, the book value of our loans qualifying as Tier I capital was ISK 41,726 million and the book value of our loans qualifying as Tier II capital was ISK 67,272 million.

Financial liabilities held for trading include short positions in trading securities such as shares and bonds and derivative instruments. These liabilities are marked to market and the 80% increase in the book value of these assets from ISK 28,791 million as of December 31, 2005, to ISK 51,729 million as of December 31, 2006, reflected the change in market values of these liabilities.

Derivatives used for hedging totalled ISK 13,869 million as of December 31, 2006, compared to ISK 7,233 million as of December 31, 2005, an increase of 92%. This increase reflected increased hedging activities in connection with our borrowings in 2006 to fund our acquisitions and organic growth.

Post-employment obligations include pension liabilities transferred into the Group and pension liabilities of foreign subsidiaries and those transferred due to the sale of a subsidiary. Our pension liability as of December 31, 2006, was ISK 529 million, an increase of 27% over our pension liability as of December 31, 2005 (ISK 418 million).

Equity

Our total equity was ISK 146,119 million as of December 31, 2006, compared with ISK 84,537 million as of December 31, 2005, representing an increase of 73%. This increase reflected the issuance of ISK 1,000 million new shares by the Bank in January 2006 at ISK 18.6 per share. In addition, 130 million new shares were issued as a stock dividend. We paid a dividend to our shareholders in 2006 of ISK 5,296 million.

Our CAD ratio was 15.0% as of December 31, 2006, compared with 12.6% as of December 31, 2005. Our Tier I capital ratio was 10.8% as of December 31, 2006, compared with 9.9% as of December 31, 2005.

8.4.4. SEGMENT ANALYSIS FOR YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2006

The numerical information contained in this chapter has been extracted from our books and is unaudited.

The segment analysis for the years ended December 31, 2005 and December 31, 2006 is not wholly comparable to the segment analysis for the years ended December 31, 2006, and December 31, 2007, that can be found in Chapter 8.4.2. This results from the fact that the definition of business lines and organizational structure has been changed in the course of the last three years and numbers from financial statements have therefore been restated between years.

Corporate Banking

	Year ended December 31,		
(ISK million)	**2005**	**2006**	**Change**
Net interest income	11,543	19,961	73%
Net fee and commission income	1,039	2,989	188%
Other net operating income	-197	71	-
Net operating income	12,385	23,021	86%
Administrative expenses	-2,990	-5,140	72%
Impairment losses	-968	-2,729	182%
Gross profit	8,427	15,152	80%
Allocated cost*	-877	-1,547	76%
Profit before income tax	7,550	13,605	80%

*Allocated cost represents overhead expenses incurred on a Group-wide basis for support functions, such as information technology, real estate, accounting and back-office support costs. These expenses are allocated to each business unit on the basis of an estimate of usage and other cost allocation factors, such as the amount of real property used by a business unit on a square meter basis or how many persons in a business unit use software purchased or licensed at the parent company level.

Net interest income for Corporate Banking increased by ISK 8,418 million, or 73%, from the prior period, which was attributable to growth in lending to Icelandic corporations, as direct loans to corporate entities increased by 44% from 2005, reflecting the increase in volume in Iceland in 2006 as well as favourable economic conditions in Iceland fostering corporate growth. Our loan portfolio outside of Iceland also increased, largely due to the acquisition of BNbank, which was completed in April 2005 and consolidated in our balance sheet in 2006 for the full period. Net fee and commission income increased by 188% from 2005, which was attributable to our increased focus on fee generating services in our existing business lines. Administrative expenses for Corporate Banking increased by 72% due to acquisitions during the year, increased headcount, performance-based payments and also reflect the administrative costs in establishing our new business in Norway. Profit before income tax for Corporate Banking increased from ISK 7,550 million in 2005 to ISK 13,605 million in 2006, an increase of 80%.

Investment Banking

	Year ended December 31,		
(ISK million)	**2005**	**2006**	**Change**
Net interest expense	-56	-370	561%
Net fee and commission income	1,212	6,161	408%
Other net operating income	261	2,335	795%
Net operating income	1,417	8,126	473%
Administrative expenses	-461	-1,362	195%
Impairment losses	-6	-25	317%
Gross profit	950	6,739	609%
Allocated cost*	-110	-402	265%
Profit before income tax	840	6,337	654%

*Allocated cost represents overhead expenses incurred on a Group-wide basis for support functions, such as information technology, real estate, accounting and back-office support costs. These expenses are allocated to each business unit on the basis of an estimate of usage and other cost allocation factors, such as the amount of real property used by a business unit on a square meter basis or how many persons in a business unit use software purchased or licensed at the parent company level.

Net interest expense for Investment Banking increased from ISK 56 million in 2005 to ISK 370 million in 2006, an increase of ISK 314 million. In September 2005, the Equity Investments sub-unit of Investment Banking began to make equity investments primarily in unlisted shares of strategic companies providing us with a platform to expand our advisory services and generate further business by aligning our interests with our customers. Equity Investments is charged interest on the funds used for these investments. The increase in net interest expense on these investments from 2005 to 2006 reflects the fact that Equity Investments only began making these investments in the last quarter of 2005 and 2006 represents the first full period during which such investments were held.

Net fee and commission income increased from ISK 1,212 million in 2005 to ISK 6,161 million in 2006, increasing five-fold, primarily driven by the acquisition of Norse Securities in 2006, which expanded our platform for providing fee generating services, as well as the expansion of our Investment Banking team in Europe, Asia and the United States

Other net operating income for Investment Banking in 2006 consisted primarily of fair value adjustments to equity investments, which are booked at fair value at each time. As Equity Investments began making investments primarily in unlisted shares of strategic companies in the last quarter of 2005, the increase in other net operating income of ISK 2,074 million in 2006 reflects investment in these shares for the full year, as well as favourable conditions in the equity markets in 2006.

Administrative expenses for Investment Banking nearly tripled, primarily due to increased headcount due to the acquisition of Norse Securities in 2006 and the expansion of Investment Banking across eight jurisdictions in 2006, including Europe, Asia and North America, quadrupling the number of Investment Banking personnel. The increase in administrative expenses was also due to higher performance based salary payments in connection with our fee generating services. Profit before income tax for Investment Banking increased from ISK 840 million in 2005 to ISK 6,337 million in 2006.

Markets

(ISK million)	Year ended December 31, 2005	2006	Change
Net interest income	894	3,078	244%
Net fee and commission income	2,246	11,978	433%
Other net operating income	844	1,548	83%
Net operating income	3,984	16,604	317%
Administrative expenses	-491	-4,117	738%
Impairment losses	0	-7	-
Gross profit	3,493	12,480	257%
Allocated cost*	-522	-816	56%
Profit before income tax	2,971	11,664	293%

*Allocated cost represents overhead expenses incurred on a Group-wide basis for support functions, such as information technology, real estate, accounting and back-office support costs. These expenses are allocated to each business unit on the basis of an estimate of usage and other cost allocation factors, such as the amount of real property used by a business unit on a square meter basis or how many persons in a business unit use software purchased or licensed at the parent company level.

Net interest income for Markets increased from ISK 894 million in 2005 to ISK 3,078 million in 2006, an increase of ISK 2,184 million, primarily due to interest received on forward contracts entered into with customers. Net fee and commission income for Markets increased five-fold from 2005, as most of our acquisitions in 2006 were in Markets and these acquired businesses contributed a fair share of the increase in Fee and Commission. The increase in fee and commission income for Markets was also due to our focus in 2006 on fee generating services, the majority of which are provided by Markets and Investment Banking.

Administrative expenses for Markets increased by ISK 3,626 million due to increased headcount as a result of our acquisitions in 2006 and due to the increase in performance based salary payments in connection with Markets' fee generating services. Allocated costs increased by 56%, primarily due to our operations in Iceland which use back office services provided at the parent company level for settlement and clearing of trades. Profit before income tax increased by ISK 8,693 million from 2005 to 2006.

Commercial Banking

(ISK million)	Year ended December 31, 2005	2006	Change
Net interest income	10,403	12,974	25%
Net fee and commission income	2,879	3,057	6%
Other net operating income	29	72	148%
Net operating income	13,311	16,103	21%
Administrative expenses	-4,681	-6,473	38%
Impairment losses	-783	-1,970	152%
Gross profit	7,847	7,660	-2%
Allocated cost*	-2,490	-2,763	11%
Profit before income tax	5,357	4,897	-9%

*Allocated cost represents overhead expenses incurred on a Group-wide basis for support functions, such as information technology, real estate, accounting and back-office support costs. These expenses are allocated to each business unit on the basis of an estimate of usage and other cost allocation factors, such as the amount of real property used by a business unit on a square meter basis or how many persons in a business unit use software purchased or licensed at the parent company level.

Net interest income for Commercial Banking increased by ISK 2,571 million, or 25%, primarily due to growth in our lending portfolio in Iceland as the average loan portfolio in 2006 for Commercial Banking in Iceland increased by ISK 79 billion compared to the average loan portfolio in 2005. Of this increase in the loan portfolio, ISK 7 billion, or 9% was attributable to inflation in Iceland. Net fee and commission income increased by 6% for Commercial Banking, primarily related to our increased lending activities, as we generate fees in connection with our lending activities such as loan servicing fees, as well as fees from our credit card operations, as we increased our interest in Kreditkort in 2006 to 55%. Other net operating income increased by ISK 43 million, or 148%, from 2005 to 2006. Other net operating income included extraordinary items such as gains in non-ISK currencies and revaluations of shares. Administrative expenses increased by 38% from 2005 to 2006, reflecting the acquisition of BNbank in 2005 as 2006 was the first full year period during which BNbank was consolidated in our accounts. Impairment losses for Commercial Banking increased by ISK 1,187 million, or 152%, attributable to increases in general provisions in line with the increase in our loan portfolio in 2006. Commercial Banking also absorbed some of the loss relating to the specific provision. Allocated costs for Commercial Banking increases by 11%, primarily relating to IT costs, but also included marketing costs and general administrative services. As a result of these factors, profit before tax for Commercial Banking decreased by ISK 460 million, or 9%, due primarily to increased impairment losses from 2005 to 2006.

Investment Management

(ISK million)	Year ended December 31, 2005	2006	Change
Net interest income	320	785	145%
Net fee and commission income	1,514	3,061	102%
Other net operating income	62	-13	-
Net operating income	1,896	3,833	102%
Administrative expenses	-614	-1,420	131%
Impairment losses	-54	5	-
Gross profit	1,228	2,418	97%
Allocated cost*	-517	-771	49%
Profit before income tax	711	1,647	132%

*Allocated cost represents overhead expenses incurred on a Group-wide basis for support functions, such as information technology, real estate, accounting and back-office support costs. These expenses are allocated to each business unit on the basis of an estimate of usage and other cost allocation factors, such as the amount of real property used by a business unit on a square meter basis or how many persons in a business unit use software purchased or licensed at the parent company level.

Net interest income for Investment Management increased from ISK 320 million in 2005 to ISK 785 million in 2006, an increase of 145%, primarily due to growth in our private banking business and lending to our private banking clients. Assets under management, which include managed funds and discretionary assets under management pursuant to contracts with customers, increased from ISK 344,975 million in 2005 to ISK 490,321 million in 2006, an increase of 42%. The increase was mainly attributable to our private banking business where private banking clients increased investments in our managed funds. The private banking products we offered proved to be competitive in a rapidly growing market for private banking services in Iceland. Our managed funds include both money market funds and fixed income funds which consist of investments in Icelandic fixed income products, which have performed well as yields have increased with increases in Icelandic interest rates. Net fee and commission income increased from ISK 1,514 million in 2005 to ISK 3,061 million in 2006, an increase of 102%, principally attributable to the increase in assets under management in 2006, as we receive fees (including success fees) in connection with our management of discretionary assets for customers, which include Icelandic pension funds and institutional clients. Administrative expenses increased by 131% from the prior period, primarily due to an increase in Investment Management personnel as we invested in new staff to further support our growth in Investment Management. Allocated costs, which for Investment Management include marketing costs, IT, administrative services and costs of use of facilities, increased by 49% in relation to the growth and expansion of our business in Iceland. Profit before income tax for Investment Management increased by 132% from the prior period.

Treasury and Other

(ISK million)	Year ended December 31, 2005	2006	Change
Net interest income	286	656	129%
Net fee and commission expense	-116	-787	578%
Net financial income	2,668	4,936	85%
Other net operating income	582	108	-81%
Net operating income	3,420	4,913	44%
Administrative expenses	-2,275	-3,091	36%
Impairment losses	-90	-33	-63%
Gross profit	1,055	1,789	70%
Allocated cost* received from other departments	4,883	6,316	29%
Profit before income tax	5,938	8,105	36%

*Allocated cost represents overhead expenses incurred on a Group-wide basis for support functions, such as information technology, real estate, accounting and back-office support costs. These expenses are allocated to each business unit on the basis of an estimate of usage and other cost allocation factors, such as the amount of real property used by a business unit on a square meter basis or how many persons in a business unit use software purchased or licensed at the parent company level.

Net interest income for Treasury and other business units, which include our smaller Icelandic subsidiaries, increased from ISK 286 million in 2005 to ISK 656 million in 2006, an increase of 129%. The increase in net interest income is attributable to the increase in inflation in Iceland in 2006, as our CPI-linked assets exceeded our CPI-linked liabilities and this mismatch is recognized as net interest income in Treasury. Net fee and commission expenses increased five-fold, attributable to the costs of our increased funding activities in 2006. As most of our funding in 2006 related to issuances under our U.S. MTN Program, funding costs were higher in 2006 as the costs of raising funds in the United States tends to be higher than in other countries. See Chapter 21.1 - Liquidity and Funding. Net financial income increased by 85%, from ISK 2,668 million in 2005 to ISK 4,936 million in 2006. Net financial income includes income from equities trading, currency related assets and liabilities, fair value adjustments of other derivatives, trading in fixed income securities and fair value adjustments due to hedge accounting. The increase in net financial income in 2006 was primarily due to gains in trading in equities. Other net operating income decreased by ISK 474 million, or 81%, due to loss in trading bonds. Administrative expenses for Treasury and other business units increased from ISK 2,275 million in 2005 to ISK 3,091 million in 2006, an increase of 36%. The increase in administrative expenses was primarily due to increase in salary and salary related expenses. Impairment losses decreased by 63%, as in 2005 we incurred a charge related to the impairment of goodwill of one of our Icelandic subsidiaries. Impairment losses in 2006 related to general provisions in connection with loans by our Icelandic subsidiaries. Allocated costs received from other departments increased by 29%, relating primarily to IT and administrative costs. Profit before tax for Treasury and other business units increased from ISK 5,938 million in 2005 to ISK 8,105 million in 2006, an increase of 36%, driven primarily by the increases in net interest income and net financial income during the period.

Breakdown of total revenues by geographic market

The following table illustrates the breakdown of total revenues by our geographic markets; Iceland, Nordics and International (note that the numbers for the financial year 2005 are not divided in the same way as the numbers for the financial year 2006 since our current geographical segmentation wasn't established in 2005).

(ISK million)	**2005**			**2006**	
Iceland	29,033	71%	Iceland	40,430	56%
Norway	5,384	13%	Nordics	14,691	20%
Other Countries	6,580	16%	International	17,480	17%
			Other*	4,913	7%
Total	40,997		Total	77,513	

*Other are revenues that can't be allocated to one specific geographical region

8.4.5. INTERIM ANALYSIS

Income Statement

Income statement for the first quarters of 2007 and 2008 (ISK million)	**Quarter ended March 31, 2007**	**2008**	**Change**
Interest income	32,004	70,665	121%
Interest expenses	-24,061	-56,872	136%
Net interest income	7,943	13,793	74%
Net fees and commission income	7,298	10,604	45%
Dividend income	24	0	-
Net gains on financial assets and liabilities held for trading	651	-7,357	-
Net gains on financial assets designated at fair value through P&L	1,844	2,980	62%
Fair value adjustments in hedge accounting	54	662	1126%
Net foreign exchange gains (losses)	340	4,527	1231%
Other net operating income	59	415	603%
Net operating income	18,213	25,624	41%
Administrative expenses	-8,637	-13,799	60%
Impairment losses on loans and receivables	-1,232	-4,119	234%
Share of profit of associates	208	0	
Net gains on non-current assets classified as held for sale	-136	4	-98%

Profit before income tax	8,416	7,710	-8%
Income tax	-1,408	-1,851	31%
Profit for the period	7,008	5,859	-16%

Net Interest Income

Net interest income in the first quarter of 2008 was the highest ever and amounted to ISK 13,793 million, compared to ISK 7,943 million in the first quarter of 2007, a 74% increase between periods. About 53% was derived from Corporate Banking, 27% from Commercial Banking and 20% from other business units. The net interest rate margin was 1.7% in Q1 2008 compared to 1.4% in Q1 2007.

Net Fee and Commission Income

Net fees and commission income totalled ISK 10,604 million in the first quarter of 2007 compared to ISK 7,298 million in the first quarter of 2007, a 45% increase between periods. About 49% was derived from Markets, 23% from Investment Banking, 18% from Investment Management and 10% from other business units.

Dividend Income

Dividend income from assets available for sale was ISK 0 million in the first quarter of 2008 compared to ISK 24 million in the first quarter of 2007.

Financial Assets

Net loss from financial assets held for trading and trading financial liabilities were ISK -7,358 million in the first quarter of 2008 as compared to a net gain of ISK 651 million in the first quarter of 2007. This development can mainly be attributable to unfavourable market condition in the first quarter of 2008.

Net revenue from financial assets, designated at fair value through profit and loss, was ISK 2.980 million in the first quarter of 2008, compared to ISK 1,844 million in the first quarter of 2007, an increase of 62%. The effect of hedge accounting was ISK 662 million in the first quarter of 2008 compared to ISK 54 million in the first quarter of 2007. The net result of currency items was ISK 4,527 million compared to ISK 340 million in the first quarter of 2007.

Administrative Expenses

Administrative expenses increased by 60% from the first quarter of 2007 to the first quarter of 2008 where it totalled ISK 13,799 million. Salaries and salary-related expense were ISK 7,612 million in the first quarter of 2008 compared to ISK 4,807 million in the first quarter of 2007. The average number of full-time employees was 2,291 in the first quarter of 2008 compared to 1,546 in the first quarter of 2007. Depreciation of property and equipment amounted to ISK 724 million in the first quarter of 2008 compared to ISK 248 million in the first quarter of 2007. Other operating expenses came to ISK 5,463 million in the first quarter of 2008 compared to ISK 3,582 million in the first quarter of 2007. Gains from non-current assets were ISK 4 million in the first quarter of 2008.

Impairment

Impairment on loans and receivables were ISK 3,714 million and goodwill ISK 405 million in the first quarter of 2008 compared to ISK 1,232 million in the first quarter of 2007. Impairment in on loans and receivables were ISK 2,366 in Q4 2007.

Share of Profit of Associates

Our share in the profit of associates was none in the first quarter of 2008 compared to a profit amount of ISK 208 million in Q1 2007.

Net Gains on Assets held for Sale

Net gains on non-current assets held for sale was ISK 4 million in the first quarter of 2008 compared to a loss of 136 million in the first quarter of 2007.

The cost income ratio in Q1 2008 was 54%, as compared to 47% in Q1 2007.

Balance Sheet

Balance sheet as of year end 2007 and first quarter of 2008 (ISK million)	**December 31, 2007**	**March 31, 2008**	**Change**
Assets			
Cash and cash balances with central banks	55,500	26,893	-52%
Derivatives	118,706	295,351	149%
Bonds and debt instruments	181,764	212,278	17%
Shares and equity instruments	38,438	54,164	41%
Securities used for hedging	164,339	176,302	7%
Loans to banks	278,469	396,851	43%
Loans to customers	1,974,907	2,516,183	27%
Investments in associates	2,820	587	-79%
Investment property	5,539	5,539	0%
Property and equipment	4,202	4,915	17%
Intangible assets	46,955	62,197	32%
Deferred tax assets	1,269	1,840	45%
Non-current assets held for sale	476	599	26%
Other assets	75,526	111,177	47%
Total assets	2,948,910	3,864,876	31%
Liabilities			
Short positions	15,023	11,939	-21%
Derivatives	77,497	171,711	122%
Deposits from central banks	4,653	36,196	678%
Deposits from banks	50,524	40,016	-21%
Deposits from customers	725,349	814,857	12%
Debt issued and other borrowed funds	1,746,199	2,371,776	36%
Subordinated loans	101,669	147,338	45%
Post-employment obligations	425	654	54%
Current tax liabilities	4,362	2,871	-34%
Deferred tax liabilities	5,641	4,826	-14%
Other liabilities	47,599	74,002	55%
Total liabilities	2,778,941	3,676,186	32%
Equity			
Share capital	14,730	14,567	-1%
Share premium	58,329	53,550	-8%
Other reserves	9,456	32,616	245%
Retained earnings	88,686	87,221	-2%
Total shareholder's equity	169,201	187,954	11%
Minority interest	768	736	-4%
Total equity	169,969	188,690	11%
Total equity and liabilities	2,948,910	3,864,876	31%

Assets

Total assets were ISK 3,864,876 million at the end of the first quarter of 2008 compared to ISK 2,948,910 million at December 31, 2007. This 31% increase was mainly due to weakening of the ISK.

Lending to customers increased by 27.4% over the first quarter of 2008 and amounted to ISK 2,516,183 million at the end of the period. Taken the weakening of the ISK into consideration, the real growth of lending to customers increased only by 4% during the period.

Cash and cash balances with Central Banks were ISK 26,893 million at the end of the first quarter of 2008 as compared to ISK 55,500 million at December 31, 2007.

Derivatives amounted to ISK 295,351 million at the end of the first quarter of 2008 compared to ISK 118,706 million at December 31, 2007. The derivatives included in this category are derivatives held for trading, derivatives to which hedge accounting is applied and derivatives used to hedge of net investment in foreign operations.

As of March 31, 2008, bond and debt instruments amounted to ISK 212,278 million compared to ISK 181,764 million at December 31, 2007, representing a 17% increase. Listed bonds and debt instruments as of March 31, 2008, amounted to ISK 120,446 million compared to ISK 108,227 million at year end 2007. Unlisted bonds and debt instruments as of March 31, 2008, amounted to ISK 91,832 million compared to ISK 73,537 million at December 31, 2007.

As of March 31, 2008, shares and equity instruments amounted to ISK 54,164 million compared to ISK 38,438 million at December 31, 2007 representing a 40% increase. Listed shares and equity instruments as of March 31, 2008 amounted to ISK 13,174 million compared to ISK 11,215 million at year end 2007. Unlisted shares and equity instruments as of March 31, 2008, amounted to ISK 40,990 million compared to ISK 27,223 million at December 31, 2007.

As of March 31, 2008, securities used for hedging amounted to ISK 173,302 million compared to ISK 164,339 million at December 31, 2007, representing a 7% increase.

Loans to customers amounted to ISK 2,516,183 million at the end of the first quarter of 2008 compared to ISK 1,974,907 million at year end 2007. This 27% increase was mainly due to the weakening of the ISK over the period. Loans to customers can be specified by sector as follows: real estate 22% at the end of the first quarter of 2008 compared to 29% at year end 2007, individuals 22% at the end of the first quarter of 2008 compared to 18% December 31, 2007, investment companies 18% at the end of the first quarter of 2008 compared to 19% at year end 2007, industry 14% at the end of the first quarter of 2008 compared to 16% at year end 2007 and other 24% at the end of the first quarter of 2008, compared to 18% at year end 2007. Allowances for impairments were ISK 14.371 million at year end 2007 but ISK 19.646 million at the end of the first quarter of 2008.

Financial assets held for trading were ISK 493,466 million at the end of the first quarter of 2008 compared to ISK 284,566 million at year end 2007.

Financial assets designated at fair value through profit and loss were ISK 295,992 million at the end of the first quarter of 2008 compared to ISK 260,953 at year end 2007.

Intangible assets increased from ISK 46,955 million as of year end 2007 to ISK 62,197 million as of March 31, 2008. This represents an increase of 32% which can be explained by weakening of the ISK.

Deferred tax assets in the end of the first quarter of 2008 amount to ISK 1,840 million compared to ISK 1,269 million at year end 2007.

Other assets increased from ISK 75,526 million at year en 2007 to ISK 111,177 million at March 31, 2008. This increase can be explained by the fact that other receivables at March 31, 2008 amounted to ISK 104,283 million compared to ISK 70,906 million year end 2007.

Liabilities

Total deposits from credit institutions and central banks amounted to ISK 76,212 million as of March 31, 2008, an increase of 38% over deposits from credit institutions and central banks of ISK 55,177 million as of December 31, 2007. Deposits other than deposits from credit institutions totalled ISK 814,857 million as of March 31, 2008, compared to ISK 725,349 million as of December 31, 2007. As of March 31, 2008, 39% of deposits were attributable to our banking activities in Iceland, 37% to Norway and 19% to the United Kingdom. Of these deposits, 38% were from individuals, 52% were from companies, 8% were from municipalities and 2% were from central government and state-owned enterprises. Deposits represented 25% of our total funding as of March 31, 2008, compared to 28% as of December 31, 2007.

Total debt issued and other borrowed funds amounted to ISK 2,371,776 million at the end of the first quarter of 2008 compared to ISK 1,746,199 at December 31, 2007. This 36% increase was mainly due to the weakening of the ISK during the period.

As of March 31, 2008, borrowings represented 66% of our total funding, compared to 62% as of December 31, 2007.

Trading financial liabilities amounted to ISK 176,184 million at the end of the first quarter of 2008, an increase of 107% from year end 2007.

Derivatives used for hedging were ISK 11,368 million at the end of the first quarter of 2007

Subordinated loans amounted to ISK 147,338 million as of March 31, 2008 compared to ISK 101,669 million at year end 2007. We issued and sold a five year mandatory convertible bond (ISK 15 billion) in a closed offering to Icelandic institutional investors, which commenced on March 12, 2008 and ended on March 18, 2008. The bonds are subordinated and count as Tier 1 capital.

Shareholders' Equity

Total equity was ISK 188,690 million at the end of the first quarter of 2008 compared to ISK 169,969 million at year end 2007, an 11% increase over the period. The Bank paid a dividend of ISK 5,332 million to shareholders in March 2008.

Our CAD ratio was 11.0% as of March 31, 2008, compared with 11.2% as of December 31, 2007. Our Tier I capital ratio was 7.7% as of March 31, 2008, compared with 8.1% as of December 31, 2007.

9. INFORMATION ABOUT THE COMPANY

9.1. NAME, INCORPORATION AND REGISTRATION

Our legal name is Glitnir banki hf. We are a public limited company incorporated in Iceland on 15 May 2000. We are registered with the Register of Enterprises in Iceland and our registration number is 550500-3530. Our registered office is at Kirkjusandur 2, 155 Reykjavik, Iceland, and the telephone number is +354 440 4000.

Our operations are subject to the provisions of the Companies Act and the Financial Undertakings Act. The Bank is authorised to provide all financial services stipulated in the latter Act. Its activities are under the supervision of the Icelandic Financial Supervisory Authority.

9.2. HISTORY

We can trace our history back to 1904 when the first privately owned bank in Iceland, Íslandsbanki hf., was established. Since then, we have undergone a number of mergers with banks and investment credit funds in Iceland, grown through strategic acquisitions in Norway, Sweden and Finland, and grown internationally through organic development. We have played a key role in Iceland's economic progress in the twentieth century. As of March 31, 2008, we had over 2,000 employees based in ten countries.

In May 2000, Íslandsbanki and FBA (The Icelandic Investment Bank), merged to create a leading financial services company in Iceland. Prior to the merger, Íslandsbanki was the second largest commercial bank in Iceland and the only privately owned bank. FBA was at that time a leading investment bank in Iceland, established in 1998 through a merger of four state-owned investment credit funds which were the main providers of long-term credit to Icelandic industries for most of the twentieth century.

Since the merger of Íslandsbanki and FBA in 2000, we have undergone steady and significant growth and expanded our operations considerably. In late 2004, we acquired KredittBanken ASA (now Glitnir Bank), a niche bank located in Norway with a focus on the seafood and the offshore service vessel industry. In the first quarter of 2005, we acquired BNbank in Norway, a commercial bank focused on mortgage loans. These two acquisitions gave us a strong foothold in the Norwegian market. See Chapter 15 - Investments for a more detailed description of these acquisitions.

Through our acquisitions and organic initiatives, we have expanded our international presence considerably in the last several years. We now have offices in the United Kingdom (2001), Luxembourg (2003), Canada (2006), China (2006), Sweden (2006), Norway (2004), Finland (2007), Russia (2007) and USA (2007). Our international expansion has been driven by our desire to serve our Nordic customers in their own global expansion, to reach potential customers in our specialized industry sectors located worldwide, and to diversify and balance our growth.

In March 2006 we changed our name from Íslandsbanki to Glitnir and adopted a new corporate logo.

10. BUSINESS OVERVIEW

10.1. PRINCIPAL ACTIVITIES AND MARKETS

We are a Nordic bank, headquartered in Iceland, with operations in ten countries. We consider Iceland and Norway as our main markets and we generated 49% and 17% of our profit before taxes in these markets, respectively, in 2007. Outside of Iceland and Norway, we have banking licenses in Finland and Luxembourg, and a pending application for a banking license in Sweden. In addition, we have branches in the United Kingdom and Canada and offices in Sweden, the United States, China and Russia. Our shares are listed on the OMX ICE Main Market under the symbol GLB.

We offer a broad range of financial services in Iceland and Norway, including Corporate Banking, Investment Banking, Markets, Investment Management and Commercial Banking, to a broad range of customers. In Iceland, we are one of the three leading banks with an approximate 24% market share in terms of loan volume as of December 31, 2007 (source & further information: the Central Bank of Iceland, www.sedlabanki.is and Glitnir banki hf., www.glitnir.is). In Norway, we are the sixth largest corporate bank with an approximate 3% market share in terms of outstanding corporate loan volume. Outside of Iceland and Norway, our main activities are Markets in the Nordic region, Corporate Banking and Investment Banking in the Nordic region, Europe and other international markets, and Investment Management services, which we offer in Finland, Sweden, Luxembourg and Russia. We derived 49%, 24% and 27% of our profit before taxes from Iceland, Nordics region and our international operations, respectively, in 2007.

We have driven and continue to drive international expansion of our business based on two specialized industry sectors: seafood and sustainable energy. Our third specialized industry sector is the offshore service vessels industry, which is our local Norwegian industry sector. We have developed significant industry expertise in all three industry sectors, built on our heritage in Iceland and Norway, across our businesses.

Based on our market capitalization of ISK 224 billion (€1.9 billion (Calculated with the exchange rate of the EUR vs. ISK on July 11, 2008)) as of July 11, 2008, we are the third largest bank in Iceland and the tenth largest bank in the Nordic region based on balance sheet. In the Nordic region, we have mainly grown through strategic acquisitions, while internationally we have grown principally through organic development. In 2004 and 2005, we acquired Kredittbanken (now Glitnir Bank) and BNbank (now Glitnir Bank) in Norway, and through these acquisitions significantly increased our loan portfolio and the proportion of our revenue we derive from interest income. In 2006, we acquired the Swedish brokerage firm, Fischer Partner Fondkommission AB (now Glitnir AB), which established us as one of the leading Nordic brokerage companies by transaction volume and, through the acquisition of FIM Group Corporation (now Glitnir bank Oyj) in Finland in 2007, we established the cornerstone of our international investment management business. We believe that our recent acquisitions have increased the breadth and depth of our product and service offerings and expanded our geographical coverage, allowing us to offer additional value to our expanding customer base.

10.2. COMPETITIVE STRENGTHS

We view the following aspects of our business as our principal competitive strengths:

Corporate Banking platform in Norway with strategic positions in Investment Banking and Markets throughout the Nordic region.

We have an established position as a leading bank in Iceland and have close relationships with Icelandic corporate clients. Building upon this strength, we expanded into Norway, where we have been offering a wide range of Corporate Banking services since our acquisition of Kredittbanken in 2004 and BNbank in 2005. Using this platform, we have expanded our Corporate Banking offerings and established strategic positions in Investment Banking and Markets in the Nordic region. In addition, we have used our expertise in our specialized industry sectors of seafood and sustainable energy to expand our product and service offerings on an international scale. We also use our Corporate Banking customer base for cross-selling opportunities in Investment Banking and Markets and vice versa, and we believe that this approach has allowed us to establish ourselves as an integrated Corporate and Investment banking and Markets service provider in the Nordic region.

Strong record of profitable growth.

We have a strong record of profitable growth, built on a balanced contribution from both acquisitions and organic growth as well as the continuing growth and diversification of our loan portfolio and our broadening range of products and services. Our profit before taxes increased from ISK 23,060 million in 2005 to ISK 33,904 million in 2007, representing compound annual growth rates of 20%. We estimate that acquisitions have contributed approximately 40% of our growth in profit before taxes during this period, with the rest of our growth attributable to our organic development. Our acquisitions in the Nordic region since 2004, have allowed us to achieve our strategic goal of business and geographical diversification. Our profitable growth in recent years has also been driven by stable revenue increases from a growing and diversified loan portfolio. Our loan portfolio increased from ISK 1,078,383 million as of December 31, 2005, to ISK 2,253,376 million at December 31, 2007, representing a compound annual growth rate of 44.5% during the period. As of December 31, 2007, loans originating from Iceland constituted 18% of the total loan portfolio, as compared to 45% as of December 31, 2005. In addition, our growth has been driven by the increase in our fees and commission income. To diversify our revenue source and to achieve a high level of growth, we have sought to increase the proportion of fee and commission income by expanding our Investment Banking and Markets businesses in terms of both geography and product range. The share of operating income that we generate from net fees and commissions now represents 44% of our operating income in 2007 as compared to 24% in 2005.

Recognized global expertise in selected key industry sectors.

We have successfully exploited our expertise in Iceland and Norway to build strong positions in financial services to the seafood, sustainable energy and offshore service vessel industries. Our expertise in the seafood and sustainable energy sectors has served as the foundation for the development of our international customer relationships and the international expansion of our Corporate Banking and Investment Banking businesses. We believe that our expertise in these sectors, coupled with our expertise in offshore service vessels, will serve as a solid foundation for our future international growth. Our focus on these industries has helped us develop close relationships with key industry participants and allowed us to follow our existing clients in their international expansion and also helped establish new client relationships. Our recognized deep understanding of the seafood and sustainable energy sectors has allowed us to expand globally with our clients in these industries and we believe our expertise in the offshore service vessel industry, in which we have a strong position in the leading Norwegian market, provides a similar opportunity for international expansion. We have established dedicated industry teams with significant industry experience and knowledge. These teams take charge of the relationship between us and the key industry participants, publish industry research, participate in industry forums and networks and play an important role in our internal training programs. At December 31, 2007, approximately 13% of our total corporate loan portfolio and 57% of our total international corporate loan portfolio was related to these specialized industry sectors.

Focus on risk management with strong liquidity and capital positions.

We strive to maintain good asset quality and risk management discipline. We have fostered a strong and unified risk management culture throughout our operations based on centralized risk management for all major risk categories, including asset and liability management, credit risk, market risk, operational risk and systems security risk. These efforts have allowed us to maintain a ratio of provisions for non-performing loans to average total assets below 1% in past years. Our average ratio of provisions for non-performing loans to gross loans has been between 0.2% and 0.3% at year-end over the past three years. Our leveraged finance portfolio, of which over 90% was senior secured debt, constituted less than 6% of our total loan portfolio as of December 31, 2007. We have no exposure to the sub-prime mortgages. Our policy is to maintain a portfolio of highly liquid assets and immediately available funds, such as cash, money market funds and committed credit lines, to cover all of our financial liabilities maturing within six months (other than deposits). Furthermore, all of our financial liabilities maturing within six months (other than deposits) must be covered by our liquidity portfolio together with liquid assets. In each case, we discount the relevant asset class by an estimate of potential losses that we believe is conservative. Our CAD and Tier 1 ratios were 11.2% and 8.1%, respectively, at December 31, 2007 compared to our target of 11% and 8%, respectively. According to the most recent biannual stress test conducted by the FME at December 31, 2007, even severe market and credit conditions would have limited impact on our capital adequacy. Our CAD of 11.2%, as of December 31, 2007, would have been reduced 0.8%, if the following were to occur simultaneously: a 20% fall in value of non-performing/impaired loans and appropriated assets, 25% fall in value of foreign shares at own risk of the bank, 35% fall in value of domestic shares at own risk of the bank, a 7% fall in value of bonds owned by the bank (bonds with less than one year maturity excluded), 20% weakening of the ISK. Our CAD of 11.0%, as of March 31, 2008, would have been reduced by 0.7% in the same scenario.

Experienced management team and entrepreneurial culture.

Our Senior Management team has substantial experience in the Nordic region and other key markets in which we operate. It is supported by an excellent team of qualified professionals. Our organization is based on short and effective reporting and communication lines and we cultivate an entrepreneurial culture.

10.3. STRATEGY

Provide an integrated financial service offering to our target customers.

We plan to continue to grow our Corporate Banking business through further product, sector and geographical diversification. We plan to do so by providing an integrated range of financial services and products to our Icelandic and Nordic clients and by following these clients outside the Nordic region in their international expansion. We will focus on building strong relationships and offering tailored products to our key clients, including SMEs, high net worth individuals and institutional investors. We seek to grow our Investment Banking and Markets businesses, particularly in Norway, by leveraging our Corporate Banking platform in Iceland and Norway. In Investment Banking, our goal is to continue to leverage on our Corporate Banking client base and expertise related to our specialised industry sectors to drive international expansion of our business. In 2007, we obtained several of our key mergers and acquisitions and equity capital markets mandates through our Corporate Banking relationships, including the sale of Icicle Seafoods, Inc., one of the largest seafood companies in the United States, to Paine & Partners Fund III, a private equity firm, and the initial public offering and a follow-on equity offering of Copeinca, a Peruvian fish meal producer. In our Markets business, our goal is to broaden the high-value added service offering in the Nordic region with a focus on institutional clients and high net worth individuals in the Nordic region. We have recently announced a new fund GLB Glacier Renewable Energy Fund, linking Investment Management with our specialised industry sectors. The fund will invest in investments within the renewable energy sector, primarily within the geothermal sector. With our own private equity and sustainable energy industry team, we focus on geothermal energy in all its applications and with the whole value chain. We are a strong partner for the global energy industry and have supported the industry heavily, e.g. in the U.S., to promote the advantages of geothermal energy. Our aim is to continue to leverage our expertise across regions and business units.

Capitalize on our Nordic platform for further growth.

Through our strategic acquisitions in the last four years as well as continued organic development, we have created a business with strong (market) positions in several key segments of the Icelandic and Nordic financial services markets, including Corporate Banking, Investment Banking, Markets and Investment Management. We plan to increase revenue and achieve operational efficiencies by further aligning each of our businesses and acquired entities and provide an integrated full-service offering in the Nordic region. We seek to further focus our Corporate Banking business in Norway by increasing corporate lending. We also plan to strengthen our Investment Banking business by leveraging our strength in Corporate Banking and equity placements in the Nordic region. We expect that this will enable us to generate further cross-selling opportunities between business lines, expanding both our product lines and customer base and increase our competitiveness on cross-border transactions. For example, we are now offering a wide range of FIM's (now Glitnir Oyj) investment products, such as a wide selection of funds in all risk categories, through our Commercial banking operations in Iceland, and in turn, we are offering deposit products to Glitnir Oyj's existing customers. In addition, the Markets and Investment Banking units of Glitnir Oyj were integrated into our Nordic platform. Furthermore we completed a merger of our two bank subsidiaries in Norway, BNbank and Glitnir Bank in the first quarter of 2008, in order to expand our Corporate Banking activities, capture cross-selling opportunities, improve our service quality and simplify our organizational structure in the Norwegian market.

Continue to exploit our expertise in key industry segments with attractive macro-economic outlooks.

We seek to exploit our expertise in our three specialized industry sectors of seafood, sustainable energy and offshore service vessels to grow our business. We believe that these sectors will continue to provide us with opportunities for further growth. In the seafood sector, the consolidation of the industry is likely to continue, generating increasing opportunities for our Corporate Banking, Investment Banking and Markets businesses. In addition, we expect that the increasing world population and the growing demand for wholesome food will continue to support growth in the seafood industry. In the sustainable energy sector, we expect that the demand for alternative energy sources will continue to grow worldwide, primarily driven by higher oil and gas prices, government support and increasing consumer interest in green energy. This trend in the sustainable energy sector, coupled with Iceland's unique experience and expertise in geothermal energy technologies, will provide significant growth opportunities in the future. We expect that the high oil-price environment will also stimulate demand in the offshore services vessel industry, particularly for the most modern and sophisticated vessels designed for deep water operations. Our current business relating to the offshore services vessel industry is based in Norway, a leading market for the design, construction and operation of the most sophisticated vessels, and we believe that our strength in this market will allow us to expand this business internationally. We intend to continue to build on our strong relationships with the leading global industry players in these sectors, clients from Iceland and Norway who expand internationally and local industry players worldwide. We will also seek to capitalize on our growing Iinvestment Banking and Markets businesses to establish our position as a full-service solution provider to these industries.

Continue to diversify our funding sources and our loan portfolio.

We seek to minimize our funding costs while retaining operational flexibility through diversifying and achieving balance among various funding sources. As of December 31, 2007, we had a customer deposit to customer loan ratio of approximately 37%. We plan to increase the share of our funding that we generate from deposit products by implementing new product initiatives and, in some cases, by moving into new markets. For example, we are currently promoting new deposit products to our existing customers in Iceland and Norway, and launched a deposit taking initiative in Finland in October 2007. We introduced a new deposit product in Iceland in the beginning of 2008, Vaxtaþrep, that offers our customers high yield, increasing in line with their deposit, and is paid out on a monthly basis. This product was well received and is thought to suit a broad spectrum of customers, from those that are looking for a long term investment and high return to those who need to invest for a short time and want to receive interests on their deposits right away. A new international deposit product, Save&Save, was introduced in June 2008. Save&Save is meant to give customers favourable interest rates while simultaneously allocating funds to a new global environmental fund whose objective is to support environmental projects, focused on sustainable energy and the sustainable seafood industry. We have had a wholesale deposit taking operation in our London branch since late 2006 and we will seek to continue to increase our strength in that market. We also seek to minimize our exposure to any given market by diversifying our loan portfolio by both geography and sector. At December 31, 2007, Iceland and Norway represented approximately 46% and 37% of our loan portfolio, respectively, with the United Kingdom and Germany representing approximately a further 4% and 2% respectively, compared with a loan portfolio that was highly concentrated in Iceland prior to 2005. At December 31, 2007, services, individuals and commercial real estate represented approximately 32%, 26% and 21% of our loan portfolio, respectively. Our goal is to continue to diversify our loan portfolio through broadening our customer base in Iceland and Norway and through our international expansion.

Licenses and Material Contracts

Our operations are to some extent based on our operating licenses as a commercial bank and a provider of other financial services in the counties in which we operate. Our operations or profitability are not dependent on patents, individual agreements or manufacturing processes. We believe that there are no individual contracts or similar circumstances relating to the business which are of material significance to our operations or profitability.

Key Financial Objectives

We have set certain key financial objectives for ourselves which we seek to achieve over the long-term. These include:

Return on Equity:	Risk free rate + 6%
Financial strength:	Tier 1 ratio ≥ 8%; CAD ratio ≥ 11%
Dividend strategy:	Long-term growth in dividend per share with a target dividend payout ratio of 20 to 40% of our net profit

While these are long-term goals and we can give no assurances as to whether they will be attained, we believe that these objectives impose an important discipline both on our strategic planning as well as on our day-to-day operations.

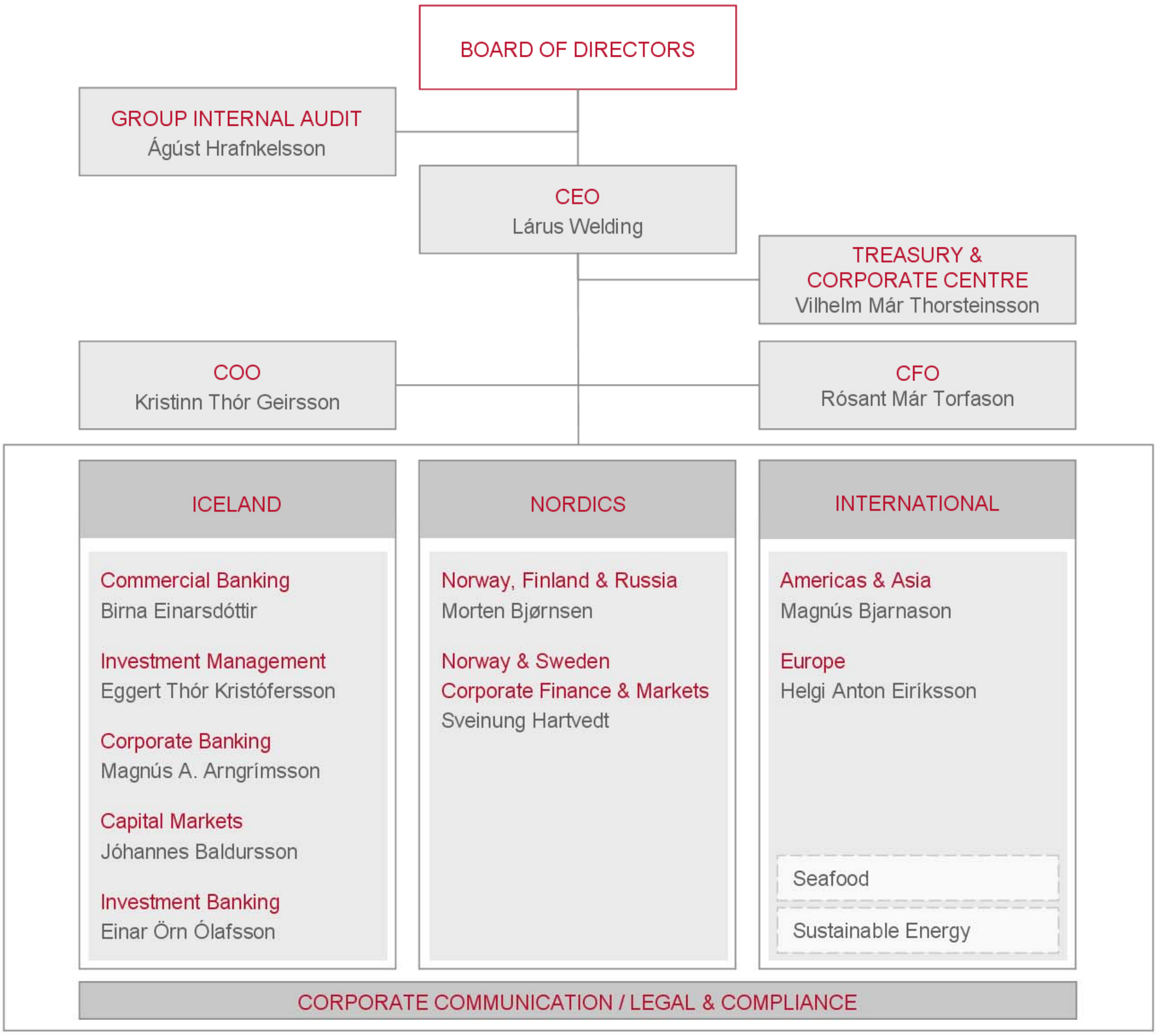
10.4. ORGANIZATIONAL STRUCTURE

Glitnir banki hf. is the parent company of the bank and holds a controlling interest in all of its subsidiaries. Our CEO and Senior Management develop and create policies and choose managers for the subsidiaries. We and our subsidiaries each have our respective management teams.

We changed our organizational structure in February 2008 to a regional structure. This was done in order to sharpen the reporting, P&L responsibility and strategic focus throughout the Group.

Glitnir offers comprehensive banking services to corporates and individuals in Norway and Iceland. Throughout our designated regions: Iceland, Nordics and International, we utilize our specialized industry sector activities as a unique platform for our expansion.

The following chart illustrates our organizational structure by geographic business region, as well as within the context of our current executive management board.



In Iceland, we offer universal services within the five business lines of Corporate Banking, Investment Banking, Markets, Investment Management and Commercial Banking. We have a broad range of customers with a market share in Iceland of approximately 20-35% across the spectrum.

In the Nordic region, Glitnir provides value added financial services built around its strong Norwegian banking presence, supported by the Banks corporate advisory and equity market placing power throughout the region. In Finland we operate a strong Investment Management unit with expertise in emerging markets equity funds.

In our International region, Glitnir is a focused provider of corporate banking and advisory services. In Europe we have branches in the UK, focusing on the food and retail sectors, and in Luxembourg, focusing on asset management and property finance. In Asia/Americas, the Bank has an international reach to industry leaders in its global niche sectors, seafood and sustainable energy, with offices in Canada, China and the USA. Glitnir plans to open an office in India in the second half of 2008.

The support units are Treasury and Corporate Centre, Finance, Risk and Credit Management, Operations, Legal and Compliance and Corporate Communication.

The following chart illustrates our various business lines as of December 31, 2007.

GLITNIR

Commercial Banking	Corporate Banking	Investment Banking	Investment Management	Markets
Financial services to domestic industries and households in Iceland and Norway	International operations, global markets and leveraged finance	International corporate finance and equity investments	International investment and asset management services	Capital market services for corporate and institutional investors

The following discussion describes all our business lines, independent on the organizational structure mentioned above. This description is meant to shed light on our operations, products and contribution of each business unit to the overall profit of the Group.

Corporate Banking

Overview

Our Corporate Banking unit offers financial services to corporate clients. Corporate Banking operates through eight offices worldwide. Corporate Banking had 110 professionals as of March 31, 2008, and contributed 38% of our profit before taxes in 2007.

The primary markets in which we operate are the markets of Iceland and Norway, where we derived 14% and 35% of Corporate Banking's profit before taxes, respectively, in 2007.

In Iceland, we are among the leading corporate lenders with an approximate 30% market share in terms of outstanding corporate loan volume as of December 31, 2007 (source & further information: Central Bank of Iceland, www.sedlabanki.is and Glitnir banki hf., www.glitnir.is). In Iceland we serve corporate customers across all sectors, working closely with our clients, many of whom are engaged in international operations and cross-border expansions. As of December 31, 2007, we had ISK 230 billion of corporate loans outstanding in Iceland, that were extended to services and holding companies, our specialized niche sectors and the general business sector.

In Norway, we are the 6th largest corporate bank with a 3% market share in terms of outstanding corporate loan portfolio as of December 31, 2007 (source & further information: Norwegian Financial Services Association, www.fnh.no). Our Corporate Banking professionals serve corporate customers across all sectors in the Nordic region, with particular focus in the real estate and offshore service vessels where we are consider us as a market leader as well as in the seafood and shipyard sectors. In the first quarter of 2008, we merged our two banks based in Norway, BNbank and Glitnir Bank, to integrate our product offerings and our customer base in Norway in order to capture cross-selling opportunities and improve our service quality. As of December 31, 2007, we had ISK 500 billion outstanding in loans to corporate customers in Norway (40% of our loan portfolio), that were extended to real estate companies, retail companies and shipping and offshore service vessels companies.

Corporate Banking also operates internationally, competing primarily in the seafood and the sustainable energy sectors, in which we create value through our expertise and extensive contact networks, and provide specialized and tailored products. We also service target Icelandic clients with international exposure, offering debt finance, syndication and structured finance in close co-operation with Investment Banking and International Banking. We aim to capitalise on the continued growth of the internationally expanding core client base and strengthen our teams in the specialised industry sectors to facilitate further organic growth. We have recently significantly expanded our international presence in order to enhance our existing client relationships outside the Icelandic and Norwegian markets and to support our clients there in their international expansion. We opened an office in Halifax in April 2006, in Shanghai in December 2006 and in New York in September 2007. As of December 31, 2007, we had ISK 521 billion of loans outstanding in our international markets that were extended to services and holding companies, real estate companies, the general business industries and also our specialised industry sectors, Seafood, and Sustainable Energy.

Products and Services

We provide a full range of corporate financing products and services, including credit and working capital facilities, term loans and syndicated loans.

We provide asset-backed financing, including leasing, factoring, receivables financing, real estate financing and import-export financing backed by the merchandise.

We provide margin lending for the purchase of securities for our corporate clients.

Corporate Banking also finances mergers and acquisitions arranged by our Investment Banking unit, as well as transactions arranged by other banks and financial advisors. We carefully screen our lending opportunities and seek to finance only those companies with an experienced management team, a profitable core business in a stable industry with a defensible market position, historically strong and stable cash flow, a focused and realistic business plan and reliable equity sponsors. We actively monitor our leveraged loans, which are only a small proportion of our total loan portfolio (approximately 6%), through periodic reporting and on-site visits. Our leveraged finance unit does not provide financing for start-ups, research and development and holding companies. Over the last six years, we have built a balanced portfolio of leveraged finance assets. While we invest in all ranges of seniorities, we typically invest at the senior level. As of December 31, 2007, our leveraged finance portfolio totalled ISK 116 billion.

Competition

Our competitors are numerous and include local banks as well as local operations of other Icelandic, Nordic and International banks. Corporate Banking markets in Iceland and Norway are becoming increasingly competitive, including in our specialized industry sectors and recruiting qualified staff has also become highly competitive.

Investment Banking

Overview

Our Investment Banking unit offers corporate finance advisory and equity capital markets services to corporate clients, and selectively makes principal equity investments for example in connection with advisory mandates. Investment Banking operates through eight offices in Reykjavik, Oslo, Helsinki, London, Stockholm, Moscow, New York and Shanghai. Investment Banking contributed 24% of our profit before taxes in 2007.

Investment Banking's main activities take place in Iceland, the Nordic region and internationally through our specialised industry sectors. In Iceland, we consider us as one of the largest providers of investment banking services serving clients from all industries. In Norway, our specialized industry sectors constitute a significant part our business and we derived over 63% of advisory fees from transactions related to our specialized industry sectors, as compared to approximately 25% in Iceland. Market conditions in Norway were favourable last year, and this has been reflected in strong equity capital markets activity in the market in general and within our Investment Banking operation in particular. In Sweden and Finland we have a particular focus on local mergers and acquisitions and equity capital markets services in our specialized industry sectors. In 2007, Investment Banking derived 29% and 26% of its profits before taxes from clients based in Iceland and the Nordic region, respectively. Outside Iceland and the Nordic region, we have professionals operating through our offices in London, Moscow, New York and Shanghai. There, our investment banking activities are primarily built around our expertise in our specialized industry sectors, except in London, where we have a particular focus on the general food sectors. We will seek to develop our customer base first by leveraging our expertise in the specialized industry sectors in these markets. Our offices in New York and Shanghai were opened in 2006 and 2007 to achieve further growth and to leverage our expertise in the specialized industry sectors. The first year of operations in New York proved to be good where the main focus was on the specialised industry sectors. The team was involved in various projects among other things related to the geothermal and seafood industries acting for instance as financial advisors to the sellers of the seafood company Icicle to the investment company Paine & Partners.

In 2007, Investment Banking derived 45% of its profit before taxes from clients based in the international markets.

Products and Services

We provide our clients with a full range of corporate finance advice, in connection with mergers and acquisitions, restructuring and leveraged buy-outs. We provide corporate finance advisory through all of our offices. Significant transactions for which we served as an advisor in 2007 in Iceland include the acquisition of Keops in Denmark by Stoðir, which became the largest real estate company in the Nordic countries following the transaction, the ISK 19 billion sale of Icicle Seafoods Inc. to Paine and Partners, and the purchase of Jardboranir hf. by Geysir Green Energy. Transactions in Norway include the private placement of the leading agro industrial company Camposol in Peru, the private placement of the Norwegian offshore service company Rem Offshore and the private placement of the Norwegian seafood company Sea Production Ltd.

We provide services in connection with, and execution of, initial public offerings, rights offerings, private placements and delistings. We provide these services through our offices in Iceland, Norway, Sweden and Finland. Significant transactions for which we served as a lead or co-manager in the last few years include the ISK 60 billion public to private transaction of Keops, the ISK 27 billion initial public offering of Icelandair and the ISK 24 billion share offering by FL Group.

Our Investment Banking unit, in close cooperation with Corporate Banking, selectively makes equity investments with some of our key corporate clients, usually in connection with a corporate finance advisory mandate to facilitate transactions and to provide customized equity financing solutions. These investments include a range of financial investments from preferred and ordinary equity, equity related investments, mezzanine debt and high-yield bonds.

As of December 31, 2007, our equity investment portfolio consisted of 19 investments with a total value of ISK 43 billion (measured at fair value), of which 21% was in listed companies and 79% in unlisted companies. Of the total portfolio, over 19% was in Icelandic companies and 81% was in foreign companies

Competition

Competition in Investment Banking service is intense in every geographical region in which we operate. We not only compete with other banks on sourcing mandates, but also for hiring and retaining qualified professionals.

Markets

Overview

Our Markets unit offers brokerage services to both individual and institutional investors located in Iceland, the Nordic region and Europe. We increased our market share in terms of turnover in the Nordic equity market from 4.9% in 2006 to 6.2% in 2007 (source & further information: Glitnir banki hf., Press Release Fourth Quarter 2007, www.glitnir.is). This growth was supported by the acquisition of FIM (Finland) in February 2007. This leaves us the second largest equity broker in the Nordics. Our market share in equity brokerage was 25% in Iceland, ranking us number two in Iceland (source & further information: the OMX Nordic Exchange, Omx Nordic Exchange, www.omxnordicexchange.com).

We also provide extensive research coverage focusing on the securities markets and economies in which Markets operates. We are a member of several stock exchanges, including the OMX Nordice Exchange in Iceland, Sweden, Finland and Denmark, the Oslo Stock Exchange (Oslo Børs) in Norway, RTS and MICEX in Moscow, as well as of Eurex, the German derivatives exchange. Markets operates through offices in Reykjavik, Oslo, Helsinki, Stockholm and Moscow. Our Markets unit contributed 21% to our profit before taxes in 2007.

We have built our strong position in the Nordic equity market through acquisitions of Norse Securities in Norway, Fischer Partners Fondkommission in Sweden and FIM Group in Finland. We seek to achieve further growth in the Nordic region through the broadening of our product range and widening of our client base.

Products and Services

Our brokerage team provides full service brokerage in bonds, equities, foreign exchange, structured products and derivatives in Iceland, brokerage in equities, structured products and foreign exchange in Norway, brokerage in equity and structured products in Finland and equity brokerage in Sweden and Russia. We have a solid platform for both higher-margin research-driven sales and lower-margin direct market access sales in the Nordic region. In Iceland, we are particularly strong in higher-margin derivatives brokerage, including equity, foreign exchange and fixed income options as well as structured products. We also have a well established foreign exchange managed accounts desk and risk advisory services to further diversify our income streams.

Our research team is located in Iceland, Finland, Norway, Sweden and Russia, and provides equity and macroeconomic research, with a particular focus on our three specialized industry sectors. Our research team covers over 280 companies in five markets, with 99%, 93%, 70%, 70% and 35% of the total market capitalization of all listed companies covered in Finland, Iceland, Sweden, Norway and Russia, respectively, as of December 31, 2007. Our research analysts are based locally and provide in-depth research, including sector and company reports, overall recommendations and strategic guidance.

We engage in proprietary trading and market making in several instruments and markets. Some are strategic, medium-term positions, while others are short-term positions aimed at taking advantage of price discrepancies or spreads in different markets, within a clearly defined risk framework based on various factors such as liquidity, legal aspects and our risk management policies. Our most extensive market making and proprietary trading activities are in Icelandic equities.

Competition

In the markets in which we operate, competition is intense and primarily based on the quality and coverage of research, customer relationships and execution quality. Overall, the margin for brokerage services has been declining in the past several years due to competition and the increasing use of electronic trading systems, although the transaction volume has been increasing significantly at the same time.

Our primary competitors are numerous and include both local and international banks.

Investment Management

Overview

Our Investment Management unit offers asset management and private banking services to retail customers, high net worth individuals and institutional investors. We are a leading asset management company in Iceland and Finland, and the Investment Management unit operates through offices in Reykjavik, Helsinki, Luxembourg, Oslo, Stockholm and Moscow, as well as Commercial Banking branches in Iceland and nine sales offices in Finland.

Our assets under management were ISK 936 billion as of December 31 2007, of which 66% and 33% were held in accounts based in Iceland and the Nordic region respectively. Investment Management had 243 employees as of March 31, 2008, and contributed 4.5% of our profit before taxes in 2007.

Our Investment Management unit, which focuses on investment and asset management services, was established as a separate unit in February 2007, following our acquisition of FIM Group. Investment Management is one of the focus areas of our growth and, in the next several years, we will seek to substantially expand our business in terms of geographical coverage, the range of products and services as well as the assets under management. We expect the future growth of Investment Management to come from cross-selling of investment funds and services through distribution platforms of other business units as well as increased sales of structured products outside of Finland. For example, we are now offering a wide range of FIM's (now Glitnir Oyj) investment products through our retail banking operations in Iceland, and in turn, we are offering deposit products to Glitnir Oyj's existing customers. Further, to leverage our expertise in the specialized industry sectors, we plan to launch funds focused on the sustainable energy sector in the near future.

Products and Services

We manage assets for private clients and institutional investors, and offer a comprehensive range of mutual-, investment- and institutional funds. We also provide advisory services in connection with securities and pension investments and portfolio management for high net worth individuals. We managed 50 funds with assets under management of ISK 500 billion and discretionary accounts with assets under management of ISK 436 billion, as of December 31, 2007.

We have a strong track record in fund management. Out of 15 of our funds rated by Morningstar, five of them received the highest rating of 5 and the average rating for these funds was 3.4 as of December 31, 2007. (We have only some of our funds rated by Morningstar since not all of the funds meet the requirements of having no less than 3 years of track record and fall into specifically defined categories for benchmarking). In addition, we have developed particular expertise in emerging markets since the launch of our Russian equity fund in 1998. Our nine fund managers and analysts specialized in emerging markets manage 10 emerging market funds, including Russian small and large cap funds, Sub-Saharan funds and Brazil-Russia-India-China (BRIC) funds. Our emerging market funds offer diversified exposure to more than 90% of global emerging markets.

We also have a strong track record in equity and fixed income funds. More than half of our assets under management are managed in our West European equity funds, focused on various sectors and geographies.

We are also one of the largest Icelandic fixed income fund manager, with approximately 37% market share in terms of assets under management as of December 31, 2007, offering a wide range of funds, both ISK and EUR denominated in shorter and longer maturity, with an exposure to both high yield and government bonds.

In addition, we recently became one of the first Western companies to obtain an Investment Management license in Russia and launched ruble-denominated equity, balanced and fixed-income funds for Russian domestic investors. We believe that our early entry will allow us to develop a strong position in this rapidly growing market, serving as an additional driver for future growth. We also seek to further increase international distribution of our asset management products by entering into distribution agreements with financial institutions around the world.

We offer integrated asset and liability management solutions to high net worth individuals, their families, their businesses and their advisors. We primarily operate our private banking operations through our Reykjavik, Helsinki and Luxembourg offices.

We seek to further expand our capability of international distribution of private banking services by using international offices of other units as bases, with a particular emphasis on high-growth areas, such as Russia.

In addition to traditional funds, we also manage and offer a number of hedge funds and real estate funds for our high net worth and institutional investors. These funds include a special situation fund, leveraged foreign exchange funds, leveraged fixed income funds and funds of funds. We had over ISK 15 billion of alternative investment assets under management as of December 31, 2007.

We also structure and distribute a variety of products, based on customer demand. For retail customers, we often offer capital guaranteed products, whereby investors can benefit from the upside of the underlying securities or index without taking risk on the capital, and a variety of leveraged index funds. For our high net worth and institutional customers, we structure custom tailored products designed to meet the investors' specific requirements, for instance for hedging portfolio assets. We generally outsource issuance of notes to third party financial institutions. In 2007, we structured and distributed products with a notional amount of EUR 370 million or approximately ISK 3.7 billion.

Competition

In Iceland and Finland, as a full service investment management service provider, we consider our competitors to be all major banking groups and specialized asset management companies in these countries. As we seek to increase our presence in Norway and Sweden, we also consider dominant local asset management firms our competitors in these countries. For funds focusing on emerging markets, we compete directly with specialized investment management firms.

Commercial Banking

Overview

We have Commercial Banking operations in our home markets of Iceland and Norway serving private customers and small and medium-sized enterprises. In Iceland, Commercial Banking operates through 22 branches and offers a full range of retail banking services, including internet and telephone banking, credit cards, commercial banking, mortgages, credit lines, construction loans and guarantees. In Norway, Commercial Banking primarily serves individuals and households through its internet site and telephone banking, supported by three branches, and mainly offer deposit products and mortgage loans. As a result of our recent acquisition of FIM in Finland, we also acquired a banking license in Finland in August 2007 and launched on-line retail banking operations, primarily offering savings products to our wealth management clients.

We are the second largest bank in Iceland (source & further information: a survey conducted at our request in 2007 by Capacent consultants, Borgartún 27, Reykjavík, Iceland) and the twelfth largest bank in Norway by number of retail customers (source & further information: Norwegian Financial Services Association, www.fnh.no). Commercial Banking in Iceland had 482 employees as of March 31, 2008, and contributed 14.6% of our profit before taxes in 2007. Commercial Banking derived 91% and 9% its profit before taxes from its operations in Iceland and Norway, respectively, in 2007.

Commercial Banking has been and continues to be a stable income base for our business. We will continue our focus on operational efficiency and product innovation. We seek to take advantage of our Commercial Banking distribution platform by offering investment products of our Investment Management unit and we will continue to develop and use Commercial Banking's branch network and internet banking site to grow various deposits bases in Iceland, Norway and Finland.

Products and services

Iceland

Our commercial banking operations in Iceland offer individual and corporate customers a full range of banking products through our 22 branches, including checking and savings accounts, financing for companies, mortgages, personal loans and credit cards. We also offer internet and telephone banking services to our customers.

The majority of housing in Iceland has traditionally been financed through the state-sponsored Housing Financing Fund (HFF), which finances its mortgage lending through the issuance of securities known as HFF bonds. In 2004, commercial lenders in Iceland, including us, started to offer mortgages.

In Iceland, the outstanding principal amount under most mortgages is linked to the Icelandic CPI and adjusted for inflation on a monthly basis. Consequently, the amount of the principal and interest payments under these mortgages and the size of our Icelandic inflation-linked mortgage loan portfolio may increase or decrease depending on the rate of inflation in Iceland.

As at December 31, 2007, we had an approximately 14% market share of the Icelandic retail mortgage lending market, based on information provided by the Central Bank of Iceland and the Icelandic Housing Financing Fund (HFF), while the state sponsored HFF's current market share is approximately 50%. As more banks have started to offer mortgage lending in the last few years, competition in the retail banking sector has increased sharply in Iceland.

Because the HFF is a quasi-sovereign entity, it has access to lower cost funding than we do, which it can pass on to its customers through lower-rate mortgages. As a result, to the extent we try to match or undercut the mortgage rates of the HFF, our margins on our mortgage loans in Iceland will be adversely affected. However, as HFF's own policy does not allow it to grant mortgage loans in excess of ISK 18 million per customer, we will not be affected on larger mortgages, unless HFF's policy changes. However the government has recently announced that the role of the HFF will be reviewed due to complaints by ESA since the Fund in its present form is thought to distort competition in the Icelandic house financing market.

We believe that mortgage lending is an important component of our Commercial Banking operation, as it allows us to build long-term relationships with our customers, to whom we can cross-sell other products and services.

We had a total of ISK 129 billion of mortgage loans to Icelandic customers outstanding as of December 31, 2007, and ISK 113 billion at December 31, 2006. Approximately, ISK 5.6 billion or 45% of this increase was due to increases in the Icelandic consumer price index.

We offer lease and loan financing of vehicles, equipment and commercial properties to businesses and lease and loan financing of vehicles to individuals. We had a market share of approximately 28% in Iceland in terms of outstanding loans as of December 31, 2007. About 63% of the total value of the leases related to vehicles, 10% to real estate and 27% to equipment and machineries, as of December 31, 2007. The leases offered are financial leases. The unit does not take any risk on residual value of leased assets. As of December 31, 2007, the total value of outstanding asset backed financing was ISK 49 billion.

Norway

Our Commercial Banking operations in Norway offer mortgage loans and a variety of deposit products. Over the last three years, our loan portfolio and deposits in Norway have grown by 100% in lending and around 30% in deposits.

Our primary customers are over 50,000 high income customers in Norway with average deposits of NOK 300 thousands, as of December 31, 2007. Our focus on the high income customer base has allowed us to maintain a lower-risk higher-quality mortgage portfolio.

Finland

As a part of our acquisition of FIM Group in Finland, we acquired a banking license in August 2007 and launched on-line retail banking operations in Finland in October 2007. Our Finnish retail banking platform offers a high-yielding deposit product and a limited range of lending products primarily to clients of our Investment Management operations. As of December 31, 2007, our Finnish banking operations had EUR 400 million in deposits.

Competition

In Iceland, Commercial banking is dominated by three domestic banks and the regional savings banks, each having an approximately equal market share. For mortgage lending, we also compete with the Icelandic Housing Financing Fund.

In Norway, the Commercial banking market is highly competitive, with many national and regional Commercial banks competing primarily on the basis of pricing. We compete with all of the major national banks.

In Finland, we indirectly compete with main local banks.

11. LITIGATION

In December 2006, Icelandic tax authorities ruled that we were required to pay an additional tax of ISK 589 million (including penalties) due to our merger with Framtak in 2004. We acquired 100% of the shares of Framtak and then subsequently Framtak merged with and into the Bank. Due to the proximity in time of the acquisition of the shares and the merger, the Icelandic tax authorities took the position that the acquisition of the shares and the merger constituted a single act and therefore we were not entitled to carry forward losses on the Framtak shares we acquired. The charge assessed by the tax authorities constitutes the amount of the loss we had carried forward plus penalties. We have appealed this ruling and our appeal is currently pending, but the full amount was charged to our income statement in December 2006. The matter has been brought before the District Court in Reykjavík and we are expecting a conclusion before the end of the year.

Given the size, nature and scope of our operations, we tend to be involved in various legal proceedings at any given time. However, we are currently not involved in any legal or arbitration proceedings the results of which would be material to our operations.

12. PROPERTY

We have offices located in Iceland, Norway, Sweden, Finland, Luxembourg, England, Canada, USA, China and Russia. The principal offices are located in Iceland and Norway.

All material properties (real estate) in Iceland are owned by Eignarhaldsfélagið Fasteign hf. a holding company that we hold a 29.7% interest in. The lease is usually set for a long term or an indefinite term. The six largest properties by square meters leased by us in Iceland are as follows:

Address	**Location**	**Activity**	**Square meters**
Kirkjusandur 2	Reykjavík	Headquarters	7,719
Lynghåls 4	Reykjavík	Back Office etc.	4,509
Borgartún 26	Reykjavík	Not in use	2,995
Lækjargata	Reykjavík	Branch and offices	2,272
Hafnarstræti 1	Ísafjörður	Branch and sub lease	920
Suðurlandsbraut 30	Reykjavík	Branch	859

The design of new headquarters in Iceland is already underway and the construction process is expected to start in the first quarter of 2009. We expect to move our operations from Kirkjusandur 2 to the new headquarters in 2010 or 2011. We will lease the building from a real estate company which will own the building.

All material properties (real estate) in Norway are owned by third parties and leased by us, except for the property at Munkegata 21, Trondheim. No material encumbrances are on properties in Norway. The lease is usually set for a period of 2-3 years with options to prolong the lease if we desires. The six largest properties by square meters owned or leased by us in Norway are as follows:

Address	**Location**	**Activity**	**Square meters**
St. Olavs plass 1	Ålesund	Head office of Glitnir Bank ASA	1,281
Fosnavåg Brygge	Fosnavåg	Branch from Glitnir Bank ASA in Fosnavåg	112
Munkegata 21	Trondheim	Head office of BNbank	2,479
Dronningensgate 40	Oslo	Branch from BNbank and admin for Norway	2,325
Haakon VII's gate 10	Oslo	Head office for Glitnir Securites ASA	1,194
Fillipstad Brygge 2	Oslo	Head Office of Glitnir Property Group ASA	991

The lease of Dronningsgade 40 has been cancelled effective 31.12.2008.

Glitnir Norway has entered into a 10 year lease contract for new office space for the Group in Oslo (i.e. Glitnir Bank ASA and Glitnir Securities) in Oslo at Tjuvholmen allé 1, Oslo (5,600 square meters). Annual lease payments commence in the beginning of October 2008.

All material properties used by representative offices and branches in the London, Shanghai, Halifax, Moscow, Stockholm, Luxembourg and New York are leased.

We are not aware of any environmental issues that could affect our real estate assets. We believe that our properties are in good condition and are adequate for our current needs. We evaluate our needs periodically and obtain additional facilities when considered necessary.

The total amount of non-cancellable lease payments by the Group is ISK 7.3 billion at year-end 2007. Majority of these commitments are related to real-estate, for example in Iceland, Norway, Sweden, Canada, China, UK and Luxembourg. The commitments are payable as follows:

Future non-cancellable minimum operating lease payments are due as follows:

(ISK million)	**December 31, 2007**
Up to 1 year	731
1 to 5 years	1,890
Later than 5 years	4,659
Total	7,280

13. THE GROUP

We are the parent company of the entities listed in the following table, which comprise the Group. The table below sets forth certain information regarding these subsidiaries as of March 31, 2008. The proportion of ownership is the same as the proportion of voting power held.

Company	**Country**	Ownership
Glitnir Bank ASA (BN bank ASA and Glitnir Bank ASA merged 1/1/08	Norway	100%
Glitnir Securities ASA	Norway	100%
Glitnir Marine Finance ASA	Norway	51%
Glitnir AB	Sweden	100%
Glitnir Luxembourg SA	Luxembourg	100%
Glitnir Oyj	Finland	100%
Kreditkort hf.	Iceland	55%
Borgun	Iceland	55%
Glitnir sjóðir hf.	Iceland	100%
Glitnir eignarhaldsfélag ehf	Iceland	100%
Rivulus ehf.	Iceland	100%
Lómur ehf	Iceland	100%
21 other wholly owned subsidiaries		100%

Glitnir Bank ASA

Glitnir Bank ASA offers a wide range of retail and corporate banking services. The bank is headquartered in Trondheim, and has offices in Oslo, Ålesund and Fosnavåg. Clients all over Norway are served via internet and telephone banking. In the retail market, Glitnir Bank ASA offers competitive rates on savings products, and the bank is one of the leading mortgage lenders in Norway. In the corporate market, the bank offers niche expertise within real estate, seafood, ship building, offshore service vessels and traditional shipping.

Glitnir Bank ASA is likely to have a significant effect on the assessment of our own assets and liabilities, financial position, profit and losses, since it accounts for approximately 20% of the Group's total assets (as of December 31, 2007). Glitnir Bank ASA was formed in January 1, 2008 when BN bank ASA and Glitnir Bank ASA merged. BN bank's net profit for the financial year 2007 was NOK 229 million and Glitnir Bank ASA's profit for the same period was NOK 97 million. All shares in BN bank and Glitnir Bank ASA have been fully paid.

Glitnir Luxembourg S.A.

Glitnir in Luxembourg is licensed for all types of banking and investment activities. They provide services within corporate banking, international private banking and asset management. On the corporate side Glitnir Luxembourg specialises in the provision of property financing solutions in Northern Europe, primarily within the residential and commercial property sectors.

The expertise of Glitnir Luxembourg include acquisition finance (including bridging finance), medium and long term, senior and/or junior debt and corporate finance and advisory.

Glitnir Luxembourg also provides international private banking services, including wealth management with financial planning and tax advisory for companies and individuals, asset management and credit services.

Glitnir Oyj

Glitnir Oyj in Finland offers investment services to institutional investors, professional clients and private investors. Glitnir Oyj concentrates on selected business lines including investment management, investment banking, retail banking and the securities market.

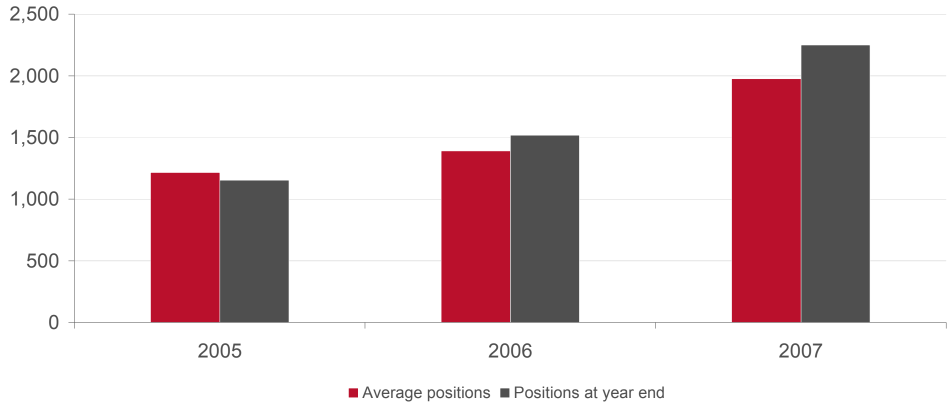
In addition to the head office in Helsinki, Finland, Glitnir Corporation has regional offices in Espoo, Jyväskylä, Kuopio, Lahti, Oulu, Riihimäki, Tampere, Turku and Vaasa.

The Glitnir group of Finland offers investment services to institutional investors, professional clients and private investors. The group consists of the parent company Glitnir Corporation, five subsidiaries and a branch office in Stockholm.

Other subsidiaries hold within 1% of our assets and are therefore not considered significant. We do not hold a proportion of any other undertakings likely to have a significant effect on the assessment of our own assets, liabilities, financial position, profit or losses.

14. EMPLOYEES

We believe that one of our principal competitive strengths is the quality and dedication of our employees. Our operations require a wide range of knowledge and specialized personnel within the financial sector. The total number of employees as of 31, March 2008 is 2,078. The average positions at year end for the years 2005 to 2007 are presented below.



The following table provides the number of our employees, by location as of March 31, 2008.

Location	Number of employees
Iceland	1,153
Norway	360
Sweden	100
Finland and Russia	328
Luxembourg	60
United Kingdom	50
Other	27
Total	2,078

The following table provides the number of our employees, by business lines as of March 31, 2008.

Business line	Number of employees
Corporate Banking	110
Investment Banking	107
Markets	266
Commercial Banking	482
Investment management	243
Other	870
Total	2,078

Recent Developments

Our operations in London were reorganised at the end of April 2008, with a reduction of ten job positions. On May 14, 2008 organisational layoffs were completed in Iceland, which led to a reduction in number of employees by 88. Those involved came from all levels and divisions within our operations. The turbulence in the international financial market changed the operational environment for financial service firms worldwide and we were not unaffected by this development. Since the autumn of 2007, we have demonstrated our flexibility by responding to changed operational environment in the international financial markets, by reducing costs in Iceland and in our operations internationally. The aforementioned layoffs were a part of that response.

Arrangements for involving the employees in the capital of the Company

We have the policy of paying an annual bonus, depending on the operational results, to all employees. For the year 2007 the annual bonus was 5,761 shares per full time employee. The rate of the shares was the rate at February 8, 2008 or 17.85. This amounts to ISK 102,840 per full time employee or a little over ISK 100 million in total. In addition we offer share options to Senior Management and key employees negotiated on an individual basis.

15. INVESTMENTS

Following is an outline of our principal investments from 2005 to present.

In April 2005 we acquired BNbank. BNbank is a leading financier in the Norwegian real estate market, serving both private and corporate customers. The acquisition was prompted by the goal of expanding into Northern Europe. BNbank provides mortgage loans and offers credit lines, construction loans, guarantees, general clearing services and deposits. Total transaction value was approximately ISK 30 billion (NOK 3.1 billion).

In February 2006 we acquired the brokerage houses Norse Securities ASA and Norse Kapitalforvaltning AS. These companies focus on stock broking and provide investment and trading advice on stock markets in Norway, Sweden and the United States for private investment clients as well as corporate segments. The acquisitions was a part of our strategy of continuing our expansion in Norway and complement our range of products and services available in the Norwegian market. The acquisition price was ISK 1,025 million. The effective date of the transaction was January 1, 2006.

At the end of March 2006 we increased our share in Kreditkort hf. (Mastercard) to 55%. The total acquisition price was ISK 1,034 million.

In May 2006 we completed the acquisition of a 50.1% interest of Union Gruppen AS (now Glitnir Property Holding), a leading investment banking and brokerage services firm. Glitnir Property Holding is Norway's largest and leading brokerage firm and commercial real estate brokerage consultancy. Glitnir Property Holding is also involved in syndication and funds, focusing on commercial real estate and on corporate finance consulting in real estate, retail and services and other selected sectors. The acquisition price was ISK 1,685 million. We sold a part of our share in Glitnir Property Holding in December 2007, which was at that time point 60.8% and currently hold 48.8% interest in Glitnir Property Holding. Our gain from the sale amounted to approximately ISK 300 million. Additionally, previously deferred capital gains of ISK 15 billion were realized as Glitnir Property Holding was no longer part of our consolidated accounts.

In July 2006 we purchased all shares in a leading Swedish brokerage firm, Fischer Partners Fondkommission AB (Fischer Partners). The acquisition of Fischer Partners from Invik & Co AB will give us a solid platform in the Nordic securities brokerage sector, while at the same time consolidating our position in Norway and the Nordic region. The acquisition price was ISK 3,848 million.

In March 2007, we acquired in a series of negotiated transactions and a public tender offer a 100% interest in FIM Group Corporation in Finland for ISK 31,043 million. FIM Group is an asset management, securities brokerage and investment banking company with offices in Finland, Stockholm and Moscow. The acquisition brought our combined assets under management to a total of EUR 8.5 billion in 46 different mutual and investment funds as of the time of the acquisition.

The management has made no firm commitments to any principal future investments.

16. ADMINISTRATIVE MANAGEMENT AND SUPERVISORY BODIES AND SENIOR MANAGEMENT

16.1. BOARD OF DIRECTORS

Our Board of Directors consists of seven members, each of whom are elected at our Annual General Meeting for a term of one year. Seven deputy members are also elected. The Board of Directors appoints our Chief Executive Officer and internal auditor. The Chief Executive Officer appoints the Executive Vice Presidents of the Bank.

The business address of each director is Glitnir banki hf., Kirkjusandur 2, 155 Reykjavík, Iceland.

Set forth below are the members of the Bank's Board of Directors, voted at the Annual General Meeting on February 20, 2008:

Name	Title
Þorsteinn M. Baldvinsson	Chairman
Jón Sigurðsson	Vice Chairman
Björn Ingi Sveinsson	Member of the Board
Hans Kristian Hustad	Member of the Board
Haukur Guðjónsson	Member of the Board
Kristín Edwald	Member of the Board
Sigurður G. Guðjonsson	Member of the Board

Þorsteinn M. Baldvinsson (Chairman). Mr. Baldvinsson is one of the founders of Samherji hf., a leading seafood company in Iceland. Since 1983, he has been the CEO of Samherji and has been very influential in the seafood sector and Icelandic society. Mr. Baldvinsson has a master's certificate from the College of Navigation of Reykjavik in 1975 and graduated as a Civil Engineer from The Norwegian University of Science and Technology in 1980. Mr. Baldvinsson was elected to the Board of Directors of Glitnir at the Annual General Meeting in February 2008 and appointed chairman by the Board of Directors.

Current board positions: Snæfell ehf., Barðstún ehf., Kaldbakur ehf., Fjárfestingafélagið Fjörður ehf., Síldarvinnslan hf., Snæfugl ehf., SR-mjöl hf., SVN eignafélag ehf., Sæból ehf., Oddeyri ehf., Súlan ehf., Samvís ehf., Íslandsbleikja ehf., Ice Fresh Seafood ehf., Eignarhaldsfélagið Steinn ehf., Seagold Ltd., Onward Fishing Company Ltd. and UK Fisheries Ltd.

Past board positions: Tryggingamiðstöðin hf., Samherji hf., Fjord Seafood., Nafta hf., Straumur Burðarás hf. and Kaldbakur ehf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: 1,867 shares.

Holdings of financially related parties in the Company: None.

Jón Sigurðsson (Vice Chairman). Mr. Sigurðsson joined FL Group hf. as managing director in September 2005 was appointed Deputy CEO in December 2006. Mr. Sigurðsson was appointed CEO of FL Group in December 2007. Mr. Sigurðsson has relevant private equity experience from his earlier work at Landsbanki Íslands hf., - Corporate Finance department and Búnaðarbanki Íslands (now Kaupþing Bank hf.) – Corporate Finance department. He received his B.Sc. in Business Administration from Reykjavík University. Mr. Sigurðsson was first elected to the Board of Directors of Glitnir at the Annual General Meeting in February 2006.

Current board positions: Unity One ehf.

Past board positions: Flugflutningar ehf., Bláfugl ehf., Icelease ehf., Icelandair ehf., Icelandair Group hf., Tryggingamiðstöðin hf., Hitaveita Suðurnesja hf., Ferskur Holding 1 B.V., Refresco Holding B.V., Sterling Airlines A/S, Flyselskabet A/S., Flugflutningar ehf., Unity Investments ehf. and Geysir Green Energy ehf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: 4,590,694,661 shares.

Björn Ingi Sveinsson (Member of the Board). Mr. Sveinsson was appointed CEO of Saxbygg Investments ehf. in 2005. Previously he was CEO of SPH Savings Bank for a period in 2005, Chief City Engineer for the City of

Reykjavík, CEO of Hönnun Consulting Engineers and CEO of Silverton ASA/Silfurtún hf. He also has an extensive career as a consultant in structural and seismic engineering in Iceland and California. Mr. Sveinsson holds a Civil Engineering degree from the University of Iceland and a Masters degree of Engineering from the University of California at Berkeley, California. Mr. Sveinsson was elected as a Member of the Board of Glitnir at an Extraordinary General Meeting in April 2007.

Current board positions: Eik Properties ehf., Eik Fasteignafélag hf., Stjórnarmenn ehf., Bisco ehf., Austurbraut hf., Glitnir Real Estate Fund I hf., Steni AS (Norway), Hadley Homes Holdings Ltd., Ice-Invest Berlin GmbH, Berlin Towers GmBH, Saxbygg Holding BV, Saxbygg Invest BV, Ferðaskrifstofa Íslands ehf., Technical College of Hafnarfjörður, Reykdalsfélagið, London Property Holdings plc. and London Investment Properties plc.,

Past board positions:

Tækniþing ehf., Fjárvari ehf., Verðbréfaþjónusta Sparisjóða hf., Vélamiðstöð ehf., Icebank hf., Valitor hf., Loftmyndir ehf., the Iceland – China Trade Council, JiFu Pulp Moulding Company Ltd. (Jilin China), and VBS Fjárfestingabanki hf. Tækniþjónustan ehf., Gormur ehf., Cois hf.,

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: 766,400,808 shares.

Hans Kristian Hustad (Member of the Board). Mr. Hustad studied finance, economics and logistic at a Regional University in Norway and Gothenborgh University in Sweden, and later he attended a management program at IMD. Mr. Hustad has held leading positions E.C.Dahls Brewery Plc., Nora Industrier Plc., Orkla Plc., Reitan Narvesen Plc. and Bama Ltd. Mr. Hustad was first elected to the Board of Directors of Glitnir at the Annual General Meeting in February 2008.

Current board positions: Baugur Group hf., Hans Kristian Hustad Ltd., Amer Ltd., Fokus Krogsveen Ltd., Taste of Light Ltd., Booker Group Plc., Hamleys Ltd., RedCo Ltd., Precom Ltd. and Wyevale Ltd.

Past board positions: Unity Investment Ltd. and Gro Industrier Ltd.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Haukur Guðjónsson (Member of the Board). In 2006 Mr. Guðjónsson was appointed CEO of Ingvar Helgason ehf. (a car distributor) where he had been serving as CFO since 2004. Mr. Guðjónsson was also appointed CEO of Bifreiðar og Landbúnaðarvélar hf. in June 2008. Prior to joining Ingvar Helgason ehf. in 2006 Mr. Guðjónsson was the CFO for JB Byggingarfélag and worked as an independent real estate and ship broker. Mr. Guðjónsson is a licensed real estate and ship broker as well as a licensed securities broker. Mr. Guðjónsson was first elected to the Board of Directors of Glitnir at the Extraordinary General Meeting in April 2007. He was elected as alternate for the Board on the Annual General Meeting in February 2008 but took a seat again in the Glitnir's Board of Directors on April 11, 2008.

Current board positions: HG Holding ehf., Fasteignafélagið Sævarhöfði ehf., ALP ehf., Bílaleiga Bónus ehf., Fjölhús ehf., Bevís ehf., Bílheimar ehf. and Icelandic Federation for Motor Trades and Repairs (alternate member of the board).

Past board positions: Borgarhöllin hf. and Glitnir banki hf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: 440 shares.

Kristín Edwald (Member of the Board).

Ms. Edwald is a senior partner at Lex Law Offices. She graduated from the Faculty of Law at the University of Iceland in 1997. She was admitted to practice before the District Courts of Iceland in January 1998 and was admitted to practice before the Supreme Court in May 2005. Ms. Edwald worked at Logos Legal Services from 1997 to 2000 and at the Prosecution of Economic Crime Division of the National Commissioner of Police from 2000 to 2002. In August 2002 she began working at Lex Law Offices and became a partner in January 2004. Ms. Edwald was elected as a Member of the Board of Glitnir at an Annual General Meeting in February 2008.

Current board positions: Lex ehf. and Ríkisútvarpið ohf.

Past board positions: Gufunes Holding ehf. and FL Group hf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Sigurður G. Guðjónsson (Member of the Board). Mr. Guðjónsson has his own law practice which he has run since 1985 in Reykjavík, Iceland. Mr. Guðjónsson holds a Cand. Juris degree from the University of Iceland. He has been admitted to practice before the District Courts and before the Supreme Court of Iceland. Mr. Guðjónsson was first elected to the Board of Glitnir at the Annual General Meeting in February 2008.

Current board positions: Sigurður G Guðjónsson ehf., SGS ehf., Dýrfiskur ehf., Benóný ehf., Norðurflug ehf., LL-eignir ehf., Pegasus ehf., Oddur Pétursson ehf., Farice hf., and Efarice ehf.,

Past board positions: Sýn ehf., Íslenska myndverið hf., Nýja íslenska símafélagið ehf., Veraldarvefurinn hf., Fínn miðill ehf., Stjörnubíó ehf., Fjölmiðlun hf., Tölvuleiga Reykjavíkur ehf., Íslensk margmiðlun ehf., Ár og dagur ehf., Firstmile Ísland ehf., SagaCapital hf., Skapandi miðlun ehf., Snætoppur ehf., Blátjörn ehf., Útgerðarfélagið Skálar ehf., Fjárfestingafélagið Bjarg ehf., Laugarbakkar ehf., Höður ehf., Grjót eignarhaldsfélag ehf., Þjónustufélagið ehf., IP-fjarskipti ehf., D3 Miðlar ehf., Ker ehf., Smjörbítill ehf., Angus ehf., Kjarrhólmi ehf., Birtingur útgáfufélag ehf., Humac ehf., M3 hús ehf., Orðlaus ehf. and Tryggingamiðstöðin hf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

The reserve members of the Board of Directors are as follows:

Name	**Title**
Árni Harðarson	Reserve Member of the Board
Bernhard Nils Bogason	Reserve Member of the Board
Gunnar Jónsson	Reserve Member of the Board
Jón Björnsson	Reserve Member of the Board
Kristinn S. Bjarnason	Reserve Member of the Board
Steingrímur H. Pétursson	Reserve Member of the Board

Árni Harðarson (Reserve Member of the Board). Mr. Harðarson earned a degree in law from the University of Iceland in 1993 and has been a member of the Icelandic Bar Association since 1998. Mr. Harðarson serves as Chief Executive Officer of Salt Investments. Prior to that he served as Vice President of Tax and Structure for Actavis Group hf. and as Head of Tax and Legal for Deloitte hf. Mr. Harðarson was first elected as a reserve member of the Bord of Directors of Glitnir at the Annual General Meeting in February 2008.

Current board positions: NH Veitingar ehf., Salt Aviation ehf., Twins ehf., Capa Invest ehf.,Græn Gróska ehf., Bergstaðastræti 6 ehf., Salt Development ehf., Salt Constructions ehf., Prima Holding ehf., Mainsee Holding ehf., Hólsgil ehf., Cartainvest I ehf. and Grænn Kostur ehf.

Past board positions: None

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: 345,453,640 shares

Bernhard Nils Bogason (Reserve Member of the Board). Mr. Bogason earned a Cand. Jur. degree from the University of Iceland in 1993. Mr. Bogason became Managing Director of Legal and Tax of FL Group hf. in 2006. Prior to joining FL Group hf., he was a partner and the head of the tax department of KPMG hf. Mr. Bogason served as a Deputy Judge in the District Courts of Iceland from 1993 to 1995, and operated his own law office from 1996 to 1999. He was first elected as a reserve member of the Bord of Directors of Glitnir at the Annual General Meeting in February 2008.

Current board positions: BNB Consulting ehf., Bílexport ehf., Eikarhald ehf., Tónvís ehf., Hlekkjafesti ehf., FL Holding ehf., FL Bayrock Holdco ehf., Möskvi ehf., Shop USA holding ehf., Eik Fasteignafélag hf., Sporður hf., Geysir Green Energy ehf., Oskar Eiriksson Productions ehf., Kreuzberg Investments ehf., Kjarrhólmi ehf. and Northern Travel Holding hf.

Past board positions: AB Ráðgjöf ehf.,

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Gunnar Jónsson (Reserve Member of the Board). Mr. Jónsson earned a Cand. Juris degree from the University of Iceland in 1985 and a LL.M degree from the Cleveland Marshall College of Law in 1992. Mr. Jónsson also is admitted to practice before the District Courts of Iceland and the Supreme Court of Iceland. He serves as member of the board of director of a number of companies, including Icelandic subsidiaries of several multi-national corporations. Mr. Jónsson also is a partner of Jonsson & Hall (legal services) which he co-founded in 1993. Prior to that he was an associate with Lögmenn, the predecessor of Jonsson & Hall. Mr. Jónsson also has advised the Icelandic government in the drafting of several bills of legislation and has served as chairman of the Licensing Committee for International Trading Companies. He was first elected as a reserve member of the Bord of Directors of Glitnir at the Annual General Meeting in February 2008.

Current board positions: Stúdíó Reyjavík ehf., Kristín Þórisdóttir ehf., Markarmenn ehf., Laugardalsbraut ehf., Magna Investments á Íslandi ehf., Arctic Preservation ehf. and Azimuth Investments ehf.

Past board positions: Eldsneytisafgreiðslan á Keflavíkurflugvelli.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Jón Björnsson (Reserve Member of the Board). Mr. Björnsson earned a Cand. Oecon degree from the University of Iceland in 1991. Mr. Björnsson worked as Marketing Manager for Icelandair from 1991 to1994 and as a consultant for Hagvangur hf. from 1994 to 1996. He began working in the financial sector, first with the Savings Bank of Hafnarfjörður in 1996, and then with the Savings Bank of Akureyri as General Manager (Bank Manager) from 1997 to 2006. He is now General Manager for Lífsval ehf., an Icelandic real estate company. Mr. Björnsson was first elected as a reserve member of the Bord of Directors of Glitnir at the Annual General Meeting in February 2007.

Current board positions: Einhóll ehf., Árbakki hestar ehf., Dyrfjöll ehf. and Björn málari ehf.

Past board positions: Íslensk Verðbréf hf. and Fjárfestingarfélag Sparisjóðanna hf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Kristinn Bjarnason (Reserve Member of the Board). Mr. Bjarnason earned a Cand. Juris degree from the University of Iceland in 1989. Mr. Bjarnason worked as an advocate for Almenna lögfræðistofan from 1989 to 1995. He started his own law firm named KB lögmannsstofa in 1996 and has served as Advocate of the Supreme Court of Iceland since 1998. He was first elected as a reserve member of the Bord of Directors of Glitnir at the extraordinary shareholders' meeting in April 2007.

Current board positions: Athús ehf., LHF ehf., Mænir ehf., Íslandsverktakar hf., Mænir Reykjavík ehf., Atland fjárfesting ehf., Lagastoð lögfræðiþjónusta ehf., KB lögmannsstofa ehf., Leigukot ehf. and Vallareignir ehf.,

Past board positions: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Steingrímur Halldór Pétursson (Reserve Member of the Board). Mr. Pétursson graduated with a business degree from the University of Iceland in 2001. Mr. Pétursson has served as Chief Executive Officer of Sjöfn Investment Company hf. since 2006. He also has served as Chief Financial Officer of Eimskipafélag Íslands hf. from 2005 to 2006, Sjöfn Investment Company from 2001 to 2005 and KPMG hf. from 1994 to 1999. He was first elected to the Bord of Directors of Glitnir at the extraordinary shareholders meeting in April 2007 and then as a reserve member at the Annual General Meeting in February 2008.

Current board positions: Sandblástur og Málmhúðun hf., S-95 Tækjaleiga ehf., HPH Heildsala hf., Petersen ehf., SHP Fasteignir ehf, Fasteignafélagið Stafn ehf., Símastjarna ehf., Fjárfestingarfélagið Sjöfn hf., SHP Reikningsskil og Ráðgjöf ehf., Hans Petersen ehf., Fjárfestingarfélag Norðurlands ehf., Baldursnes 2 ehf., Brúin Haftækni hf.

Past board positions: Ferro Zink hf., Eignarhaldsfélagið Sævarhöfði ehf., Íslensk verðbréf hf., HP Farsímalagerinn ehf., Eignarhaldsfélag Saltkaupa ehf., Saltkaup ehf., Straumur Burðarás hf., Avion Aircraft Trading hf., Eimskipafélag Íslands ehf., Ingvar Helgason hfl., Bílheimar ehf., Mjöll Frigg hf., Mjöll hf., Stíll ehf., Eignarhaldsfélagið Stíll ehf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Information is disclosed on past board and management positions that the relevant persons have held in the last five years.

16.2. SENIOR MANAGEMENT

The Executive Board consists of the following thirteen members:

Lárus Welding – Chief Executive Officer. He first joined Glitnir (then Icelandic Investment Bank FBA hf.) in 1999. In 2003 he joined Landsbanki Íslands hf. as general manager for the London branch, with operations primarily in Corporate and Investment Banking. He previously worked for the accounting firm JHR ehf. (1997-1999) and the Central Bank of Iceland (1998). Mr. Welding holds a degree in business administration from the University of Iceland, is a licensed securities broker and a graduate in Corporate Finance from the UK Securities Institute.

Current board positions: Glitnir Eignarhaldsfélag ehf., Lómur ehf. and Háskólinn í Reykjavík ehf.

Past board positions: None

Options relating to shares in the Company: 150,000,000

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Rósant Már Torfason – Chief Financial Officer. Mr. Torfason joined Glitnir (then Islandsbanki) in 1996. He has a comprehensive experience from working in the Bank for the past 12 years in different positions within Markets, Proprietary Trading, CEO office, Business Development and for the last two years as managing director in Investment Banking. Mr. Torfason holds Cand. Oecon Degree in Business Administration from the University of Iceland with focus on finance, and is a licensed securities broker.

Current board positions: Strandir ehf., Capa Invest ehf., Vatnsorka ehf., Borgun hf., Salmones Holding Inc., Strandatún ehf., Icecan AB and Geysir Green Energy ehf.

Past board positions: Mark.is hf., Háskólavellir ehf., Háskólagarðar ehf., HV1 ehf., HV2 ehf. and Atlantis Group Holding.

Options relating to shares in the Company: 11,500,000

Own holding of shares in the Company: 2,007,000 shares.

Holdings of financially related parties in the Company: None.

Magnús Bjarnason – Executive Vice President, International Banking. Mr. Bjarnason joined Glitnir in 2005 as managing director of the Asia and America Region in Glitnir's Corporate Banking Division. Prior to joining Glitnir, Mr. Bjarnason served as minister counsellor and deputy chief of mission at the Icelandic Embassy in China, was acting consul general in New York as well as trade commissioner for Iceland in the USA and Canada. His previous experience also includes work in the banking and airline industries. Mr. Bjarnason holds an MBA degree from Thunderbird, the Garvin School of International Management.

Current board positions: Hitaveita Suðurnesja, IDA ehf., Keilir, miðstöð vísinda, ehf., Vatnsorka ehf., Glitnir Capital Corp. New York and Glacier Renewable Energy Fund,

Past board positions: Geysir Green Energy ehf. and Íslensk-ameríska félagið

Options relating to shares in the Company: 41,000,000

Own holding of shares in the Company: 1,223,062.

Holdings of financially related parties in the Company: None.

Morten Bjørnsen - Executive Vice President, Nordics. Prior to joining Glitnir, he was part of Fokus Banks top management group from 1999-2007, heading the banks operations on the West coast of Norway and later the activities in Oslo and Eastern Norway. For several years he was EVP and head of Corporate and Institutional banking, which included a nationwide responsibility for SME's, large corporates, shipping/offshore, structured finance and financial institutions. From 1986 to 1999, Mr. Bjørnsen held various positions in DnB from primarily within the energy and large corporate segments in Norway and the U.S. Mr. Bjørnsen holds an MBA from the Norwegian School of Management.

Current board positions: Glitnir Privatøkonomi, Glitnir Property Holding, Glitnir Securities, Glitnir AB and Glitnir Corporation OY.

Past board positions: Fokus Kreditt and Nordania Leasing.

Options relating to shares in the Company: 20,000,000

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Birna Einarsdóttir – Executive Vice President, Iceland Commercial Banking. She first joined Glitnir (then Iðnaðarbankinn) in 1987. After working for the Royal Bank of Scotland for six years she rejoined Glitnir in 2004 and has been in charge of Glitnir's marketing and sales teams as well as the corporate development unit. She directed the Bank's successful re-branding in 2006. In June 2007 she took on the role of head of Glitnir's Iceland Commercial bank. Ms. Einarsdóttir holds a B.Sc. in Business Administration from the University of Iceland and a MBA degree from Edinburgh University.

Current board positions: Melkorka ehf.

Past board positions: Valitor hf., Borgun hf. and Kreditkort hf.

Options relating to shares in the Company: 20,000,000

Own holding of shares in the Company: 3,030,850 shares.

Holdings of financially related parties in the Company: None.

Helgi Anton Eiríksson – Executive Vice President, Europe. He joined Glitnir in 2004 as Global Seafood director with responsibility for overall management of Glitnir's international seafood activities. In January 2007 he took the role of Executive Vice President for Investment Banking. Prior to joining Glitnir, Mr. Eiríksson worked with Coldwater Seafood (UK) Ltd. as director within the executive management team from 1995-2004. Mr. Eiríksson holds a Cand. Oecon degree in business administration from the University of Iceland

Current board positions: Krem ehf.

Past board positions: None.

Options relating to shares in the Company: 13,000,000

Own holding of shares in the Company: 2,014,132 shares.

Holdings of financially related parties in the Company: 8,000,000 shares.

Einar Örn Ólafsson – Executive Vice President, Investment Banking – Iceland. Mr. Ólafsson joined Glitnir (then FBA) in 1997 and has held several positions within the Bank since. His first position was as a currency, interest rate and derivatives broker in a team which Mr. Ólafsson eventually led. He subsequently took on a position in asset management before joining the Corporate Finance unit in Reykjavík in 2003. He became head of that unit and a managing director in 2006 and has led many of the larger M&A transactions in Iceland for the past few years. Mr. Ólafsson holds a B.Sc. in Industrial Engineering from the University of Iceland and an MBA degree from New York University, Stern School of Business

Current board positions: Stóra fasteignafélagið ehf., Einarsmelur ehf. and Málið.

Past board positions: Mímisbrunnur ehf. and FS7 ehf.

Options relating to shares in the Company: 9,500,000

Own holding of shares in the Company: 2,063,663 shares.

Holdings of financially related parties in the Company: None.

Kristinn Þór Geirsson – Executive Vice President and Chief Operating Officer (COO). Prior to joining Glitnir Mr. Geirsson was the CEO of B&L. Previously he was the Managing Director of the investment company Sund ehf. and the CEO of Samskip hf., an international transportation and logistics company. He was also the CEO of Ingvar Helgason ehf., and CEO of Íslenska Sjónvarpsfélagið. Mr. Geirsson holds a Cand. Oecon degree from the University of Iceland and an MBA degree from The Wharton Business School.

Current board positions: Óskar Jónsson og Co ehf., Bevís hf., Vagnar ehf., Flutningamiðstöð Reykjavíkur ehf., Grísabær ehf., Höfði hf., Ingvar Helgason ehf., Bifreiðar & landbúnaðarvélar ehf., Bifreiðastöðin Stefnir ehf., Eignarhaldsfélagið Sævarhöfði ehf., Bílaleiga Bónus ehf., Norðlenska hf., ALP ehf., Valiant Fjárfestingar ehf., Kjötvinnslan Höfn hf., Fasteignafélagið Sævarhöfði ehf., GJB ráðgjöf ehf., KÞG Holding ehf. and Bílaland ehf.

Past board positions: GJB ráðgjöf ehf., VBS Fjárfestingabanki hf., Glitnir banki hf., and Northern Travel Holding hf.

Options relating to shares in the Company: None.

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: 440 shares.

Sveinung Hartvedt - Executive Vice President Markets and Corporate Finance in Norway and Sweden. Prior to joining Glitnir, Mr. Hartvedt was head of Equities in DnB NOR Markets for ten years. Previously he worked as head of Sales and deputy CEO in FIBA Nordic Securities AS. From 1989 -1994 he was a broker and Head of Research at Carnegie. He began his professional career as a journalist for the leading Norwegian business magazine Kapital. Mr. Hartvedt holds a Bachelor of Commerce degree (Siviløkonom) from the Norwegian School of Economics and in Business Administration in Bergen, Norway.

Current board positions: Glitnir Marine Finance AS, Glitnir Securities AS and Glitnir AB

Past board positions: DnB NOR Markets Inc. and Glitnir Corporation Finland.

Options relating to shares in the Company: 20,000,000

Own holding of shares in the Company: None.

Holdings of financially related parties in the Company: None.

Jóhannes Baldursson – Executive Vice President, Capital Markets – Iceland. Mr. Baldursson joined Glitnir (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 Glitnir's strong Capital Markets team. Mr. Baldursson headed the FX sales unit for many years and was appointed managing director for Capital Markets in Iceland in 2007. Mr. Baldursson holds a B.Sc. in Economics from the University of Iceland, an M.Sc.degree in Economics from UPF (Universitat Pompeu Fabra) in Barcelona, Spain, an ACI Diploma and is a licensed securities broker.

Current board positions: Gnollur ehf. and AB 156 ehf.

Past board positions: None.

Options relating to shares in the Company: 31,500,000

Own holding of shares in the Company: 7,295,548 shares

Holdings of financially related parties in the Company: 10,236,575 shares..

Magnús A. Arngrímsson – Executive Vice President, Corporate Banking – Iceland. Mr. Arngrímsson joined Glitnir (then Islandsbanki) in 1999. In 2004 he joined Landsbanki Íslands hf. as director for the London branch, with operations primarily in Corporate and Investment Banking. He joined Glitnir again in 2007 where he took on the Managing Director position in Corporate Banking in Iceland. Mr. Arngrímsson holds a B.Sc. in Business Administration from the University of Iceland.

Current board positions: None.

Past board positions: None.

Options relating to shares in the Company: 5,000,000

Own holding of shares in the Company: 5,000,000 shares

Holdings of financially related parties in the Company: None.

Vilhelm Már Þorsteinsson – Executive Vice President, Treasury and Corporate Centre. Mr. Þorsteinsson joined Glitnir (then Islandsbanki) in 1999. He has an extensive experience having held various positions in Capital Markets, Leverage Finance and CEO's Office working on different types of transactions and projects in Iceland, Europe and the Nordics. Since 2005 Mr. Þorsteinsson has lead the Strategic Development team, responsible for the Group's external growth, strategy and relationships with financial institutions, leading many of Glitnir's acquisitions in the Nordics. Mr. Þorsteinsson holds a B.Sc. in Business Administration from the Icelandic

College of Engineering and Technology. He is a licensed securities broker and has an MBA degree from Pace University New York, NY.

Current board positions: None.

Past board positions: Glitnir Capital Investments ehf.

Options relating to shares in the Company: 25,000,000

Own holding of shares in the Company: 12,149,533 shares

Holdings of financially related parties in the Company: None.

Eggert Þór Kristófersson – Executive Vice President, Investment Management – Iceland. Mr. Kristófersson joined Glitnir in 1995 (then Íslandsbanki) and has gained varied experience in many different positions. From 1998 to beginning of 2000 he worked in funding for National Debt Management Agency in Iceland. In 2000 he joined Glitnir again as head of Proprietary Fixed Income Trading. In 2005 he took on the position as a Managing Director for Glitnir Funds Ltd., the fund management company of Glitnir. Since 2007, he has been managing director of Glitnir Asset Management in Iceland. Mr. Kristófersson is a board member of Glitnir Bank Finland, board member of Glitnir Bank Luxembourg S.A., chairman of Glitnir Asset Management S.A. and chairman of Glitnir Funds Ltd. Mr. Kristófersson holds a Cand. Oecon degree in Business Administration from the University of Iceland and is a licensed securities broker.

Current board positions:

EV Holding ehf. and Hekt ehf.

Past board positions: None.

Options relating to shares in the Company: 7,000,000

Own holding of shares in the Company: 3,136,917 shares

Holdings of financially related parties in the Company: 4,000,000 shares.

Information is disclosed on past board and management positions that the relevant persons have held in the last five years.

16.3. CORPORATE GOVERNANCE

The Bank complies with the Guidelines of Corporate Governance issued by the OMX ICE, the Iceland Chamber of Commerce and the Confederation of Icelandic Employers. The purpose of these Guidelines is to provide companies with guidance as to relations among their shareholders, board of directors and management. The Guidelines reflect international efforts to improve Icelandic corporate governance standards in the new globalized business environment.

Shareholders' Meetings

At each Annual General Meeting our shareholders make decisions with respect to our activities and the conduct of our business for the year, including the election to the Board of Directors and our auditing firm, approval of the accounts for the prior fiscal year, as well as, where necessary, amendments to the Articles of Association and declarations of dividends. See Chapter 22.1 - Description of Shares and Share Capital. Shareholders' meetings may be attended by shareholders, their proxies and advisors. Shareholders' meetings are open to representatives of the press and the stock exchanges. Our Annual General Meeting is held before the end of the month of April each year. Each share carries one vote. Decisions at shareholders' meetings are taken by majority vote unless otherwise provided in our Articles of Association or statutory law.

Board of Directors and Management

The Board of Directors of the Bank is composed of seven members and an equal number of alternates, elected at the Annual General Meeting for a term of one year. Prospective candidates to the Board of Directors are required to submit a written notice to such effect to the Board of Directors no later than five working days before the start of the Annual General Meeting.

Our Board of Directors constitutes the supreme authority of the Bank, except as otherwise provided in our Articles of Association. The duties of the Board of Directors include:

Supervising the activities of the Bank and monitoring its operations according to law and the Articles of Association;

Approving the main aspects of the Bank's organizational structure;

Appointing one or more bank managers (Chief Executive Officers);

Appointing the Managing Director of the Accounting Department;

Deciding which employees shall be authorized to commit the Bank, and establishing rules thereon;

Formulating a policy with respect to interest rates and scales of fees;

Establishing general rules on the Bank's granting of credit, guarantees and borrowing of the Bank, after comments from the Chief Executive Officer;

Deciding on writing off the Bank's assets and loans;

Submitting proposals to the Annual General Meeting on the disposal of profit according to the annual accounts; and

Dealing with any other business provided for in the Icelandic Financial Undertakings Act at any time, or the Companies Act.

The Board of Directors elects a Chairman and a Vice Chairman from among its board members. The Chairman convenes Board Meetings. A meeting will be held if requested by a member of the Board of Directors, the Executive Directors or Executive Board. The presence of at least four members of the Board of Directors is required to constitute a quorum. Any resolution submitted to a Board Meeting requires four votes to pass and commit the Bank. All those who have the right to attend a meeting of the Board of Directors shall be entitled to have their comments and dissenting opinions entered in the minutes.

According to our Articles of Association, the Chief Executive Officers (more than one may be appointed) are in charge of the day-to-day administration of the Bank. The Chief Executive Officers are responsible for ensuring that the operations of the Bank are in accordance with law, the Articles of Association and the decisions of the Board of Directors.

No specific agreements providing for benefits upon termination of employment exist between the Bank and the members of the senior management or the Board of Directors.

Accounts and Auditing

A state authorized public accountant or accounting firm is appointed auditor at each of our Annual General Meetings for a term of one year. The auditor examines our accounts and all relevant account documents for each year of operations, and has access to all of our books and documents for this purpose. Auditors are not appointed from among the members of our Board of Directors or our employees. The qualifications and eligibility of the auditor at elections are in other respects governed by law. Our current auditor is PricewaterhouseCoopers hf.

16.4. COMMITTEES OF THE BOARD OF DIRECTORS

In accordance with the Rules of Procedure of our Board of Directors, the Board has appointed an Audit Committee and a Remuneration Committee. On its first meeting following the Annual General Meeting, three members of the Board of Directors are appointed to serve on each committee and one of those to serve as chairman of each committee. The majority of members of each committee shall be independent of the Bank.

Audit Committee

The purposes of the Audit Committee include:

Supervision of the financial status of the Bank;

Evaluation of internal controls and risk management;

Evaluation of reporting by management on financial matters;

Evaluation of compliance with laws and regulations;

Proposing new external auditors for the Bank if deemed necessary;

Direct access to the auditor of the Bank;

Evaluation of auditing reports;

Evaluation of other work performed by the auditor of the Bank; and

Other matters which the Board of Directors delegates to the committee.

As of the date of the Registration Document, the members of the Audit Committee are Björn Ingi Sveinsson (chairman), Haukur Guðjónsson and Kristín Edwald.

Remuneration Committee

The purposes of the Remuneration Committee include:

Negotiation of the terms of employment of the Chief Executive Officer;

Policymaking regarding remuneration matters of the Bank;

Policymaking regarding linking the remuneration of the managers and other employees to their performance and the Bank's performance; and

Other matters which the Board of Directors delegates to the committee.

The members of the Remuneration Committee are Sigurður G. Guðjónsson (chairman), Jón Sigurðsson and Hans Kristian Hustad.

Internal Auditor

The role of Group Internal Audit is to provide Glitnir with independent, objective assurance and consulting services designed to add value and improve the Bank's operations. Internal Audit helps the Bank to evaluate and improve the effectiveness of risk management, controls and governance processes. The Chief Audit Executive is appointed by the Board of Directors of the Bank and has an independent position in the Bank's organizational chart accordingly. Our current Chief Audit Executive is Agust Hrafnkelsson.

Compliance Department

Our Compliance Department is headed by the Compliance Officer, currently Kristinn A. Stefánsson. The Compliance Officer and his alternate are appointed by the Chief Executive Officer and his appointment must be confirmed by our Board of Directors. The Compliance Officer reports to the Chief Executive Officer and our Board of Directors and Internal Audit reviews the Compliance Officer's actions.

The Compliance function is intended to assist in managing compliance risk on a consolidated basis, which can be defined as the risk of legal or regulatory sanctions, financial loss, or damage to its reputation which the Bank may suffer as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice. Our Compliance Department monitors:

Market abuse;

Trading by owners of qualifying holdings, management and employees;

Trading by the Bank on its own account;

The separation of operating divisions and maintenance of firewalls;

Records of related and connected parties according to the Rules of Procedure for our Board of Directors;

Lists of primary insiders and temporary insiders;

Transactions by primary insiders in the Bank's financial instruments;

Handling and use of insider information;

Complaints from clients concerning alleged infringements of the rules of securities trading and maintenance of records regarding the same;

Information and training sessions for employees and bank management;

Anti-money laundering procedures and compliance (including the Anti-money laundering officers);

Employee fraud (together with Internal Audit);

Financial crimes;

Data protection;

Best execution practices;

Compliance with the Bank's Code of Ethics;

Conduct of business;

Research monitoring; and

Employee Participation in management and in business operations.

16.5. REMUNERATION AND BENEFITS

The table below sets forth a breakdown of the remuneration that we paid to certain members of our management and our Board of Directors in 2007. It also provides information regarding holdings in our shares by these individuals at December 31, 2007. The table includes the members of our Board of Directors, our Chief Executive Officer and the members of our Executive Board. We have no pension liability towards members of our Board of Directors, Chief Executive Officer or Executive Board.

	Salaries and fringe benefits	Bonus payments	Net gain on stock options	Call options	Put options	Ownership at year end
	(ISK million)			Number of shares (million)		
Lárus Welding, CEO	76			150		
Bjarni Ármannsson, former CEO	90	100	381			
Þorsteinn M. Jónsson, Chairman of the Board	9					
Einar Sveinsson, former Chairman of the Board	3					
Jón Sigurðsson	9					
Björn Ingi Sveinsson	3					
Haukur Guðjónsson	3					
Katrín Pétursdóttir	3					
Pétur Guðmundsson	3					
Skarphéðinn Berg Steinarsson	6					
Karl E. Wernersson	3					
Guðmundur Ólason	2					
Jón Snorrason	1					
Morten Bjørnsen, EVP Nordic Banking Operations	14	11		15		
Guðmundur Hjaltason, EVP Corporate Banking	42	15		20		
12 other EVPs (there of five not employed at year-end)	379	231	998	159		55
	646	**357**	**1,379**	**344**	**0**	**55**

Recent changes to remuneration to the members of the Bord of Directors and senior management

The following table demonstrates the remuneration positions to our senior management as of May 1, 2008.

Amounts in ISK*	**Monthly fixed salaries**	**Bonuses for FY 2007**	**No. Call Options**	**Capital Gains @ 17,00**
CEO - Lárus Welding **	3,175,750	300,000,000	150,000,000	0
EVPs ***	28,353,674	777,551,540	203,500,000	18,750,000

* Excluding no. of share options
** CEO assumed 50% monthly salary reduction for indefinite period.
*** 7 of 12 EVPs assumed EVP role and responsibilities in Q1 08, i.e. bonuse for 2007 is obtained for previous roles

On the 2008 Annual General Meeting of the bank it was resolved to pay remuneration of ISK 250,000 per month to each member of the Bord of Directors, ISK 550,000 per month to the vice-chairman of the board and ISK 750,000 to the chairman of the board.

Shareholdings and Stock Options

All open stock options, granted to senior management and key employees, relating to shares as of year end 2007 are listed in the tables below in millions of shares:

Stock options outstanding at January 1, 2006	182
Exercised during the year	-10
Terminated during the year	-5
New options issued	275
Stock options outstanding at December 31, 2006	442
Exercised during the year	-180
Terminated during the year	-118
New options issued	889
Stock options outstanding at December 31, 2007	1,033

Breakdown of options exercisable in the years 2008-2012:

	Millions of Shares	**Exercise price (ISK)**
Exercisable options	3	2.44
Exercisable options	94	15.50
Exercisable in 2008	179	16.50-19.80
Exercisable in 2009-2012	757	23.00-27.50
Stock options outstanding at December 31, 2007	1,033	

The CEO holds call options at the strike price of ISK 26.60 per share which vests proportionally over 5 years. Call options held by the EVPs have strike prices from ISK 15.50 to ISK 27.50 per share, with vesting period of three years.

Key managers and individual contributors held, as of May 1, 2008, call options with strike prices from ISK 13.95 to ISK 29.30 with vesting period of three years.

The compensation policy for the bank's CEO and management includes long-term incentives in form of equity vehicles in the bank and its subsidiaries. Employee stock options may amount, at any given time, to as much as 5% of the bank's issued share capital.

16.6. POTENTIAL CONFLICTS OF INTEREST

The Rules of Procedure of the Board of Directors are designed to prevent the involvement of the members of the board in matters that would result in a conflict of interest and the Chairman ensures that these rules are followed. Apart from the potential conflicts discussed below, no member of the Board of Directors, the Chief Executive Officer or a member of the Executive Board has any actual or potential conflict of interest between his or her duties to the Bank and his or her private interests or other duties.

The following members of the Board of Directors hold positions with companies that are substantial customers of the Bank, which could lead to a conflict of interest in the absence of the Rules of Procedure described above.

Jón Sigurdsson is the Chief Executive Officer of FL Group hf. which is both a major shareholder in the Bank and a substantial customer of the Bank. Landic Property hf. is a substantial customer of the Bank and significantly owned by FL Group.

In addition to this discussion, see also Chapter 17 - Related Party Transactions.

16.7. STATEMENT REGARDING SERVICE CONTRACTS

We have no service contracts with members of the administrative, management or supervisory bodies providing for benefits upon termination of employment.

16.8. CONFIRMATIONS

In the past five years none of the members of the Board of Directors or members of the Senior Management have been:

- Convicted in relation to fraudulent offence.
- Associated with companies that have gone into bankruptcy, receivership or liquidation.
- Subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body) or have ever been disqualified by a court from acting as a director or member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of the company.

Vilhelm Már Þorsteinsson and Þorsteinn M. Baldvinsson are related. Other than that there are no family relationships between any members of the Board of Directors and Senior Management of the Bank.

17. RELATED PARTY TRANSACTIONS

We have made loans to related parties, including subsidiaries, members of our Board of Directors, managing directors of our largest subsidiaries, close family members of our directors and management and major shareholders. The balances of these loans for the periods indicated are as follows:

(ISK millions)	At December 31,			At March 31
	2005	**2006**	**2007**	**2008**
Loans to the CEO and management	3,239	5,726	1,832	1,991
Loans to members of the Board of Directors, companies related to them and major shareholders*	22,982	37,217	38,904	43,525
Shares in Sjóvá-Almennar tryggingar hf., company related to a member of the Board of Directors	5,932	—		
Loans to associated companies**	12,555	13,325	16,890	71,104

*Major shareholders are defined herein as shareholders who directly or indirectly hold 20% or more of the total outstanding shares of the Bank.

** Associated companies are defined according to IAS 28 and are companies in which we directly or indirectly hold 20% or more, but less than 50%, of the voting power.

As of March 31, 2008, loans granted to the Chief Executive Officer and management of the Bank amounted to ISK 1,991 million. The terms of these transactions are determined on an arm's length basis. No provisions have been recognized in respect of loans granted to related parties. Since March 31, 2008, these balances have not changed other than Kristinn Þór Geirsson, a member of the senior management, was granted a loan, in the amount of ISK 994 million related to the purchase of shares in the Bank. The terms of his loans were on an arm's length basis.

18. MAJOR SHAREHOLDERS

The table below sets forth information regarding our 10 largest shareholders as of July 11, 2008:

Shareholder	Holding	Percentage of total shares
FL GLB Holding B.V.	1,950,614,919	13.11
FL Group Holding Netherlands B.V.	1,691,533,412	11.37
FL Group hf.	862,017,533	5.79
Þáttur International ehf.	831,649,091	5.59
Saxbygg Invest ehf.	744,035,065	5.00
GLB Hedge	696,772,095	4.68
Glitnir Banki hf.	532,061,825	3.58
Landsbanki Luxembourg S.A.	354,171,590	2.38
Salt investments ehf.	345,453,640	2.32
Lífeyrissjóðir Bankastræti 7	338,986,861	2.28
Total:	**8,347,296,031**	**56.09**

The information above is extracted from our shareholders registry. Parties may hold an interest or control in the Bank without it being reflected in the shareholders registry, for example because of forward transactions. Such transactions are not notified to the Bank. Each relevant shareholder is obligated to notify substantial holding or a change in substantial holding relating to the Bank, specified in Chapter IX of the Icelandic Securities Act. Substantial holding is defined as a party holding 5% of voting rights or the nominal value of share capital.

FL Group Holding Netherlands B.V. and FL GLB Holding B.V. were both wholly owned by FL Group hf. as of the date of the Registration Document. FL Group hf. notified in July 2008 that the name of the company would be changed to Stoðir, but the legal name of the company has not been changed as of the date of this Registration Document. According to the most recent public information available to us, the principal owners of FL Group hf. as of June 12, 2008 were Styrkur Invest ehf. (22.4%), FL Group hf. (17.3%) and Oddaflug B.V. (10.9%).

According to the most recent public information available to us Þáttur International ehf. is fully owned by Þáttur Eignarhaldsfélag ehf. which is a subsidiary of Milestone ehf. Milestone is owned by Karl Wernersson and Steingrímur Wernersson.

Sund ehf. had 131,710,899 shares in Glitnir, or 0.885% of total shares and related parties had 608,035,943 shares or 4.086%. Therefore the percentage of total shares was 4.971%. Sund had in share transfer agreement relating to the de-listing of FL Group hf. 172,389,730 new shares in Glitnir. After the transaction, dated May 29, 2008, Sund has 304,100,629 shares or 2.044% and related parties 608,035,943 shares or 4.086%. Sund has therefore 2.044% of direct voting rights and 4.086% of indirect voting rights in Glitnir. According to the most recent public information available to us, the owners of Sund ehf. are Gunnþóra Jónsdóttir (33.3%), Jón Kristjánsson (33.3%) and Gabríela Kristjánsdóttir (33.3%).

Landsbanki Íslands hf. held 727,281,058 shares or 4.89% of total nominal value in Glitnir. On June 29. 2007 Landsbanki Íslands hf. announced that it held 777,668,755 shares or a 5.23% stake in Glitnir, in Landsbanki's books as a hedge against forward contracts.

Voting Rights

Each Share carries one vote. Accordingly, all shareholders have voting rights in proportion to their percentage of share ownership.

Change in Control of the Bank

We do not know of any arrangements between shareholders or other parties that may result in a change in control of the Bank.

Direct or Indirect Ownership or Control by Individual Shareholders

To the extent known to our management the issuer is not directly or indirectly owned or controlled by parties other than the listed shareholders.

19. FINANCIAL INFORMATION

IFRS

The financial statements of the Company for the years 2005, 2006 and 2007 and any interim statements prepared from 2005 until March 31, 2008 were prepared in accordance with International Financial Reporting Standards (IFRS).

Explanatory Notes

Detailed information regarding the items in the income statements, cash flow and balance sheets are accessible in the policies and explanatory notes in the relevant financial statements, incorporated into this Registration Document by reference, as per Chapter 3 – Documents on Display and Incorporated by Reference.

Auditing of historical financial information

The historical annual financial information for 2005, 2006 and 2007 has been audited. Interim reports from 2006, 2007 and 2008 have been reviewed.

Age of latest financial statement

The latest financial statement was published on May 7, 2008.

Significant change in the issuer's financial or trading position

As of the date of the Registration Document, there has been no significant change in the financial or trading position or results of operations of the Bank or the Bank and its subsidiaries, taken as a whole, since March 31, 2008, and as of the date of the Registration Document there has been no material adverse change in the prospects of the Bank or the Bank and its subsidiaries, taken as a whole.

Change of Auditors

On our Annual General Meeting on 21 February 2006 PricewaterhouseCoopers hf. was elected as the auditor of the Company. Before KPMG hf. (or its predecessors) had been our auditor for many years. This was the result of a tender by which the main purpose was to have companies from the same chain of auditing firms handle our auditing and all of its subsidiaries irrespective of in which jurisdiction they are incorporated.

Dividend Policy

The amount of dividends that we pay in any year will depend on a number of factors, including our earnings, financial condition, cash requirements (including capital expenditure and investment plans), liquidity, prospects and such other factors as we deem relevant at the time. In particular, our dividend policy at any time will reflect a balance between our desire to provide a current return to our shareholders and our need to retain earnings to fund the growth of our business. Our current dividend policy is to pay dividends representing about 20% to 40% of our net profits every year. The amount of dividends declared is subject to applicable restrictions on the payment of dividends under Icelandic law and other factors as our Board of Directors may deem relevant. The terms of the Tier I capital instruments that we have issued provide that our Board of Directors may not propose a dividend on our shares if we have defaulted on any payments due on these instruments. For the financial years 2005 to 2007, our shareholders had the option to receive up to 50% of dividends as new shares.

The following table sets forth the dividends we have paid per share with respect to the years ending on December 31, 2005 to 2007, the number of shares entitled to dividends and the dividends paid as a percentage of previous year's profits.

Year ended December 31,	Dividends per share (ISK)	Number of shares entitled to dividend (in millions)	Percentage of year's profits declared distributed
2005	0.38	13,937	28%
2006	0.66	14,161	25%
2007	0.37	14,881	20%

Investors should not assume that past dividends are indicative of future dividend levels. See Chapter 22.1 - Description of Share and Share Capital for more information regarding payment of dividends and Chapter 26 - Taxation for more information regarding the withholding of taxes on our dividends.

20. RISK MANAGEMENT

Risk assessment and prudent evaluation and pricing of risk are a key element in our operations. Efficient risk assessment procedures and processes are the foundations of our risk management. Our Board of Directors determines the general risk management policy and defines the acceptable levels of risk in our daily operations, sets targets regarding risk management and monitoring of major risk factors, including credit risk, liquidity risk and market risk.

20.1. RISK MANAGEMENT ORGANIZATION AND PROCEDURES

Our risk management structure is organized as follows:

Risk management decision making for the Group is based on a committee structure pursuant to which our Board of Directors has granted authority to specially appointed committees that issue specific guidelines and targets regarding acceptable risk limits and decide on individual positions depending on size and risk level. Credit and market risk positions are reported to the Risk Committee, which sets guidelines and rules on credit and market risk evaluation. The Risk Committee reports to our Board of Directors. Credit and market risk management and supervision are further delegated by the Risk Committee to three sub-committees: the Credit Committees, Risk Model Committee and Market Risk Committee.

Risk with respect to asset and liability management and operational risk are monitored and supervised by our Executive Board pursuant to general limits and rules set by our Board of Directors. The Executive Board has delegated risk management with respect to asset and liability management and operational risk to the Asset and Liability Committee ("ALCO") and the Operational Risk Committee, which report directly to our Executive Board. ALCO monitors risk positions relating to refinancing risk, liquidity risk, interest rate risk, asset and liability management and capital management. The Operational Risk Committee is responsible for the supervision of all operational risk, including reputational and strategic risk and is comprised of representatives from our Finance and Risk Management, Legal and Compliance, Shared Services and Corporate Communications departments, as well as our Nordic business segment.

The credit approval process follows a hierarchical structure with final approval residing with the Risk Committee, as delegated by our Board of Directors. Our Board of Directors determines the general credit rules and guidelines that apply for all business units, both at the parent and subsidiary level, with specific guidelines, rules and limits established by the Risk Committee. The boards of directors of each of our subsidiaries determines subsidiary-specific credit policies and rules that reflect the nature of the subsidiary's business model, customer segmentation and general operating environment. These rules must conform to the general credit policies and rules established by our Board of Directors as well as the specific guidelines, limits and rules set by the Risk Committee. Each subsidiary may have its own local credit committee, which is authorized to approve extensions of credit up to a certain limit. Subsidiaries may also delegate authorization of local credit to the Credit Committees. Credit applications exceeding the local authorization limit are referred to the Credit Committees, which in turn report to the Risk Committee.

The Credit Committees at the parent company level and subsidiary level review and determine approval of extensions of credit by the parent company or the subsidiary, as the case may be, exceeding individual employee authorization limits and customer credit limits. Credit applications exceeding local authorization amounts at the subsidiary level are referred to credit committees at the parent company level, which in turn refer applications to the Risk Committee if the amount involved exceeds their pre-approved lending limits. In determining whether to approve a credit application, the Credit Committees at both the parent company level and the subsidiary level follow the guidelines and rules established by the Risk Committee relating to credit risk evaluation in accordance with credit risk policies adopted by our Board of Directors. At the subsidiary level, these guidelines and rules are adapted in relation to the specific activities of the relevant subsidiary.

The Risk Model Committee approves any risk assessment, VaR, sensitivity and other models used by the Group. Any models to be used by the Group must be submitted to this committee for review and approval.

The Market Risk Committee is responsible for monitoring exposures and limits for equity trading in our trading book and banking book, fixed income securities in our trading portfolio, non-ISK currency trading positions, non-ISK currency and equity options and other derivative instruments and investments in funds. We impose limits on trading on the basis of size of the trading position, such as limits on market value, nominal amount and sensitivity, and operational limits, such as concentration limits and stop loss limits. Risk is monitored on a daily basis and reported to management.

In addition to the risk committees Risk Management, as part of the Finance and Risk division, is an organizationally independent unit that monitors risk within the business units on a group-wide basis. Risk Management includes the following sub-units:

Credit Risk Control. Credit Risk Control is responsible for the implementation, enforcement and monitoring of our consolidated credit risk policies and procedures as set by the Risk Committee. It is the goal of Credit Risk Control to evaluate and assess credit risk and to take measures to mitigate such risk whenever possible. Credit Risk Control coordinates and controls underwriting processes, monitors credit control functions in our business units and manages and coordinates group credit policies. This sub-unit also monitors our credit portfolio strategy by managing and monitoring our credit portfolio, including concentration risk and large exposures. Credit Risk Control monitors defaults and issues guidelines on default monitoring and provisioning on a consolidated basis. Provisioning guidelines are determined for each subsidiary and reflect their diversified risk profiles and historical losses within each portfolio. Credit Risk Control is responsible for the overall management of non-performing assets and must endeavour to proactively and responsibly take measures to minimize our losses whenever possible.

Risk Analytics and Modeling. Risk Analytics and Modeling focuses on model development and maintenance, including credit risk assessment models, calculation models and development and maintenance of a stress testing framework. Risk Analytics and Modeling also provides quantitative support for other units within Finance and Risk Management.

Market Risk. Market Risk monitors and manages our risk positions in equity securities, currencies and fixed income instruments. Market Risk is charged with monitoring our currency balance on a consolidated basis and reporting on risks for our Investment Management business segment.

Asset and Liabilities Management (ALM) and Capital Management. ALM and Capital Management is responsible for monitoring and controlling risk positions regarding refinancing risk, liquidity, interest rate risk and capital management.

Operational Risk. Operational Risk is responsible for implementation of our operational risk framework and coordinates policies, processes, procedures and infrastructure within the Group in relation to operational risk management and loss event reporting.

20.2. CAPITAL ALLOCATION

Allocation of economic capital, across business units as well as individual positions, is a key element in our operation, pricing and performance measurement. ALCO is responsible for capital allocation mechanisms and methodologies.

For credit exposures, capital is allocated to individual positions based on our risk classification system. Each credit decision is influenced by capital allocation, since the return on allocated capital is the main output from our pricing model. Capital is also allocated to market risk exposures. Each business unit, therefore, is capitalized according to its exposure and risk profile, and its performance is measured against that capital usage.

Our target capital ratios are among the financial targets we set. This ensures that the risk profile is linked with other financial targets, such as our growth rate, profit and dividend policy. Return on allocated capital is calculated for each business unit as a risk-adjusted performance measure. Financial targets, including capital ratios, are assessed by ALCO at least annually. Any changes in capital ratios affect the behaviour of the business units, since return on economic capital is a key performance measure for each investment. Our financial targets include a minimum CAD ratio of 11% and a Tier I ratio of 8% on a Group level.

20.3. CREDIT RISK

Credit risk is a dominant element in our operations. We seek to maintain the quality of our credit portfolio by actively diversifying credit risk within our portfolio and by prudently managing concentration risk. We emphasize the distribution of credit risk within our consolidated portfolio by counterparties, sectors and country, as well as within sectors and country for individual portfolios.

Credit risk evaluation is based on the financial strength of the customer and its ability to repay the commitment, which can be influenced by operational sector, country and the nature of the transaction. Credit risk is reported regularly to the Risk Committee. We use specially designed credit risk assessment models for the different types of credit risk assessments in our portfolio to ensure that the risk evaluation measures used capture and reflect the underlying credit risk elements in the transactions involved. We place particular emphasis on evaluating a customer's creditworthiness, the quality of pledged collateral and other potential credit risk mitigates.

We seek to ensure the quality of the credit portfolio by diversifying credit risk by counterparty, sector and country, as well as sectors within each country. No single exposure may exceed 20% of our CAD equity. Aggregated consolidated large exposures, defined as exposures exceeding 10% of our CAD equity measured on a risk-adjusted basis, may not exceed 200% of CAD equity, which is within the regulatory limit of 800%. These internal and regulatory limits are applied on a Group-wide basis. Aggregated consolidated large exposures at December 31, 2007 amounted to 80% of our CAD equity.

The following table summarizes the geographical distribution of our 20 largest exposures at December 31, 2007:

Country (domicile of counterparty)	(%)
Iceland	86
Norway	3
United Kingdom	2
Denmark	3
Germany	4
Other	2
Total	100

We have an Internal Rating Based (IRB) risk assessment model framework in place that is in line with the Basel II accord and we have processes in place that focus on predicting customers' probability of default. We apply different risk assessment models according to particular business segments and sub-segments of our business, employing both probability default ("PD") models and loss given default ("LGD") models. PD models are used to predict the probability that a counterparty will default within one year, based on assessments of the counterparty's financial information, qualitative information on the counterparty's business, projections on future cash flows and general economic conditions. LGD models utilize similar inputs as PD models, but include other factors such as how a loan is secured in assessing the potential loss if a default were to occur. LGD models are applied to analyze particular material aspects of our loan portfolio, such as leveraged financings and commercial real estate loans.

At December 31, 2007, approximately 46% of our loan portfolio consisted of loans to customers domiciled in Iceland and 37% of our loan portfolio consisted of loans to customers domiciled in Norway. Our largest country exposures outside of Iceland and Norway were to the United Kingdom and Denmark with 4% and 3% of the portfolio, respectively. The division of our loan portfolio by country at December 31, 2007 was as follows:

Country (Domicile of cutomer)	(%)
Iceland	46
Norway	37
United Kingdom	4
Denmark	3
Germany	2
Sweden	1
Others	7
Total	100

At year end 2007, our single largest economic sector exposure was to services, representing 32% of the portfolio. The complete breakdown of our loan portfolio by economic sector is as follows:

Sector	(%)
Services	32
Individuals	26
Commercial Real estate	21
Industry and contractors	7
Fishing industries	7
Commerce	3
Offshore Vessels	3
Other	1
Total	100

Our mortgage portfolio in Iceland consists primarily of fixed rate CPI-linked ISK-denominated loans with interest rates reset five years from the date of issuance of the loan. Floating rate non-ISK currency loans linked to a basket of foreign currencies comprise approximately 10% of our Icelandic mortgage portfolio. The loan to value ("LTV") ratio for these loans, that is floating rate non-ISK currency loans, is generally less than 50%. We have instituted strict lending rules in Iceland based on the financial strength and credit history of our customers. In Norway, our mortgage portfolio consists of loans denominated in NOK, the majority of which have LTV ratios of less than 60%. These are high quality loans with individuals that have high credit scores. In Iceland and Norway, we require a LTV ratio of less than 80% for new loans and we utilize credit scoring in evaluating an applicant's creditworthiness.

Default rates during the period from 2005 to 2007 have been at a record low, which reflects the favourable market conditions in Iceland and Norway, as well as our strict collection procedures. Defaults, which consist of loans 90 days or more overdue, amounted to 0.3% of total loans at the end of 2007.

20.4. OPERATIONAL RISK

We are required to assess the effect of operational risk on our operations. The main risk factors that affect operations are losses due to technical failures or inaccuracies, ineffective procedures or processes, human error and unforeseen external factors that are outside our scope of control. Major sources of operational risk are adherence to internal procedures, processes and guidelines, information security, fraud, error, legal and regulatory compliance as well as business risk. Our operational risk policy is based on four principles: (i) accept no unnecessary risk, (ii) make risk management decisions at the appropriate level, (iii) accept risk when the benefits outweigh the costs and (iv) reduce the impact of operational risk.

We have implemented an Operational Risk Management ("ORM") framework aimed to satisfy the requirements for the Standardized Approach under the Basel II Accord. All business units have the means to assess, monitor and record operational risk and loss events in accordance with the business-line / loss-event matrix defined in the Basel II rules. The primary responsibility for the monitoring, recording and control of operational loss events resides with each business unit. Operational risk and control assessments are carried out regularly and not less than annually for each business unit. Key risk indicators are monitored on a regular basis.

20.5. CURRENCY RISK

A large part of our assets and liabilities is denominated in foreign currencies. We keep a close balance between assets and liabilities in each currency. Any mismatch thereof is managed within strict limits.

As our equity is denominated in ISK but our assets are predominantly denominated in currencies other than the ISK, our capital ratios are sensitive to fluctuations in exchange rates. Accordingly, we maintain long positions in non-ISK currencies in order to hedge the sensitivity of our capital ratios to changes in exchange rates. These positions are managed within limits set by ALCO. As of December 31, 2007, we held long positions in foreign currencies amounting to ISK 78 billion. As a result, a 10% decline in the value of the ISK would have resulted in 0.2-0.3% lower capital ratios. Our FX position changed substantially in the first quarter of 2008. At the end of March we held long FX positions amounting to ISK 157 billion, reducing the sensitivity of capital ratios to 0-0.1% against 10 depreciation of the ISK

The table below shows the currency breakdown of our assets and liabilities at March 31, 2008.

Assets and liabilities classified according to currencies (ISK millions)

	ISK	NOK	EUR	USD	GBP	SEK	CHF	JPY	Other	Total
Assets										
Cash and balances with banks	22,926	127	3,839	0	0	0	0	0	0	26,893
Derivatives (balance sheet amount)	279,617	14,437	976	315	0	0	0	0	6	295,351
Bonds and debt instruments	149,916	38,281	18,559	0	5,372	0	0	0	150	212,278
Shares and equity instruments	23,786	7,599	3,917	8,454	5,459	0	0	0	4,948	54,163
Securities used for hedging	109,112	6,792	24,560	23,090	356	8,401	0	0	3,991	176,302
Loans to banks	29,190	8,229	285,705	52,045	1,119	14,418	1,597	2,495	2,054	396,851
Loans to customers	430,908	842,194	537,005	163,107	122,246	51,846	161,892	105,406	101,579	2,516,183
Investment in associates	277	310	0	0	0	0	0	0	0	587
Other assets	122,012	42,377	12,020	1,164	0	6,553	587	64	1,490	186,267
Total assets	1,167,744	960,346	886,581	248,174	134,552	81,219	164,075	107,964	114,218	3,864,874
Liabilities and equity										
Deposits from central banks	36,196	0	0	0	0	0	0	0	0	36,196
Deposits from banks	15,025	1,529	23,295	151	0	15	0	0	1	40,016
Deposits from customers	213,841	296,770	72,541	52,089	160,488	8,591	975	571	8,992	814,857
Short positions	11,678	150	87	0	0	0	0	0	25	11,939
Derivatives (balance sheet amount)	120,633	19,380	31,494	206	0	0	0	0	0	171,711
Debt issued and other borrowed funds	299,918	293,135	1,003,414	458,640	106,479	22,156	60,834	22,537	104,661	2,371,776
Subordinated loans	21,104	21,562	35,329	65,491	0	0	0	3,852	0	147,338
Other liabilities	43,297	30,487	6,017	356	61	2,025	0	8	101	82,352
Equity	188,690	0	0	0	0	0	0	0	0	188,690
Total liabilities and equity	950,382	663,012	1,172,177	576,933	267,028	32,787	61,809	26,968	113,780	3,864,876
Net on-balance sheet position	217,362	297,334	-285,596	-328,759	-132,476	48,431	102,267	80,996	439	
Net off-balance sheet position	-374,270	-252,216	344,395	359,409	139,732	-42,646	-102,092	-79,066	6,753	
Net gap 31 March 2008	-156,908	45,118	58,799	30,649	7,256	5,786	175	1,930	7,192	

20.6. INTEREST RATE RISK

It is our policy to minimize non-ISK interest rate risk in our banking book. Assets and liabilities with fixed terms are hedged with interest rate swaps or other derivatives and hedge accounting is utilized where possible to minimize the impact on our income statement. Interest rate exposures in ISK are not hedged to the same extent and our banking book is therefore exposed to fluctuations in ISK interest rates.

We are exposed to interest rate risk with respect to our investment and proprietary trading portfolios, as movements in short- and long-term interest rates cause gains and losses on debt securities held in these portfolios. An increase in market interest rates generally has a negative effect on the value of fixed rate instruments. Conversely, a decrease in market interest rates generally has a positive effect on the value of fixed rate instruments. VaR methods are used to assess risk related to the fixed income debt securities in our trading portfolio. Trading portfolio limits are based on basis point value. Interest rate risk in the trading book is reported to the Market Risk Committee.

20.7. INFLATION RISK

We are exposed to Icelandic inflation as our CPI-linked assets exceed our CPI-linked liabilities. All indexed assets and liabilities are valued according to the CPI measure at any given time and changes in the CPI are therefore recognized in our income statement. This exposure is limited to the parent company and does not affect the results of operations of our non-Icelandic subsidiaries.

The most common form of mortgage lending in Iceland is CPI-linked with a term of 25-40 years. Interest rates for the majority of the mortgages in our Icelandic CPI-linked mortgage portfolio are reset 5 years after origination of the loan. Each month, the principal amount of each mortgage is recalculated according to the new CPI and the adjusted principal amount is distributed throughout the remaining payments on the loan. Thus the annuity payments gradually increase in line with the increasing CPI.

To the extent that our CPI-linked assets exceed our CPI-linked liabilities, increases in the rate of inflation in Iceland will result in increased net interest income. Conversely, to the extent our CPI-linked liabilities exceed our CPI-linked assets; increases in the rate of inflation in Iceland will result in decreased net interest income. Any mismatch in CPI-linked assets and CPI-linked liabilities is reported to ALCO.

Our CPI-linked assets and liabilities for the period 2005 through 2007 were as follows:

(ISK million)	**Year ended December 31,**		
	2005	**2006**	**2007**
Total assets	241,097	302,090	367,058
Total liabilities	-152,356	-175,475	226,500
Net position	88,741	126,615	140,558

20.8. LIQUIDITY RISK

Liquidity risk management is an important element in our operations. Liquidity risk is monitored by Risk Management and reported to ALCO.

To limit liquidity risk, we actively diversify our funding sources with respect to types of funding instruments, maturities and counterparties. Mismatches in the timing of cash flows are monitored closely and back-up funding sources are held to cover obligations when they fall due, even under stressed market conditions.

Our liquidity sources are generally split in two parts: Immediately available funds that include cash, money market deposits, committed credit facilities and assets that can readily be used as collateral for secure borrowing or easily liquidated. Other liquid assets include loans or securities that can be sold or used as collateral for secure borrowing but where formal borrowing agreements have not yet been established.

Our liquidity policy assumes that immediately available funds cover all financial liabilities expected to mature for the following six months. In addition, all financial liabilities expected to mature within the following 12 months must be covered with immediately available funds and other liquid assets.

At December 31, 2007, our six month liquidity ratio (Immediately available funds divided by liabilities maturing within the next six months) was 104% and the twelve month liquidity ratio (Immediately available funds and other liquid assets divided by all financial liabilities maturing within the next twelve months) was 88%. At the end of March 2008, comparable ratios were 89% and 120% respectively (the increased twelve month ratio reflecting measures taken for using previously unexplored opportunities for asset backed funding).

We are actively working on transferring liquidity from other liquid assets into immediately available funds to maintain the six month ratio within acceptable levels. The efforts taken on that front have been successful and are reflected in the fact that our liquidity ratios remain high despite extremely difficult conditions in the global funding markets.

The following table shows the maturity profile of our assets and liabilities at December 31, 2007, reflecting the relevant maturity groupings based on the period remaining until the contractual maturity date. At December 31, 2007, our six- and twelve-month liquidity ratios were 104% and 88%, respectively. At the end of March 2008, comparable ratios were 89% and 120%, the increased twelve month ratio reflecting measures taken for using previously unexplored opportunities for asset backed funding.

(ISK million)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	Over 5 years	Total
On balance sheet financial liabilities - contractual undiscounted cash flow								
Short positions	15,023	0	0	0	0	0	0	15,023
Derivatives (balance sheet amount)	77,497	0	0	0	0	0	0	77,497
Depos0its from banks and central banks	47,954	6	281	836	1,288	4,442	370	55,177
Deposits from customers	592,825	65,869	30,934	23,133	7,048	2,543	2,997	725,349
Debt issued and other borrowed funds	219,705	196,015	89,595	182,902	275,040	719,467	63,475	1,746,199
Subordinated liabilities	46	161	113	5,069	7,051	46,074	43,155	101,669
Total financial liabilities	953,050	262,051	120,923	211,940	290,427	772,526	109,997	2,720,914
Other liabilities and equity								
Other liabilities	18,584	1,161	425	2,591	0	0	35,266	58,027
Equity							169,969	169,969
Total liabilities and equity	971,634	263,212	121,348	214,531	290,427	772,526	315,232	2,948,910
Total assets	530,637	135,061	91,882	267,643	232,597	510,258	1,180,834	2,948,912
Total maturity gap on 31 December, 2007	-440,997	-128,151	-29,466	53,112	-57,830	-262,268	865,602	0
Cash flow from derivative instruments - contractual undiscounted cashflows								
Derivatives settled on net basis								
net outflow	9,964	0	7,855	14,788	13,158	15,865	0	61,629
net inflow	0	49,713	0	0	0	0	6,296	56,009
Derivatives settled on gross basis								
outflow	18,682	34,053	63,275	175,068	589,273	497,302	497,302	1,874,955
inflow	23,060	33,341	64,255	173,088	588,105	493,702	493,702	1,869,253
	-5,585	49,001	-6,875	-16,768	-14,326	-19,465	2,696	-11,323

20.9. MARKET RISK

Market risk is the risk of loss due to changes in interest rates, foreign exchange and equity prices. We have trading positions in bonds, currencies and equities and are therefore exposed to fluctuations in the market prices of these instruments. Our primary sources of market risk are:

Equities: our trading book and banking book portfolios include equity securities;

Fixed income: our fixed income trading activities include trading and market making in bonds issued by the Icelandic government and the Icelandic Housing Financing Fund;

Foreign exchange: our trading portfolio in Iceland includes a mix of non-ISK positions; and

Other: we have trading positions in derivatives (currency and equity options), swaps and fund investments.

All positions are marked to market and all resulting changes are immediately recognized in the income statement.

Our exposure to the market values of listed and unlisted equity instruments, as a percentage of assets, was approximately 1.0%, 1.7% and 1.3% as of December 31, 2005, 2006 and 2007, respectively. The following table summarizes the geographical distribution of our equity portfolio for both unlisted and listed equities as of December 31, 2007.

	Listed	Unlisted	Total
Iceland	13%	34%	47%
International	11%	21%	32%
Nordic	8%	14%	22%
Total	**32%**	**68%**	**100%**

For trading positions, we use a daily VaR method to measure market risk on an aggregate basis and in individual portfolios. VaR assessments provide a means for evaluating the Icelandic market, which has been unique in terms of volatility. A historical VaR method is used based on the previous 250 days using end of day exposures. Reporting is based on a probability level of 99% and a one-day holding period. Back testing is used to assess the effectiveness of the VaR model. The table below summarizes VaR measures for 2007, with reference figures for 2006. Back testing is used to assess the effectiveness of the VaR model.

(ISK million)	**As of December 31, 2007**	**Min 2007***	**Max 2007***	**Average 2007**	**Average 2006**
Equity risk	353	101	390	228	197
Interest rate risk	55	28	96	45	32
Currency risk	146	4	327	136	79
Diversification gain	-205	-76	-313	-184	-108
Total	349	99	389	225	200
As % of CAD	0.15	0.04	0.17	0.10	

*Note that the minimum and maximum value of the total VaR is different from adding the VaR values of the individual risk classes, as they can occur at different times.

Stress tests are carried out to provide an indication for potential loss in extreme conditions. Stress tests consist of three 10-day VaR assessments applied to the entire trading portfolio. The FME carries out stress tests bi-annually. Banking book, non-trading and unlisted equity positions that are not part of the VaR measure are covered under stress testing as well.

20.10. BASEL II

The Basel II rules are new, more risk-sensitive rules for capital requirement calculations intended to be available for implementation as of year-end 2006 (with the rules concerning the most advanced approaches being available for implementation as of year-end 2007), although the implementation of the rules has been delayed in certain countries. The Basel II rules define the minimum capital that a financial institution must hold for unexpected events. These rules also provide minimum qualitative standards and risk management practices that a financial institution should have in place. The Basel II rules include capital requirements for operational risk in addition to credit risk and market risk, which were already covered in the previous rules, known as Basel I.

The Basel II rules were developed by the Basel Committee for Banking Supervision to revise the 1988 Basel I Accord. The Committee's first proposal for revising the capital adequacy framework was published in June 1999. The revised framework, the International Convergence of Capital Measurement and Capital Standards, was published in June 2004. Further to the revised framework on June 14, 2006, the European Parliament and the EU Council adopted the Capital Requirements Directive, which introduced an updated supervisory framework in the EU reflecting the Basel II rules on capital standards. The Capital Requirement Directive, comprising Directive 2006/48/EC and Directive 2006/49/EC recast Directive 2000/12/EC.

The Basel II framework is based on three "pillars".Pillar I addresses the calculation of minimum regulatory capital requirements for credit, market and operational risk. Pillar II addresses the supervisory review process, a bank's assessment of its own capital adequacy (including in connection with other risks not addressed under Pillar I) and the role of the supervisory authorities in reviewing and evaluating banks' internal assessment. Pillar III addresses market discipline and requirements regarding market disclosure of risk-related information.

As we have elected to implement the advanced internal ratings-based ("Advanced-IRB") approach in calculating our minimum regulatory capital requirements for credit, market and operational risk under Pillar I, we are required to receive FME approval of our use of the Advanced-IRB approach. We submitted our initial application document to be eligible for the entry and on-going use of the Advanced-IRB approach to the FME on February 1, 2006 and have worked with the FME to finalize our application. On November 7, 2007, we submitted the final supplement to the application and expect final approval from the FME in 2008. Once approval is received, we intend to implement the Advanced-IRB approach in stages across the Group, beginning at the parent company level. We expect our Norwegian operations to be in a position to meet the requirements for the Advanced-IRB approach by the third quarter of 2008. Other subsidiaries are likely to be allowed to use less sophisticated methods of determining and reporting capital requirements. We will not be able to assess the full impact of the adoption of Advanced-IRB methods on our capital ratios until the fourth quarter of 2008, when Advanced-IRB reporting methods are expected to be implemented on a Group-wide basis. We expect implementation of Advanced-IRB methods for our Norwegian operations to substantially lower the risk-weighted assets of our Norwegian operations; however this decrease will be offset by a Pillar I operational risk charge such that the overall impact on our capital ratios is expected to be modest.

We have adopted a comprehensive approach to both the internal governance and supervisory components of Pillar II. Internal governance policies are meant to ensure that risk management, which is critical for an effective assessment of a bank's capital position, is based on sound and effective risk governance processes with clearly defined roles and responsibilities for monitoring, controlling and reporting risks. Pillar II requires banks to put in place a process for assessing their capital adequacy (Internal Adequacy Assessment Process, or "ICAAP") and ensure that all material risks are adequately identified and assessed and adequate internal capital is set in relation to the relevant risk profile. Supervisors are then responsible for reviewing and assessing a bank's ICAAP and the results of such process. We are now awaiting the FME's response to our first annual ICAAP report that was submitted in December 2007.

21. CAPITAL RESOURCES

21.1. LIQUIDITY AND FUNDING

21.1.1. LIQUIDITY

Liquidity management is an important element in our operations as the majority of our funding is from wholesale sources. Our liquidity position for the following 24 months is closely monitored. Our policy is that immediately available funds cover all financial liabilities expected to mature for the following six months. In addition, all financial liabilities expected to mature within the following 12 months must be covered with immediately available funds and other liquid assets. This policy is applicable at group level. Liquidity management at the foreign subsidiary level is managed by each subsidiary according to policies and guidelines approved by our Board of Directors and implemented by ALCO, as our foreign subsidiaries, including our operations in Norway, are to a large extent self-sufficient in their funding.

Despite difficult market conditions in the latter half of 2007, we have maintained strong liquidity ratios. At year-end 2007, the six and twelve months internal liquidity ratios were 104% and 88% respectively. At 31 March 2008 our six month liquidity ratio stood at 89% and the twelve month liquidity ratio was 120% and has improved substantially since the end of 2007, reflecting actions taken to utilise the balance sheet for secured funding and the restructuring of individual units not contributing to the core activities.

Liquid funds are divided into two categories: (i) immediately available funds and (ii) other liquid assets. Immediately available funds include cash and cash equivalents, unused bonds eligible for repurchase agreements with central banks, short-term money market placements, our liquidity portfolio (AAA and AA-rated money market funds, floating rate notes and asset-backed securities), regulatory liquidity reserves and committed credit facilities. Immediately available funds do not include incoming cash flows on assets. Other liquid assets consist of assets that can be sold or used as collateral for funding but where the liquidation timeframe is considered longer than with those categorised as immediately available but still within twelve months. We apply deductions, or "haircuts", reflecting conservative estimates of potential losses compared to market values to all of the assets comprising our liquidity portfolio. The composition of our immediately available funds as of December 31, 2005, 2006 and 2007 was as follows:

	As of December 31,		
(ISK million)	**2005**	**2006**	**2007**
Cash and balances with central banks	19,233	17,965	52,804
Short-term placements with credit institutions	32,477	33,981	64,524
Loans to credit institutions	43,425	144,983	213,945
Liquid debt securities at floating interest rates	0	109,673	98,554
Cash and cash equivalents	95,135	304,648	429,827
Unused bonds eligible for repurchase agreements with central banks	33,092	17,030	44,414
Regulatory liquidity reserves	16,960	22,274	25,277
Committed credit facilities	39,965	113,532	88,920
Total	185,152	457,484	588,438

As of March 31, 2008, 89% of financial liabilities of the parent company maturing in the next six months (other than deposits) was covered by immediately available funds and 120% of financial liabilities of the parent company maturing in the next 12 months was covered by immediately available funds and other liquid assets. We believe that the status of our immediate liquidity and other liquid assets is in accordance with our policy. See Chapter 20.8 - Liquidity Risk.

21.1.2. FUNDING

In Iceland, our main source of funding is customer deposits. Other funding sources in Iceland are driven by off balance sheet activities and issuance of structured notes in the domestic market.

In Norway, the funding of our subsidiaries is both in the form of deposits and bond issues. Glitnir Norway is an active and respected issuer of bonds in the Norwegian market and regularly taps the European syndicated loan market. In 2007 we raised approximately NOK 9.2 billion in long-term funding in the Norwegian bond market, which is similar to the amount raised by us in 2006.

The following table sets out a breakdown of our borrowings from bonds and notes issued, as well as borrowings from other credit institutions at December 31 2005, 2006 and 2007.

(ISK million)	As of December 31, 2005	2006	2007
Issued bonds and hedged borrowings	858,504	1,249,914	1,357,666
Loans from credit institutions	75,202	101,073	380,158
Other borrowings	4,088	26,800	8,375
Total	937,794	1,377,787	1,746,199

The vast majority of our assets are denominated in foreign currencies. Consequently, in order to ensure that these assets are fully hedged, long-term borrowings are conducted largely through issues of bonds in international markets, with the Bank's EUR 15 billion Global Medium Term Note Programme (GMTN) serving as the most significant funding vehicle. As of March 31, 2008, the amount outstanding under the GMTN was EUR 9.3 billion. Our 5 billion dollar US MTN Programme, which was set up in 2006, has also proved to be an important funding tool. As of March 31, 2008 we had approximately USD 2.2 billion outstanding under the programme.

We have placed great emphasis on enlarging and broadening our investor base and introducing new diversified funding sources. Widening the geographical distribution of investors, targeting different types of investors and retaining an appropriately well-spread redemption profile reduce our re-financing risk. In October 2007 our subsidiary in Finland started to raise retail deposits in the Finnish market. This initiative has enjoyed a promising start, with approximately EUR 400 million raised during 2007. The wholesale funding operation in London, launched at the end of 2006, had a very successful year, and at year-end 2007 this part of the deposit base amounted to more than EUR 2 billion. At the end of the first quarter of 2008 customer deposits in Norway, United Kingdom and Finland amounted to approximately EUR 4 billion. The majority of the deposit base is in GBP, EUR and USD, deriving from a wide range of counterparties, including local governments, universities, fund managers, building societies, corporates and central banks.

In spite of the volatile and difficult market conditions that prevailed for a large part of 2007, our funding operations had a successful year. We issued approximately EUR 6 billion in long-term funding, making 2007 the second most extensive funding year in our history after 2005.

The funding operations for the parent company in 2007 got off to a good start, and we raised approximately EUR 2.5 billion (in five different public transactions), which represents the majority of our funding needs, by the time the first signs of weakness in the US subprime sector hit the market. As a result, we were able to maintain a low profile in the funding markets for the remainder of the year, with the exception of a USD 1 billion fixed-rate transaction in September.

Despite turbulent and challenging market conditions during the first months of 2008 we continued to be active on the funding side. Some key transactions included ISK 15 billion mandatory convertible bond and ISK 56 billion covered bond. In addition we place several EUR and USD private placements to investors in Europe and the US. Attention has been focused on using the considerable portfolios of high quality, unencumbered assets on our balance sheet for asset backed funding.

As of March 31, 2008, our total funding mix at the parent company level was as follows:

Notes issued under Euro Global Medium Term Note Program	33%
Customer deposits	24%
Norwegian bond markets	9%
Notes issued under USD Medium Term Note Program	7%
International loan markets	4%
Subordinated loans	4%
Stand-alone ISK	3%
Deposits from financial institutions	2%
Notes issued under AUD Medium Term Note Program	1%
Other borrowings	13%
Total	100%

During the fourth quarter of 2006, we introduced a new funding source in order to reduce our reliance on wholesale funding sources with the establishment of an ISK 100 billion Covered Bond Program, for which our Icelandic mortgage portfolio serves as the underlying asset.

As of March 31, 2008, the geographic distribution of our deposit base (from customers) was as follows:

Country	Total Deposits (ISK billion)
Iceland	315
Norway	302
United Kingdom	153
Finland	44
Total	665

The table below sets out a breakdown of the Group's sources of funds as of December 31, 2006 and December 31, 2007:

(ISK million)	As of 31 December 2006		As of 31 December 2007	
Equity	146,119	7%	169,969	6%
Subordinated loans	108,998	5%	101,669	4%
Deposits	438,272	20%	725,349	26
Core funding	693,389	32%	996,987	36%
Market issues and borrowings	1,377,787	64%	1,746,199	62%
Interbank short-term funding (credit institutions)	78,576	4%	55,177	2%
Finance in the market	1,456,363	68%	1,801,376	64%
Total funds	2,149,752	100%	2,798,363	100%

We have borrowed funds by issuing subordinated bonds. The bonds have a characteristic of equity as they are subordinated to our other liabilities. In the calculation of the capital ratio, the bonds are included with equity. Total subordinated loans amounted to ISK 47,464 million at the end of 2005 compared to ISK 108,998 million at year end 2006. The figure was ISK 101,669 million at year end 2007 comprising ISK 39,416 million classified as Tier I with no maturity date and classified as Tier II ISK 62,253 million with dates of maturity until 2016.

As of March 31, 2008, we had a total of ISK 2,519,114 million in principal and accrued interest on our outstanding indebtedness, including ISK 147,338 million of subordinated indebtedness. Since March 31, 2008 we have incurred long-term indebtedness in the amount of NOK 7 billion or approximately EUR 900 million with the issue of covered bonds in Norway.

As of March 31, 2008 our refinancing need for the parent company of long-term debt amounted to EUR 2,240 million for the remainder of 2008, EUR 3,600 million in 2009, EUR 2,940 million in 2010, EUR 2,330 million in 2011 and EUR 2,770 million in 2012.

Credit ratings

Our credit ratings are important to our business and directly affect our access to the capital markets and our cost of funding. We are the only Icelandic bank to have a credit rating from all the three big rating agencies, Moody's, Fitch and S&P. The following tables illustrate how our credit ratings from the rating agencies have developed.

Standard and Poor's

	Long- Term Debt	Short- Term Debt	Outlook
Apr-08	**BBB+**	**A-2**	**Negative**
Mar-08	A- (Watch negative*)	A-2	Watch negative*
Mar-06	A-	A-2	Stable

In March 2006, we obtained a long-term debt rating from S&P of "A-" and a short-term debt rating of "A-2" with a stable outlook. S&P has affirmed the ratings several times since then but in April 2008 downgraded our long-term debt rating to "BBB+" with a negative outlook.

Moody's

	Long- Term Debt	Short- Term Debt	Financial Strength	Outlook
Feb-08	**A2**	**P-1**	**C- (stable outlook)**	**Stable**
Jan-08	Aa3	P-1	C (Under review)	Under review*
Sep-07	Aa3	P-1	C (stable outlook)	Stable
Apr-07	Aa3	P-1	C (stable outlook)	Stable
Feb-07	Aaa	P-1	C (stable outlook)	Stable
Dec-06	A1	P-1	C (negative outlook)	Stable
Apr-06	A1	P-1	C+ (negative outlook)	Stable
May-05	A1	P-1	C+ (stable outlook)	Stable
Jul-04	A1	P-1	C (stable outlook)	Stable
May-03	A1	P-1	B-	N/A
May-02	A2	P-1	C+	N/A
May-00	A2	P-1	C	N/A
Jan-99	A3	P-2	D	N/A

Moody's has been rating our debt since 1999, when we obtained a long-term debt rating of "A3" and a short-term debt rating of "P-2". We were upgraded to "A2/P-1" with in May 2000 and again in May 2002 to "A1/P-1". Due to changes in rating methodology at Moody's we were upgraded to "Aaa/P-1" with a stable outlook in February 2007 but downgraded shortly thereafter to "Aa3/P-1" with a stable outlook once the methodology was revised again. Moody's affirmed our ratings in May 2007 following changes in our senior management. We were downgraded to "A2/P-1" with a stable outlook in February 2008 mainly due to Moody's concern over our asset quality, in particular our high single-name exposures and related party lending in a weakened Icelandic credit environment. Moody's confirmed this rating in March 2008.

Fitch

	Long- Term Debt	Short- Term Debt	Individual	Support	Outlook
May 08	**A-**	**F2**	**B/C**	**2**	**Negative**
Apr-08	A (Rating watch negative)	F1 (Rating watch negative)	B/C /Rating watch negative)	2	Rating watch negative
Aug-04	A	F1	B/C	2	Stable
Feb-01	A	F1	C	2	Stable

In February 2001, we obtained a long-term debt rating from Fitch of "A" and a short-term debt rating of "F1" with a stable outlook. Fitch has affirmed the ratings several times since then but in April 2008 placed us on Rating Watch Negative. Fitch downgraded our Long-term debt rating from A (rating watch negative) to A-, short-term debt from F1 (rating watch negative) to F2, individual rating from B/C (rating watch negative) to B/C and assigned a negative outlook in May 2008.

21.1.3. CAPITAL

The management of our capital base is critical to the growth of our loan portfolio and other risk-weighted assets. Our risk-weighted assets increased from ISK 946,428 million as of December 31, 2005 to ISK 1,564,300 million as of December 31, 2006 to ISK 2,017,470 million as of December 31, 2007, an increase of 65% and 29%, respectively. In light of these increases, we have sought to increase our capital base through the issuance of additional equity and subordinated loans that qualify as Tier I and Tier II capital. The following table summarizes our capital base as of December 31, 2005, 2006 and 2007:

	As of December 31,			As of March 31
(ISK million)	2005	2006	2007	2008
Total risk-weighted assets	946,428	1,564,300	2,017,470	2,485,110
Tier I capital	93,290	169,534	163,959	191,361
Tier II capital	26,139	65,724	61,617	82,724
Capital base	119,429	235,258	225,576	274,085
Tier I ratio	9.9%	10.8%	8.1%	7.7%
CAD ratio	12.6%	15.0%	11.2%	11.0%

Under the Act on Financial Undertakings, No. 161/2002, as amended, our CAD ratio may not be less than 8.0%. We seek to maintain a minimum CAD ratio of 11.0% and a minimum Tier I ratio of 8.0%. Our hybrid Tier 1 capital instruments may not exceed 25% of total Tier I capital. See Chapter 10 – Business Overview and Chapter 20.10 - Basel II.

Off-Balance Sheet Arrangements

As of December 31, 2005, 2006 and 2007, we did not have any relationships with unconsolidated entities or financial partnerships which would have been established for the purposes of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Corporate Taxation and Accounting Law in Iceland

Corporate income tax in Iceland was lowered from 30% to 18% in January 2002. See Chapter 26 – Taxation. Corporations are allowed to keep their accounting records and prepare their financial statements in foreign currencies, provided they do so for a minimum period of five years, provided certain conditions are met. Inflation accounting was abolished at the same time, but corporate issuers wishing to continue the practice were allowed to use it in 2002 and 2003. We discontinued our use of inflation accounting with effect from January 1, 2002.

21.2. STATEMENT OF CASH FLOW

Following is a table showing our Consolidated Statement of Cash Flows for the years ended December 31, 2005 to 2007

(ISK million)	2007	2006	2005
Cash flows from operating activities:			
Profit for the year	27,651	38,231	18,886
Adjustments to reconcile profit for the year to cash flow used in operating activities:			
Non-cash items included in net profit and other adjustments	3,180	29,423	-12,691
Changes in operating assets and liabilities:			
Required reserves with central banks	-245	-1,238	-919
Loans and receivables	-338,452	-188,917	-287,471
Trading assets	-57,314	-35,094	-50,256
Financial assets available-for-sale	-13,858	0	0
Financial assets designated at fair value through profit or loss	-71,209	9,968	-81,415
Deposits	241,798	101,204	32,210
Borrowings	355,282	188,080	386,198
Trading financial liabilities	33,531	22,937	13,899
Financial liabilities designated at fair value through profit or loss	35,009	0	0
Derivatives used for hedging	-12,256	3,266	2,999
Post-employment obligations	-104	99	-1,889
Other operating assets and liabilities	-40,498	-20,089	23,818
Net cash provided by operating activities	162,515	147,870	43,369
Cash flows from investing activities:			
Financial assets available for sale	0	0	414
Investments in associates	1,560	9,344	2,173
Investments in subsidiaries, net of cash acquired	-27,374	-6,476	-15,130
Investment property	-1,815	0	0
Property and equipment	-581	-875	-1,042
Net cash provided by (used in) from investing activities	-28,210	1,993	-13,585
Cash flows from financing activities:			
Subordinated loans	-7,329	44,401	20,995
Issued new shares	15,277	20,882	20,604
Treasury stock	-8,226	-873	1,726
Dividends paid	-9,403	-5,296	-4,525
Net cash provided by financing activities	-9,681	59,114	38,800
Net increase in cash and cash equivalents	124,624	208,977	68,584
Translation difference on cash and cash equivalents	555	536	0
Cash and cash equivalents at the beginning of the year	304,648	95,135	26,551
Cash and cash equivalents at year-end	429,827	304,648	95,135
Reconciliation of cash and cash equivalents:			
Cash in hand	1,180	1,044	864
Cash balances with central banks	51,624	14,967	18,369
Treasury bills	0	1,954	414
Balances with credit institutions	0	0	32,063
Loans to credit institutions	0	0	43,425
Money market loans	192,918	87,467	0
Bank accounts	63,360	33,590	0
Other loans	22,191	55,953	0
Financial assets designated at fair value through profit and loss	98,554	109,673	0
	429,827	304,648	95,135

Net cash provided by operating activities was ISK 148 billion in 2006 compared to ISK 43 billion in 2005. The contribution of deposits in the cash flow was substantial in 2006 or ISK 101 billion and the increase in loans and receivables was almost entirely offset by increase in borrowings.

Cash provided by investing activities was ISK 2.0 billion in 2006 as compared to ISK -13.6 billion in 2005. The explanations of more favourable outcome in 2006 is an inflow from the proceeds of sales of associated companies and lower investment in subsidiaries or ISK 6 billion in 2006 compared to 15 billion 2005.

Net cash provided by financing activities was ISK 59 billion in 2006 as compared to ISK 39 billion in 2005. The cash inflow from subordinated loans constitutes the largest increase in this category during the year 2006 or ISK 44 billion compared to ISK 21 billion 2005.

Net cash provided by operating activities was ISK 163 billion in 2007 compared to 148 billion in 2006. The increase in deposits continues to be substantial or ISK 242 billion. The increase in borrowings was ISK 167 billion and increase in loans and receivable was almost 150 billion between years.

Cash used in investing activities was ISK 28 billion in 2007 compared to a favourable outcome of ISK 2 billion in 2006. In 2007 we invested in subsidiaries for ISK 27 billion compared to ISK 6 billion 2006.

Net cash used in financing activities was ISK 10 billion in 2007 compared to net cash provided by financing activities of ISK 59 billion in 2006 The cash outflow from subordinated loans in 2007 was ISK 7 billion compared to inflow of ISK 44 billion in cash in 2006.

21.3. INVESTMENT PORTFOLIO

The following tables set forth the financial assets measured at fair value for each type of the Group's investments in bonds and other fixed income securities and shares and other variable yield securities under IFRS at December 31, 2005, 2006 and 2007.

	As of December 31,		
(ISK million)	**2005**	**2006**	**2007**
Financial assets held for trading			
Bonds	61,062	81,199	99,712
OTC derivatives	16,500	66,882	107,338
Shares	74,335	79,170	77,516
Total	151,897	227,251	284,566
Financial assets designated at fair value			
Cash equivalents	—	109,673	98,554
Bonds	31,757	41,069	63,153
Loans to customers	49,654	24,457	71,245
Shares	15,027	25,665	28,010
Total	96,438	200,864	260,953
Derivatives used for hedging			
Fair value hedge	2,352	5,721	11,368
Available for sale bonds	3,611	3,746	17,605
Financial assets measured at fair value	254,298	437,582	574,492

21.4. LOAN PORTFOLIO

The Group's principal lending activity consists of loans to corporate customers and private individuals. The Group has endeavoured to diversify its loan portfolio to minimize the risk in lending and the Group generally requires its customers to provide collateral. The collateral taken by the Group will depend on the circumstances. The main types of collateral include pledged deposits and securities, real estate and fishing vessels (including the related fishing quota). Decisions regarding the adequacy of collateral are made as part of the process by which the relevant loan is authorized.

The following table provides a breakdown of the Group's loan portfolio by type of loan at December 31, 2006 and 2007.

(ISK million)	As of December 31, 2006	2007
Loans to banks		
Money market loans	87,467	192,918
Bank accounts	33,590	63,360
Other loans	55,953	22,191
Total	177,010	278,469
Loans to customers		
Cash equivalents	24,458	71,245
Bonds	1,571,726	1,903,662
Total	1,596,184	1,974,907
Total loan portfolio	1,773,194	2,253,376

The following table lists the Group's lending (including leasing) by customer categories at amortized cost at December 31, 2006 and 2007.

	As of December 31,					
	2006			2007		
(ISK million)	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Loans to individuals:						
Overdrafts and credit cards	15,589	-276	15,313	19,169	-565	18,604
Term loans	49,715	-887	48,828	70,036	-1,418	68,618
Residential mortgages	295,373	-511	294,862	295,182	-585	294,597
Leasing	11,053	-129	10,924	17,081	-176	16,905
Loans to corporate entities:	32,642	-145	32,497	33,835	-78	33,757
Large corporate customers	515,553	-6,409	509,144	778,388	-7,763	770,625
SMEs	537,739	-2,911	534,828	578,294	-2,870	575,424
VSEs	64,457	-1,126	63,331	76,330	-860	75,470
Other	39,828	-68	39,760	34,142	-56	34,086
Central government and state-owned enterprises	18,651	—	18,651	12,740	—	12,740
Loans to municipalities	3,588	—	3,588	2,836	—	2,836
Total	1,584,188	-12,462	1,571,726	1,918,033	-14,371	1,903,662

The following table sets forth the distribution of loans to customers by sector and by geographical region as of December 31, 2007.

Sectors	
Real Estate	29%
Services	27%
Individuals	18%
Niches	9%
Industry	7%
Commerce	3%
Others	7%
Geographical region	
Iceland	29%
Nordic	27%
International	18%

21.5. LARGE EXPOSURES

Clients are defined as large exposures if their total obligations exceed 10% of Glitnir's capital adequacy ("CAD") equity, in accordance with the Financial Supervisory Authority's Rule No. 531/2003 on large exposures incurred by financial undertakings. Our Management pays special attention to large lending exposures and our Board of Directors is regularly informed of such positions. At December 31, 2007, the sum of our 20 largest exposures totalled ISK 405 billion, or 179.4% of our CAD equity, compared to total exposures of ISK 332 billion, or 141.1% of our CAD equity at December 31, 2006. According to Rule No. 531/2003, total large exposures of parties with obligations exceeding 10% of the Bank's equity may never exceed 800% of equity. There are no large exposures in arrears.

The maximum obligation of individual company groups authorized by the Rule No. 531/2003 is 25% of our equity. All of our large exposures were within these limits at December 31, 2006 and 2007.

21.6. ALLOWANCE FOR LOSSES ON LOANS AND RECEIVABLES

In evaluating our non-performing loans, we, following directives from the Financial Supervisory Authority, have introduced the EU Directive regarding rules on the annual accounts of commercial banks. Iceland fully complies with the EU Directive.

The following table provides a breakdown of the Group's allowances for impairment at December 31, 2005, 2006 and 2007.

(ISK million)	2005	2006	2007
Specific allowances for impairment:			
Balance at January 1	5,146	3,520	5,205
Transferred into the Group	526	167	—
Transferred from the Group	-917	-38	—
Charge to income statement	951	3,162	4,757
Recoveries	97	109	94
Effect of non-ISK movements	-109	296	-167
Write-offs	-2,174	-2,010	-3,534
Balance at December 31	3,520	5,206	6,355
Collective allowances for impairment:			
Balance at beginning of period	4,497	5,671	7,257
Transferred from the Group	—	-12	—
Charge to income statement	1,174	1,597	759
Balance at December 31	5,671	7,256	8,016
Total allowances for impairment	9,191	12,462	14,371
Total impairment charge	2,205	4,759	5,516

The following tables show the Group's loans and other financial assets categorized by whether they are impaired, past due but not impaired or neither past due nor impaired at December 31, 2006 and 2007.

(ISK million)	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Less: allowance for impairment	Net carrying amount
At December 31, 2007:						
Loans to banks	274,025	4,444	—	278,469	—	278,469
Loans to individuals	405,070	27,595	2,638	435,303	-2,822	432,481
Loans to corporate entities	1,365,751	93,661	7,742	1,467,154	-11,549	1,455,605
Loans to central government and state-owned enterprises	12,278	462	—	12,740	—	12,740
Loans to municipalities	2,782	54	—	2,836	—	2,836
Loans at fair value through profit and loss	69,976	1,269	—	71,245	—	71,245
Other financial assets	24,145	—	—	24,145	—	24,145
Total	2,154,027	127,485	10,380	2,291,892	-14,371	2,277,521

	Neither past due nor impaired	Past due but not impaired	Impaired	Gross	Less: allowance for impairment	Net carrying amount
						(ISK millions)
At December 31, 2006:						
Loans to banks	173,838	3,172	—	177,010	—	177,010
Loans to individuals	383,171	19,961	1,240	404,372	-1,948	402,424
Loans to corporate entities	1,050,334	99,914	7,329	1,157,577	-10,514	1,147,063
Loans to central government and state-owned enterprises	18,622	29	—	18,651	—	18,651
Loans to municipalities	3,584	4	—	3,588	—	3,588
Loans at fair value through profit and loss	22,225	2,233	—	24,458	—	24,458
Other financial assets	13,960	—	—	13,960	—	13,960
Total	1,665,734	125,313	8,569	1,799,616	-12,462	1,787,154

In calculating the necessary allowances to be made for non-performing loans the Group makes both specific allowances and a collective allowance to meet the general risk of lending operations. A specific allowance is made for credits that have been assessed at risk on the day of settlement. The collective allowance is intended to meet losses which are deemed likely in terms of circumstances for credits other than those at particular risk on the day of settlement.

Specific allowances are established on an individual facility basis to recognize the expected credit losses on all types of exposure. The Risk Committee makes suggestions to the Bord of Directors, which makes the final decision after the certified accountant of the Bank has given an independent evaluation of the loan portfolio.

Collective allowances for impairment are established to absorb credit losses that are not met by specific allowances. Collective allowances are determined by an evaluation of the quality of the loan portfolio. At December 31, 2006, collective allowances for impairment amounted to 0.4% of loans and guarantees as at that date, and at December 31, 2007, collective allowances for impairment amounted to 0.4% of loans and guarantees as at that date.

21.7. ASSETS

The table below shows assets at December 31, 2007 classified by currencies.

	As of December 31, 2007									
(ISK million)	**ISK**	**NOK**	**SEK**	**EUR**	**USD**	**GBP**	**CHF**	**JPY**	**Other**	**Total**
Assets										
Cash and balances with banks	43,517	8,632	29	2,987	117	62	36	13	107	55,500
Derivatives	106,836	11,413	—	426	30	—	—	—	1	118,706
Bonds and debt instruments	125,043	33,268	1	93,438	21,342	5,696	—	—	172	278,960
Shares and equity instruments	45,331	14,441	8,056	11,303	9,689	5,211	—	—	11,550	105,581
Loans to banks	23,736	6,391	9,752	76,905	119,576	38,442	1,077	523	2,067	278,469
Loans to customers	459,238	642,948	43,651	329,068	129,232	98,900	117,549	79,652	74,669	1,974,907
Other assets	70,084	22,394	3,924	39,878	435	1	3	7	61	136,787
Total financial assets	873,785	739,487	65,413	554,005	280,421	148,312	118,665	80,195	88,627	2,948,910

21.8. LOANS PAST DUE BUT NOT IMPAIRED

The following table sets forth the gross amount of loans by class to customers that were past due but not impaired at December 31, 2007.

(ISK million)	Past due up to 30 days	Past due 30 to 60 days	Past due 60 to 90 days	Past due over 90 days	Total	Fair value of collateral
At December 31, 2007:						
Individuals (retail customers)	12,651	9,655	2,429	2,860	27,595	77,198
Corporate entities:						
Large corporate entities	54,516	7,140	2,227	178	64,061	45,696
SMEs	7,742	3,132	5,439	2,142	18,455	51,194
VSEs	6,806	1,002	1,141	910	9,859	14,922
Other	—	1,286	—	—	1,286	—
Loans to central government and state-owned enterprises	462	—	—	—	462	296
Loans to municipalities	54	—	—	—	54	780
Loans at fair value through profit and loss	—	1,269	—	—	1,269	666
Total	82,231	23,484	11,236	6,090	123,041	190,752

21.9. IMPAIRED LOANS

The following table sets forth the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held as security, at December 31, 2006 and 2007.

(ISK millions)	Individuals	Entities	Total
At December 31, 2007:			
Individually impaired loans	2,638	7,742	10,380
Fair value of collateral	2,005	1,829	3,834
At December 31, 2006:			
Individually impaired loans	1,240	7,329	8,569
Fair value of collateral	880	5,634	6,514

21.10. USE OF FUNDS

The major part of the Group’s assets comprises loans. The table below sets out a breakdown of the Group’s assets at December 31, 2005, 2006 and 2007.

(ISK millions)	As of December 31, 2005	2006	2007
Cash and cash balances with central banks	20,861	20,417	55,500
Derivatives	18,852	72,603	118,706
Bonds and debt instruments	146,085	231,675	278,960
Shares and equity instruments	89,360	108,846	105,581
Loans to banks	75,488	177,010	278,469
Loans to customers	1,078,383	1,596,184	1,974,907
Other assets	42,916	39,604	136,787
Total assets	1,471,945	2,246,339	2,948,910

21.11. LIABILITIES

21.11.1. DEPOSITS

The Bank had approximately 420,000 customer deposit accounts (including current accounts, savings accounts and currency accounts) on December 31, 2006, and approximately 444,000 on December 31, 2007. On December 31, 2007, the Bank's total deposits amounted to approximately 22% of the total deposits in all of Iceland's commercial banks and savings banks.

Most of the Bank's deposits bear interest at floating rates.

The following table sets out a breakdown of the Group's deposits at December 31, 2005, 2006 and 2007.

	As of December 31,		
(ISK million)	**2005**	**2006**	**2007**
Demand deposits	195,805	259,156	350,227
Time deposits	108,331	179,116	375,122
Total	304,136	438,272	725,349
Time deposits mature as follows:			
Up to 3 months	69,221	108,757	308,467
Over 3 months and up to 1 year	9,780	41,858	54,067
Over 1 year and up to 5 years	24,027	23,860	9,591
Over 5 years	5,303	4,641	2,997
Total	108,331	179,116	375,122

The following table shows details of the Group's deposits for its Icelandic and foreign operations and the interest expense thereon at December 31, 2005, 2006 and 2007 under IFRS.

	As of December 31,		
(ISK million)	**2005**	**2006**	**2007**
Icelandic operations			
Deposits from credit institutions and central banks	30,633	78,438	52,250
Other deposits	153,764	167,122	267,926
Total Iceland deposits	184,397	245,560	320,176
Deposits in foreign banking offices			
Deposits from credit institutions and central banks	23	138	2,927
Other deposits	150,372	271,150	457,423
Total foreign deposits	150,395	271,288	460,350
Total deposits	334,792	516,848	780,526

The following tables show the maturity of the Group's deposits from credit institutions and central banks and other deposits at the dates indicated.

	As of December 31, 2007					
(ISK million)	**Up to 1 month**	**1 to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Deposits from credit institutions and central banks	47,954	6	1,117	5,730	370	55,177
Other deposits	592,825	65,869	54,067	9,591	2,997	725,349
Total deposits	640,779	65,875	55,184	15,321	3,367	780,526

(ISK million)	Up to 1 month	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
	As of December 31, 2006					
Deposits from credit institutions and central banks	78,576	—	—	—	—	78,576
Other deposits	339,473	28,439	41,859	23,860	4,641	438,272
Total deposits	418,049	28,439	41,859	23,860	4,641	516,848

(ISK million)	Up to 1 month	1 to 3 months	3-12 months	1-5 years	Over 5 years	Total
	As of December 31, 2005					
Deposits from credit institutions and central banks	30,656	—	—	—	—	30,656
Other deposits	118,159	146,867	9,780	24,027	5,303	304,136
Total deposits	148,815	146,867	9,780	24,027	5,303	334,792

21.11.2. DEBT ISSUED AND OTHER BORROWED FUNDS

The following table shows details of the types and maturities of the Group's borrowings at December 31, 2005, 2006 and 2007.

(ISK million)	As of December 31, 2005		2006		2007	
Borrowings						
Bonds issued	858,504	91.6%	1,249,914	90.7%	1,357,666	77.7%
Loans from banks	75,202	8.0%	101,073	7.3%	380,158	21.8%
Other debt securities	4,088	0.4%	26,800	1.9%	8,375	0.5%
Total borrowings	937,794	100%	1,377,787	100%	1,746,199	100%
Borrowings mature						
Up to 1 month	6,705	0.7%	116,722	8.5%	219,705	12.6%
Over 1 month and up to 3 months	87,867	9.4%	50,261	3.6%	196,015	11.2%
Over 3 months and up to a year	149,892	16.0%	242,322	17.6%	272,497	15.6%
Total short-term borrowings	244,464	26.1%	409,305	29.7%	688,217	39.4%
Over 1 year and up to 5 years	627,057	66.9%	869,332	63.1%	994,507	57.0%
Over 5 years	66,273	7.0%	99,150	7.2%	63,475	3.6%
Total borrowings	937,794	100%	1,377,787	100%	1,746,199	100

21.11.3. CAPITAL ADEQUACY

The equity of the Group amounted to ISK 84,537 million as of December 31, 2005, ISK 146,119 as of December 31, 2006 and ISK 169,969 million as of December 31, 2007.

Under the Act on Financial Undertakings, No. 161/2002, as amended, the capital adequacy ratio may not be less than 8.0%. For the Group, this ratio was 12.6% at December 31, 2005, 15.0% at December 31, 2006 and 11.2% at December 31, 2007. The ratio was calculated as follows:

	As of December 31,					
(ISK million)		**2005**		**2006**		**2007**
	Book Value	**Weighted Value***	**Book Value**	**Weighted Value***	**Book Value**	**Weighted Value***
Assets recorded on the balance sheet	1,471,945	918,270	2,246,339	1,519,288	2,948,910	1,929,818
With market risk in trading portfolio		28,158		45,012		87,652
Risk based, total		946,428		1,564,300		2,017,470
Tier I Capital		93,290		169,534		163,959
Tier II Capital		26,139		65,724		61,617
		119,429		235,258		225,576
Capital adequacy ratio		12.6%		15.0%		11.2%

* Risk weighted assets

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

21.11.4. FINANCIAL ASSETS AND LIABILITIES (BOOK VALUE)

The following table shows, by maturity, the Bank's financial assets and liabilities that are sensitive to changes in interest rates at December 31, 2006 and 2007.

	As of December 31,	
(ISK million)	**2006**	**2007**
Assets		
Cash and balances with central banks	20,417	55,500
Bonds and debt instruments	231,675	278,960
Loans to banks	177,010	278,469
Loans to customers	1,596,184	1,974,907
Total	2,025,286	2,587,836
Liabilities		
Deposits from central banks	36,045	4,653
Deposits from banks	42,532	50,524
Deposits from customers	438,272	725,349
Debt issued and other borrowed funds	1,377,787	1,746,199
Subordinated loans	108,998	101,669
Total	2,003,634	2,628,394

The following table shows the Bank's interest repricing gaps in individual currencies at December 31, 2007.

(ISK million)	ISK	NOK	SEK	EUR	USD	GBP	CHF	JPY	Other	Total
At December 31, 2007:										
0 to 1 year	-201,024	37,554	2,156	25,695	-6,303	-6,402	-1,580	-259	1,255	-148,906
1 to 5 years	92,676	624	—	12,274	4,804	6,603	2,167	668	725	120,541
5 to 10 years	12,414	50	—	-752	-1,861	-200	—	—	10	9,661
10 to 20 years	13,259	—	—	44	—	292	—	—	—	13,595
Over 20 years	5,038	—	—	—	—	-11	—	82	—	5,109
Total	-77,637	38,228	2,150	37,261	-3,360	282	587	491	1,990	

21.11.5. SOURCES OF FUNDS

The Bank's main funding sources are customer deposits, the domestic bond market and the international loan and bond markets.

In the domestic market, we have registered a number of issues of debt securities on the OMX ICE, including issues of commercial paper, non-indexed notes and indexed bonds.

The table below sets out a breakdown of our sources of funds at December 31, 2005, 2006 and 2007.

	As of December 31,					
(ISK million)		**2005**		**2006**		**2007**
Equity	84,537	6.0%	146,119	6.8%	169,969	6.1%
Subordinated loans	47,464	3.4%	108,998	5.1%	101,669	3.6%
Deposits from customers	304,136	21.6%	438,272	20.4%	725,349	25.9%
Core funding	436,137	31.0%	693,389	32.3%	996,987	35.6%
Market issues and borrowings	937,794	66.8%	1,377,786	64.1%	1,746,199	62.4%
Interbank short-term funding (credit institutions)	30,656	2.2%	78,577	3.6%	55,177	2.0%
Finance in the market	968,450	69.0%	1,456,363	67.7%	1,801,376	64.4%
Total funds	1,404,587	100.0%	2,149,752	100.0%	2,798,363	100.0%

22. SHARE CAPITAL

22.1. DESCRIPTION OF SHARES AND SHARE CAPITAL

The following summary provides information concerning our shares and share capital and briefly describes the significant provisions of our Articles of Association and Icelandic law. This summary does not purport to be complete and is qualified in its entirety by reference to our Articles of Association and the relevant provisions of Icelandic law. Copies of our Articles of Association are available at our registered office at Kirkjusandur 2, 155 Reykjavik, Iceland and on our website (http://www.glitnir.is).

General

The total issued share capital, as of the date of this Registration Document, is ISK 14,880,701,303 divided into 14,880,701,303 shares with a nominal value of ISK 1.00 each. Our share capital consists of one class of shares. At that date, we held 532,061,825 of our own shares, and 14,348,639,478 shares were outstanding. All of our outstanding shares are fully paid and non-assessable. The ISIN number for our shares is IS0000000131. The shares' trading symbol on the OMX ICE is GLB. We are registered and incorporated in Iceland under the Companies Act. All shares are issued under the Companies Act.

The number of shares outstanding at the beginning of 2007 was 14,264,805,829 and at the beginning of 2008 14,880,707,303.

All shares carry equal rights. The shares carry no special rights and no restrictions are placed on them.

Shareholders have the right to vote at shareholders' meetings, the right to receive dividends when declared, enjoy pre-emptive rights to new shares (unless waived) and the right to share in any surplus in the case of liquidation, all according to share ownership, statutory law and our Articles of Association in effect at any given time.

No acquisition rights or obligations over authorized but unissued capital exist and we have not undertaken to increase our share capital, except as disclosed in the Registration Document.

No share or loan capital of any member of the Group is under option or agreed conditionally or unconditionally to be put under option.

We issued and sold an ISK 15 billion five year mandatory convertible bonds in a closed offering to Icelandic institutional investors, which commenced on March 12, 2008 and ended on March 18, 2008. The bonds are subordinated and count as Tier 1 capital and strengthen our capital ratio considerably. See a detailed description in–the Securities Note dated July 14, 2008. Other than that there are currently no convertible securities, exchangeable securities or securities with warrants outstanding.

22.2. DIVIDEND RIGHTS

A resolution, based on a proposal from the Board of Directors, on the distribution of dividends is made at the Annual General Meeting. Dividends must be paid to shareholders within six months of the date of the resolution. According to the Act No. 150/2007 on the Expiry of Debts and Other Claim Rights, a right to a specific dividend payment expires 10 years after a decision on the payment was made by the Bord of Directors. Under the Companies Act, we and our subsidiaries are subject to legal restrictions on the amount of dividends that can be paid to shareholders. There are no special restrictions or procedures regarding dividend payments for shareholders which are non-residents of Iceland. It is our policy to pay between 20% and 40% of our profit in dividends to shareholders. See Chapter 19 – Financial Information, "Dividend Policy". No redemption provisions, conversion provisions or special restrictions regarding dividends have been attached to the shares. According to Icelandic law, we are required to withhold taxes from dividend payments to shareholders.

22.3. SHAREHOLDERS' MEETINGS AND VOTING RIGHTS

The Annual General Meeting of shareholders is held before the end of the month of April each year. Other shareholders' meetings are called at the discretion of the Board of Directors, pursuant to the resolution of a meeting, or if the elected auditing firm or shareholders holding a minimum of 1/10 of so request in writing and shall specify the business of the meeting. Shareholders' meetings are called with a minimum of one week's and a maximum of four weeks' notice by means of a notice on the radio and in the daily press, specifying when and where admission tickets to the meeting and ballots will be distributed. Such distribution shall take place according to the further decision of the Board of Directors. A shareholders' meeting is valid if lawfully convened, without regard to the number of shareholders attending.

Any shareholder is entitled to have a specific matter addressed at a shareholders' meeting, provided such shareholder submits a written request to this effect to the Board of Directors no later than five business days before the start of the meeting. Notices of shareholders' meetings shall specify the business on the agenda of the meeting. At least one week before a shareholders' meeting, the agenda, finalized submissions and, in the case of an Annual General Meeting, the annual accounts, the annual report of the Board of Directors and the auditors' report are laid open for inspection by the shareholders at the Bank's offices, and at the same time sent to any registered shareholder who so requests.

The agenda of each Annual General Meeting of the Bank includes the following items:

The report of the Board of Directors on the activities of the Bank in the preceding year;

The accounts of the Bank for the preceding fiscal year;

Decision on the payment of dividends and disposal of the profit or loss of the Bank during the preceding fiscal year;

Motions to amend the Articles of Associations of the Bank, if submitted;

Elections to the Board of Directors;

Appointment of an auditing firm;

Decision on the remuneration of the Board of Directors for the coming electoral term; and

Any other lawfully submitted business.

22.4. PRE-EMPTIVE RIGHTS AND INCREASES OF SHARE CAPITAL

No privileges are attached to the shares. We do not have the right to redeem the shares from our shareholders. There are no restrictions regarding the sale or other assignment of shares. Each share of ISK 1.00 carries one vote. Upon an increase of share capital, shareholders have a pre-emptive right to subscribe for new shares in direct proportion to their percentage of share ownership. Shareholders may waive their pre-emptive rights by a resolution passed at a shareholders' meeting by two-thirds of the votes cast at such meeting and a quorum of shareholders controlling two-thirds of the votes cast present at such meeting.

The following authorizations to increase our share capital currently exist according to Article 4 of our Articles of Association:

Our Board of Directors is authorised to raise our share capital by up to ISK 1,500,000,000 – one thousand and five hundred million Icelandic krónur – through subscription to new shares. The Board of Directors shall decide the offering price and payment terms of the new shares and the stages in which the authorisation is to be utilised. Shareholders shall have a pre-emptive right to subscription to new shares in the Company in direct proportion to their shareholdings. The Board of Directors may set further rules on the sale of the shares. The authorisation of the Board of Directors under this paragraph shall lapse at the end of 2009 to the extent that it has not then been exercised.

Our Board of Directors is authorised to raise our share capital by up to ISK 2,500,000,000 – two thousand and five hundred million Icelandic krónur – through subscriptions to new shares. The Board of Directors shall decide the offering price and payment terms of the new shares and the stages in which the authorisation is to be utilised. Shareholders shall not have a pre-emptive right to subscription to these new shares. The Board of Directors may set further rules on the sale of the shares. The authorisation of the Board of Directors under this paragraph shall expire at the end of 2009 to the extent that it has not then been exercised.

Our Board of Directors is authorised to increase our share capital by up to ISK 200,000,000 – two hundred million Icelandic krónur – to accommodate dividend payments in shares in the Company for the financial year 2007.

Our Board of Directors is authorised to issue convertible bonds up to a maximum amount of ISK 15,000,000,000 – fifteen billion Icelandic krónur – on the terms that such debt can be (or shall be) converted into shares in Glitnir banki hf., subject to terms and conditions determined by the Board. The Board of Directors is furthermore authorised to increase our share capital by up to ISK 1,250,000,000 – one billion two hundred and fifty million Icelandic krónur – nominal value to meet our obligations under the terms of the convertible bonds. The current shareholders waive their preferred rights to the new shares pursuant to Article 34, paragraph 3 of Act no. 2/1995 on Public Limited Companies. The new shares shall belong to the same class and carry the same rights as our other shares, they shall grant rights in the Company as of the date of registration of the increase of shares capital and there will be no restrictions on trading with the new shares. The Board of Directors shall in other matters determine the terms of the issue of the convertible bonds and the increase of the share capital. The Board of Directors shall be authorised to make the necessary amendments to our Articles of Association relating to the issue of the convertible bonds or the subsequent increase of our share capital. This authorisation to issue convertible bonds and to increase the share capital shall expire on 19 March 2013.

In March 2007 the Company's Board of Directors resolved to increase the share capital by 615,895,474 shares, as shareholders were offered the option of receiving half of their dividend in the form of Company shares and also as payment to the 11 largest shareholders of FIM Group Corporation for 68.11% of shares in FIM Group Corporation. After the increase, total shares in the Company are 14,880,701,303.

In January 2006, our share capital was increased by 1,000,000,000 shares. In connection with dividend payment, share capital was increased by additional 129,989,514 shares. The number of outstanding shares at year end was 14,264,805,829 .

In January 2005, our share capital was increased by 1,800,000,000 shares to finance the acquisition of BNbank and also to strengthen our equity position in light of the extensive growth in lending. Following the increase our shares amounted to 13,000,000,000. In 2005, shareholders were offered the option of receiving half of their dividend in the form of Company shares resulting in an in issue of 134,816,315 new shares. As a result, our total issued capital amounted to 13,134,816,315 at year-end.

No further authorizations to increase our share capital exist, but a shareholders meeting, legally convened, is permitted to further increase it.

The following table illustrates the history of share capital for the period under review (in million shares):

December 31, 2004	11,200,000,000
December 31, 2005	13,134,816,315
December 31, 2006	14,264,805,829
December 31, 2007	14,880,701,303
March 31, 2008	14,880,701,303

The difference between the share capital in the table above and our financial statements can be explained by the fact that we own a part of our share capital that is accounted for in our financial statements but not in the table above.

22.5. ACTION NECESSARY TO CHANGE THE RIGHTS OF HOLDERS OF SHARES

Our Articles of Association do not specifically address actions necessary to change shareholders' rights. Such actions would generally require votes from two-thirds of the votes passed at a legally convened shareholders' meeting and votes from shareholders holding at least two-thirds of the share capital, as provided under Article 93 of the Companies Act.

22.6. SHARE REPURCHASES

Pursuant to the Companies Act, we may only repurchase our shares within certain limits and in compliance with the following requirements:

The repurchase must be pursuant to authority granted to the Board of Directors at a shareholders meeting. The resolution granting this authorization must specify the maximum number of shares that may be repurchased, the minimum and maximum price which may be paid for the shares and the duration of the authorization, which cannot exceed 18 months;

The aggregate nominal value of the shares repurchased, together with the aggregate nominal value of the shares already held by us and our subsidiaries may not exceed 10% of our share capital;

We can only repurchase shares to the extent that our capital and reserves (equity) exceed our non-distributable reserves, and after deducting repurchased shares our share capital may not be less than ISK 4 million; and

The shares repurchased must be fully paid.

At July 11, 2008, we held 532,061,825 of our own shares, which had a book value of ISK 8,246,958,288 and a nominal value of 532,061,825. No shares are owned by our subsidiaries. Shares which are registered in the names of subsidiaries are owned by customers and held in custody with, and therefore registered in the name of, the subsidiaries. We are not entitled to vote any of the shares that are held by us.

22.7. RESTRICTIONS ON OWNERSHIP AND TRANSFER

Our Articles of Association do not contain any limitations on the ability to transfer our shares and shareholders may pledge their shares unless otherwise prohibited by law. Pre-emptive rights to increases in our share capital are transferable according to Act No. 2/1995 on Limited Liability Companies.

However, special rules apply to qualifying holdings in financial institutions pursuant to Articles 40-49 of Act No. 161/2002 on Financial Institutions. Parties who propose to acquire a qualifying holding in a financial institution must seek the approval of the FME in advance. In addition, the approval of the FME must be sought when an individual or legal entity increases its holding to such an extent that its direct or indirect share in the financial institutions share capital, guarantee capital or voting rights exceeds 20%, 25%, 33% or 50%, or comprises such a large portion that the financial undertaking can be regarded as its subsidiary company. A "qualifying holding" is a direct or indirect holding in an undertaking which represents 10% or more of such undertakings' share capital, guarantee capital or voting rights, or other holding which enables the exercise of a significant influence on the management of the company concerned. If the owner of a qualifying holding intends to reduce its shareholding so that it does not subsequently own a qualifying holding, this must be reported to the FME in advance, as well as what the holding will be following such reduction. If the holding goes below the specified levels or to such an extent that the financial undertaking ceases to be a subsidiary of the parent company in question, this must also be reported.

A party acquiring shares cannot exercise its rights as a shareholder until its name has been registered in our share registry or it has announced and proven its ownership of the shareholding. The electronic registration of securities is governed by Act No. 131/1997 on Electronic Registration of Title to Securities and regulation no. 397/2000 which is based on this Act.

Our shares are issued electronically at the ISD, which is located at Laugavegur 182, 105 Reykjavik, Iceland. All shares are registered under the name and Icelandic ID-No. of the relevant shareholders or their nominees.

The electronic registration of securities is governed by the Act on Electronic Registration of Titles to Securities, No. 131/1997 and Regulation No. 397/2000, which is issued in accordance with that Act. A printout from the ISD on the ownership of shares in the Bank is considered a valid proof of registration of the shares. Registry of title in a securities depository constitutes full proof of title to shares in the Bank and an adequate basis for entry in the register of shares. Dividends and announcements shall at any given time be sent to the party registered in our share register as owner of the shares in question. We shall be in no way liable if payments or announcements do not reach their recipients because a change of address has not been notified.

Rights to electronic shares must be registered at the ISD if they are to enjoy legal protection and disposal by means of an agreement. It is forbidden to issue share certificates for registered rights according to an electronic share or endorse them, and such transactions are void. Registration of the ownership of an electronic share at the ISD, subsequent to ISD's final entry, formally gives a registered owner legal authorization to the rights for which it is registered. Priority of incompatible rights is determined by the chronological order of requests from our Data Central reaching the ISD.

22.8. TAKEOVER BIDS

No public takeover bids for our shares have been made to date by any third party during the current financial year or the two prior financial years.

23. MEMORANDUM AND ARTICLES OF ASSOCIATION

23.1. OBJECT AND PURPOSE

Our purpose, according to Article 3 of its Articles of Association, is to provide financial services. We may engage in any activities permitted to financial undertakings pursuant to law, and any other activity normally connected with such activities.

23.2. BOARD OF DIRECTORS AND MANAGEMENT

Our Board of Directors shall be composed of seven members and an equal number of alternates, elected at the Annual General Meeting for a term of one year. Prospective candidates to the Board of Directors shall submit a written notice to such effect to the Board of Directors no later than five working days before the start of the Annual General Meeting.

Our Board of Directors constitutes the supreme authority, except as otherwise provided in the Articles of Association. The duties of the Board of Directors include to supervise our activities and monitor our operations according to law and the Articles of Association, to approve the main aspects of our organisational structure, to appoint one or more bank managers (Chief Executive Officers), to appoint the Managing Director of the Accounting Department, to decide which employees shall be authorised to commit us, and to establish rules thereon, to formulate a policy in matters of interest rates and scales and fees, and establish general rules on our granting of credit, guarantees and borrowing, after comments from the Chief Executive Officer, to decide on writing off our assets and loans, to submit proposals to the Annual General Meeting on the disposal of profit according to the Annual Accounts and to deal with any other business provided for in the Financial Undertakings Act at any time, or the Companies Act.

The Board of Directors elects a Chairman and a Vice-Chairman from among its members. The Chairman convenes Board Meetings. A meeting shall also be held if requested by a member of the Board of Directors, the Executive Directors or Executive Board. The presence of at least four Members of the Board is required to constitute a quorum. Any resolution submitted to a Board Meeting requires four votes to pass and bind the Company. All those who have the right to attend a meeting of the Board of Directors shall be entitled to have their comments and dissenting opinions entered in the minutes.

The Chief Executive Officers have charge of our day-to-day administration. The Chief Executive Officers shall be responsible for ensuring that our operations are in accordance with law, the Articles of Association and the decisions of the Board of Directors.

23.3. RIGHTS, PREFERENCES AND RESTRICTIONS OF SHARES

No privileges are attached to our shares. Shareholders are not required to submit to redemption of their shares. There are no restrictions regarding the sale or other assignment of our shares. Each share of one ISK carries one vote. Upon an increase of share capital shareholders are entitled to subscribe to new shares in direct proportion to their holdings.

23.4. ACTIONS NECESSARY TO CHANGE SHAREHOLDERS' RIGHTS

The Articles of Association do not specifically address actions necessary to change shareholders' rights. Such actions would generally require votes from 2/3 of the votes passed at a legally convened shareholders meeting and votes from shareholders holding at least 2/3 of the share capital, as provided under Article 93 of the Companies Act.

23.5. SHAREHOLDERS' MEETINGS

The Annual General Meeting shall be held before the end of the month of April each year. Other shareholders' meetings shall be called at the discretion of the Board of Directors, pursuant to the resolution of a meeting, or if the elected auditing firm or shareholders holding a minimum of 1/10 of our shares so request in writing and shall specify the business of the meeting. Shareholders' meetings shall be called with a minimum of one week's and a maximum of four weeks' notice by means of a notice on radio and in the daily press, specifying when and where admission tickets to the meeting and ballots will be distributed. Such distribution shall take place according to the further decision of the Board of Directors. A shareholders' meeting is valid if lawfully convened, without regard to the number of shareholders attending.

Any shareholder is entitled to have a specific matter addressed at a shareholders' meeting, providing such shareholder submits a written request to this effect to the Board of Directors no later than five business days before the start of the meeting. Notices of shareholders' meetings shall specify the business on the agenda of the meeting. At least one week before a shareholders' meeting, the agenda, finalised submissions and, in the case of an Annual General Meeting, the Annual Accounts, the Annual Report of the Board of Directors and the Auditors'

Report shall be laid open for inspection by the shareholders at the Company's offices, and at the same time sent to any registered shareholder who so requests.

The agenda of our Annual General Meeting shall include the following items of business: The report of the Board of Directors on our activities in the preceding year; our accounts for the preceding fiscal year; decision on the payment of dividends and disposal of the profit or loss of the Company during the preceding fiscal year; motions to amend the Articles of Associations of the Company, if submitted; elections to the Board of Directors; election of an auditing firm; decision on the remuneration of the Board of Directors for the coming electoral term; any other lawfully submitted business.

24. THE REPUBLIC OF ICELAND

24.1. ABOUT ICELAND

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 approximately 103,000 square kilometers and an exclusive 200 nautical mile economic zone of 758,000 square kilometers in the surrounding waters. Because of the Gulf Stream, Iceland enjoys a warmer climate than its northerly location would indicate.

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 International Monetary Fund and the World Bank. Iceland is also a member of the Organization for Economic Co-operation and Development and a number of other multinational organizations, including the Nordic Council and the Council of Europe. Iceland joined the European Free Trade Association ("EFTA") in 1970 and is a member of the European Economic Area, a 28-nation free-trade zone of the European Union and EFTA countries. Iceland is a contracting party to the General Agreement on Tariffs and Trade and ratified the agreement establishing the World Trade Organization ("WTO") in December 1994, thus becoming a founding member of the WTO.

24.2. THE ICELANDIC ECONOMY

Iceland's modern economic history spans approximately one century. In the early years of industrialization the economy was based primarily on fisheries and agriculture. Rapid developments in these areas formed the basis for improved living standards and a fundamental change in the economic structure. In recent decades the economy has diversified into the export of manufactured goods, process industries and a range of services for export and domestic use. At the same time, the marine sector has diversified significantly. Hence, the Icelandic economy has taken the shape of a modern industrial state.

With gross domestic product ("GDP") of around ISK 1,300 billion in 2007, the Icelandic economy is relatively small. However, the economy has experienced high growth in recent years and the per capita GDP in 2006 was the fourth highest worldwide that year. The economy relies on foreign trade and services in maintaining the high standard of living. Foreign direct investment ("FDI") in Iceland has been substantial in recent years, mostly related to the increase in aluminium smelting capacity utilizing Iceland's abundant renewable energy resources. Also, FDI abroad by Icelandic companies has been growing over the past few years as a result of financial liberalization and increased integration with the world economy. A high domestic investment level and rapidly growing private consumption due to easier access to credit in recent years, rising asset prices and increasing purchasing power have resulted in low private sector savings and the buildup of external imbalances.

Recently, interest rates and the rate of inflation in Iceland have been rising. The Central Bank of Iceland's policy interest rate has increased from 10.50%, yield rate, at December 31, 2005, to 14.25%, yield rate, at December 31, 2006, and as of November 1, 2007, 13.75%, nominal rate. As of May 16, 2007, the presentation of the Central Bank of Iceland's policy rate changed from being presented as yield rate to nominal rate therefore, on May 16, 2007, the policy rate changed from 14.25% yield rate (per year) to 13.30% nominal rate. On that date no actual change of policy interest rate occurred, only the presentation of the interest rate. The policy rate as of May 22, 2008 was 15.5%. Inflation has increased from 4.0% in 2005 to 6.8% in 2006, 5.1% in 2007 and is estimated to reach around 10% in 2008. In addition, Iceland's current account deficit in 2006 was approximately 25.7% of gross domestic product for 2006, although it fell to 15.6% of GDP in 2007. A widening interest rate differential has resulted in an appreciation of the ISK, which strengthened by 7.3% on a trade-weighted basis from December 31, 2006, to December 31, 2007. The ISK has depreciated by 23% in the first three months of 2008.

Iceland is endowed with rich fishing grounds in its exclusive 200 nautical mile economic zone. The marine sector, which includes fishing and fish processing, is of fundamental importance to the Icelandic economy. Iceland has developed a comprehensive fisheries management policy in order to manage its 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 particular marine species and method of processing involved, but also to marketing. Icelandic marine products have become 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 modest percentage of the country's vast hydro and geothermal resources has been exploited so far. Hence, the potential for large-scale development of the renewable energy 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 three aluminium smelters and a ferro-silicon plant. Large projects in power-intensive industries are currently in various stages of planning, with the scheduled start of these projects ranging from 2008 to 2010, subject to approval by the respective authority and increased availability of energy. These include the construction of a new aluminium smelter and the possible enlargement of existing plants, as well as diversification into other power-intensive industries. Smaller-scale manufacturing is also important and growing. This includes production of high technology and heavy equipment for fishing and fish processing, largely for exports, as well as other niche industries such as prosthetics and the manufacture of generic drugs. With the development of the economy, the share of services in Iceland's 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. The financial services sector has also enjoyed robust growth, contributing 10.2% of GDP in 2006 compared to 6% in 2000.

The following table shows certain economic indicators relating to Iceland in the years 2001 through 2007:

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Volume changes from previous year (%)							
Real GDP	3.9	0.1	2.4	7.7	7.1	4.2	3.8
Real exports of goods and services	7.4	3.8	1.6	8.4	7.2	-5.1	18.1
Real imports of goods and services	-9.1	-2.5	10.7	14.4	29.4	10.1	-1.4
Percentage changes on previous year							
Consumer price index (Y/Y) change	6.7	4.8	2.1	3.2	4.0	6.8	5.1
Effective price of non-ISK currency	20.1	-3.0	-6.0	-2.0	-10.3	11.7	4
Real exchange rate	-12.7	5.1	4.7	2.2	13.5	-6.4	5
Unemployment rate	1.4	2.5	3.4	3.1	2.1	1.3	1
Percentage of GDP							
Current account balance	-4.3	1.5	-4.8	-9.8	-16.2	-25.7	-15.3
Treasury revenue balance	-0.5	-1.3	-1.8	1.0	4.5	5.3	1.4

Sources: National Economic Institute, Ministry of Finance, Central Bank of Iceland and Glitnir banki hf.

24.3. FINANCIAL MARKETS IN ICELAND

The Icelandic financial system has been substantially reformed over the last decade. In particular, as a result of Iceland's membership in the EEA, legislation and regulations regarding credit institutions and other financial institutions have been conformed to the various regulations and directives of the European Union.

The three largest commercial banks in Iceland (based on market capitalisation), Glitnir banki hf., Landsbanki Íslands hf., and Kaupthing Bank hf., are all privately held credit institutions and provide conventional banking and securities services. There are 16 savings banks in Iceland, which mutually run a clearing bank, Icebank hf. (source & further information: FME overview of entities supervised by the FSA in Iceland, www. fme.is)

In addition, there are various investment banks along with mutual- and investment funds and 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 deposit banks has sharply risen since the last quarter of 2004.

There are thirteen insurance companies in the Icelandic insurance market (source & further information: FME overview of entities supervised by the FSA in Iceland, www.fme.is). Insurance companies are active in the financial market through their investment activities and, increasingly, through their lending operations. Pension funds represent the largest part of the financial system in Iceland. They receive payments from employers and employees and are the most important source of long-term finance in the country. The pension fund system is fully funded and, at the end of 2007, total assets of the system amounted to 130% of GDP for that year (source & further information: Central Bank of Iceland, Ecomony of Iceland 2007, www.sedlabanki.is). Membership in a pension fund is obligatory for wage earners and the self-employed and in addition, voluntary defined-contribution pension savings are encouraged by matching contributions from employers and a tax deferral scheme. These pension funds are independent non-government entities. They invest primarily in domestic bond issues, equity capital and foreign securities.

Since 1999, the FME has supervised 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 these institutions conduct their activities in accordance with the laws and regulations of Iceland.

The Central Bank of Iceland is responsible for implementing monetary policy consistent with the goal of maintaining price stability. The Central Bank imposes a reserve requirement on all commercial banks and savings banks, at present 2% of total disposable funds with a maturity of less than two years. As of April 1, 2003, the use of reserves as collateral in payment systems are limited to half the negotiated collateral amount. The purpose of this limitation is to ensure that credit institutions have sufficient margin on the reserve requirement account to meet fluctuations in their liquidity positions.

The Central Bank of Iceland raised its benchmark policy interest rate once during 2007 from 13.25% to 13.75%, the twentieth such interest rate increase since interest rates began to rise in May 2004. The Central Bank has raised its benchmark policy interest rate twice in 2008, from 13.75% to 15% and then to 15.5% as of April 10, 2008.

25. THE ICELANDIC SECURITIES MARKETS

25.1. THE ICELANDIC STOCK EXCHANGE

The OMX ICE is a stock exchange as defined by European Union Directives, which operates in accordance with the Icelandic Act No. 110/2007, on the Activities of Stock Exchanges. OMX ICE is a regulated market in Iceland, and the principal market on which shares, bonds and unit share certificates are officially listed and traded. The OMX ICE also operates First North which is an alternative marketplace for small growth companies.

Legislation adopted in 1998 converted OMX ICE into a limited liability company. At the same time, its monopoly on exchange activities was terminated. The OMX ICE operates under legislation as adopted on November 1, 2007. Currently, there are 27 members of the OMX ICE. Shares of 22 companies are listed on the OMX ICE Main Market, one company on the Alternative Market and three companies on First North as well as government securities and corporate bonds.

In addition to cooperating on various matters with foreign stock exchanges, OMX ICE is a member of the NOREX Alliance of Nordic stock exchanges, as well as a member of the Federation of European Securities Exchanges ("FESE").

25.2. THE TRADING SYSTEM

In 1989, OMX ICE (then Iceland Stock Exchange) launched its first trading system, allowing for continuous, order-driven and accept-based trading (meaning that all bids have to be accepted or one bid chosen over others, rather than an automatic matching system as is currently applied on the SAXESS trading system). SAXESS, the joint trading system of the NOREX Alliance, began operations in 2000. The OMX ICE joined the NOREX Alliance of Nordic exchanges in 2000, which included the adoption of the SAXESS trading system. Trading on SAXESS has always been electronic and all bids and offers are automatically matched to effect transactions when price, volume and other order conditions are met. OMX ICE has never had a traditional stock exchange floor. Only exchange members, as defined in Act No. 110/2007, may place orders and trade in OMX ICE's trading system.

25.3. MARKET SURVEILLANCE

OMX ICE and the FME are responsible for surveillance of the Icelandic securities market. The FME entrusts the OMX ICE with the review and endorsement of prospectuses for the listing of securities on OMX ICE and for public offerings by listed issuers or issuers who have applied for listing on OMX ICE. Through such activities, OMX ICE ensures that issuers operate in accordance with the Rules for Issuers of Securities Listed on OMX ICE and that OMX ICE members work in accordance with the NOREX Member Rules. OMX ICE is also obliged, under Act No. 110/2007, to inform the FME if it suspects any violations of securities market legislation. Should serious violations or recurring minor violations of these rules occur, the issuers or members concerned may be subject to fines by OMX ICE. In addition, the FME has an obligation of overall surveillance of the Icelandic securities market.

In March 2003, OMX ICE introduced an electronic trading surveillance system, resulting in harmonized market surveillance in all the NOREX exchanges. The rules on listing and disclosure requirements for issuers were thoroughly reviewed in 2003 and the resulting new rules for issuers came into effect on January 1, 2004. OMX ICE's emphasized strengthening market infrastructure, for example by changing the rules for inclusion of companies in the OMX ICE-15 index to increase the liquidity of shares, and creating new bond indices and the previously mentioned surveillance system. The current Listing Requirements, which entered into force on April 2, 2007 are harmonized between the Nordic Exchanges. The current Rules for Issuers of Securities Listed on OMX ICE came into effect on November 1, 2007.

OMX ICE's surveillance is primarily focused on supervision of issuers' disclosure requirements and supervision of trading on OMX ICE's trading system. OMX ICE is also obliged to monitor other aspects as specifically provided for by law, such as disclosure of major shareholdings, takeover rules and notifications of insider trading in listed securities.

25.4. REGISTRATION PROCESS

Our shares are registered in the account-based security system of ISD, and the register of our shareholders is kept by ISD. ISD is a central securities depositary authorized by the Ministry of Commerce and carries out, among other things, the duties of registrar for Icelandic companies listed on the OMX ICE. The ISD is a registry, depository and clearing house for the settlement of securities in dematerialized form.

ISD keeps a paperless share registration system. Share certificates may not be issued or endorsed for registered rights to an electronic share and any such attempted transactions are void. Registration of the ownership of an electronic share at the ISD, subsequent to a Securities Depository final entry, formally gives a registered owner legal authorization to the rights to which it is registered.

A printout from the ISD on the ownership of our shares is considered a valid registration of the shares. We consider the share registry as full proof of ownership to shares and the rights attaching to them. Dividends and all announcements to shareholders are sent to the party registered in our share registry as owner of the shares.

25.5. ICELANDIC TAKEOVER REGULATIONS AND DISCLOSURE OBLIGATIONS

According to the Security Act, no. 108/2007, if a party directly or indirectly acquires control of a limited liability company, which has obtained admission to trading for one or more classes of its shares on a regulated market, this party must, no later than four weeks after achieving such control, make a takeover bid to other shareholders in the undertaking to purchase their shares in the undertaking. Acquiring control means that the party concerned and any parties acting in concert with that party:

Have acquired a total of at least 40% of the voting rights in the undertaking;

Have the right, based on an agreement with other shareholders, to control at least 40% of the votes in the undertaking; or

Have acquired the right to appoint or dismiss a majority of the undertaking's Bord of Directors.

Parties shall be considered to be acting in concert if they have reached an agreement allowing one or more of them to acquire control, or on preventing a takeover from succeeding, whether this agreement is formal or informal, written, oral or otherwise.

An offeror must notify the regulated market of any decision on a bid without delay. The regulated market must make the notification public. Furthermore, the bid must be presented to the employees of the undertakings in question.

Where a holder of shares acquires or disposes of shares of an issuer whose shares have been admitted to trading on a regulated market, a notification must be sent in a verifiable manner to the issuer in question and to the FME if, as a result of the acquisition or disposal, the proportion of voting rights of the holder of shares reaches, exceeds or falls below the thresholds of: 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 50%, 66 2/3% and 90%. "Holder of shares" means any natural or legal person directly or indirectly holding:

Shares in the issuer in its own name and on its own account;

Shares in the issuer in its own name but on behalf of another natural person or legal person; or

Depository receipts, in which case the holder of the depository receipt shall be considered as the holder of the underlying shares represented by the depository receipt.

If the issuer increases or reduces its share capital or the number of voting rights, or a change in the proportion of voting rights results in those of the owner reaching, exceeding or falling below any of the thresholds listed in the above paragraph, the owner must send a notification to the issuer in question and to the FME.

26. TAXATION

26.1. CERTAIN ICELANDIC TAX CONSIDERATIONS

The following is a description of the relevant Icelandic tax consequences for shareholders, based on the rules and regulations in force at the date of the Registration Document. It is therefore subject to any changes in law occurring after such date. This discussion is meant to provide general guidelines and does not deal with all aspects that could be important for potential investors. It focuses on individual shareholding and shareholding of limited liability companies, and does not cover tax issues in other cases, for instance where shares are held as assets in business operations by individuals or by a partnership. The tax treatment for holders of shares depends in part on their particular circumstances. Each shareholder should therefore consult a tax advisor regarding the tax consequences which may arise for such person as a result of buying or selling shares in the Bank, including the applicability and effect of foreign income tax regulations and provisions contained in treaties to avoid withholding tax and double taxation. Foreign parties should obtain information on a possible double taxation treaty with the country of residence. If such a treaty has been made, the party should establish which country has the right to tax.

26.2. TAX CONSIDERATIONS FOR RESIDENTS OF ICELAND

Taxation of Dividends

For individuals, capital income such as dividends are taxed at the rate of 10%.

Dividends paid to limited liability companies constitute taxable income according to the Income Tax Act No. 90/2003. The same act however permits limited liability companies to deduct from their income, including their dividend income, any sum which they may have been paid in dividends. In fact received dividends are therefore not taxable for such shareholders.

We are obligated to withhold 10% tax on paid out dividends in the case of individuals and resident companies. Companies may have a deduction of the same amount as the dividends received and consequently there is no effective tax burden for companies (“dividend received deduction”). The 10% we withhold is in accordance with its legal responsibilities under law respecting withholding taxes. If the withholding tax is higher than levied tax, then the difference will be refunded upon assessment of tax returns.

Taxation on Realization of Shares

Capital gains from sale or other disposal of shares are taxable in Iceland pursuant to current laws. For individuals, capital gains are taxed as income from capital. The tax rate is 10%. Upon sale or other disposal of shares, the shareholder’s average acquisition costs for all shares of the same class and type will be used as the tax base on which the capital gain of the sale/disposal is calculated. Individuals can use losses from sale of shares in limited liability companies within the same calendar year and offset them against capital gains from sale of shares. Losses from sale of shares cannot be carried forward and offset against future capital gains from sale of shares.

All gains from sale or other disposal of shares are exempt from tax in the case of a limited liability company regardless of how long the company has owned the shares.

Losses from sales of shares cannot be carried forward as losses from regular activities.

Specific tax consequences may be applicable to certain categories of companies, such as mutual funds and holding companies.

Residents of Iceland are subject to income tax on their interest income in accordance with Icelandic tax law.

26.3. TAX CONSIDERATIONS FOR NON-RESIDENTS OF ICELAND

We are obligated to withhold 10% tax on dividends paid to individuals not residents of Iceland, absent treaty provisions to the contrary. The Bank is obligated to withhold 10% tax on dividends paid to foreign legal entities unless there is a tax treaty in place lowering the percentage. Qualified companies may apply for a reimbursement and/or an advance relief under relevant provisions in double taxation treaties.

Gains from the sale of shares in Icelandic companies are exempt from taxation in Iceland for legal entities within the EU/EEA area, however the capital tax rate for individuals is 10%, absent treaty provisions to the contrary. Icelandic brokers as well as Icelandic persons acting as intermediaries are required to withhold the tax from the sale price unless they have been furnished with the Director of Internal Revenue’s confirmation of the seller’s exemption from such taxation prior to the transaction. Residents of treaty countries can apply for formal confirmation of their exemption from such taxation from the Director of Internal Revenue.

All gains from sale or other disposal of shares are exempt from tax in the case of a limited liability company within the EU/EEA area and regardless of how long the company has owned the shares.

All gains from sale or other disposal of shares are subject to withholding tax of 15% in case of legal entities outside EU/EEU area.

Interest income of non-residents in Iceland is not taxable.

Stamp Duty on Share Transfers

The shares are subject to a one-time stamp duty within two months from issuing. Stamp duty has been paid for all issued shares. Sale or other disposal of shares is not subject to an Icelandic stamp duty.

27. FORWARD-LOOKING STATEMENTS

The Registration Document and the documents incorporated by reference herein contain forward-looking statements. Forward-looking statements are statements that are not historical facts. Examples of forward-looking statements include:

Statements regarding plans, objectives and expectations relating to future operations and services;

Statements regarding the impact of regulatory initiatives on our operations;

Statements regarding our share of new and existing markets;

Statements regarding general industry and macroeconomic growth rates and our 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, and we undertake no 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 our control. 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 others:

Local, regional and national business, political or economic conditions in Iceland, Norway and the other countries in which we operate may differ from those expected;

Changes in interest rates and foreign exchange rates;

Our ability to increase market share and control expenses;

The effects of competition among financial services companies in the businesses and countries in which we operate;

Systemic risk among financial institutions;

Increases in loan losses or allowances for loan losses;

Credit, market and liquidity risks that could adversely affect our credit ratings and our cost of funds;

Changes in laws and regulations;

Changes in accounting policies and practices, as may be adopted by regulatory agencies and the International Accounting Standards Board, that may affect expected financial reporting; and

The management of the risks involved in the foregoing.

If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual results may be materially different from those expressed or implied by such statements. See Chapter 1 - Risk Factors. We undertake no obligation, unless mandated by law, to update any forward-looking statement to reflect subsequent circumstances or events.

28. CERTAIN INFORMATION WITH RESPECT TO THE ADMISSION TO TRADING

This document comprises a Registration Document for the purposes of Directive 2003/71/EC (the "Prospectus Directive") which has been implemented into relevant Icelandic law. The Registration Document has been scrutinized by OMX ICE on behalf of the "FME". A copy of the Registration Document can be obtained from our headquarters at Kirkjusandur 2, 155 Reykjavík, Iceland. For the period of 12 months from the date of the Registration Document (lifetime of the document), the Registration Document will also be available on our website www.glitnir.is.

The Registration Document is not being distributed in, and must not be mailed or otherwise distributed or sent in or into any country in which distribution would require any additional registration measures or other measures to be taken, other than as applicable under Icelandic law and regulations, or would be in conflict with any law or regulation in such country. The distribution of the Registration Document and the offering and sale of securities in certain jurisdictions may be restricted by law. We require persons into whose possession the Registration Document comes to inform themselves about and to observe any such restrictions. The Registration Document does not constitute an offer of, or an invitation to purchase, securities in any jurisdiction in which such offer or sale would be unlawful.

No person is authorized to give information or to make any representation in connection with the convertible bonds issued and sold by us other than as contained in the Registration Document. If any such information is given or made, it must not be relied upon as having been authorized by us or any of our respective affiliates or advisers or selling agents. Neither the delivery of the Registration Document nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in the Registration Document is correct as of any date subsequent to the date hereof.

In making an investment decision, prospective investors must rely upon their own examination of our company and the terms of the Registration Document and Securities Note, including the risks involved.