



Securities Note



Icebank hf. (ICB 08 0312)

February 2008

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Securities Note

1 Risk factors

The Issuer considers the following factors may affect its ability to fulfil its obligations under the Bills and to be material for the purpose of assessing the market risks associated with the Bills. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

The Issuer considers the factors described below to represent the principal risks inherent in investing in the Bills, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bills may occur or arise for other reasons than those that the Issuer may currently be able to anticipate, and there may be other factors which are material to the market risks associated with Bills.

Issuer's accountability for making payments

The Issuer is accountable for making payments on the Bills when due. The obligations of the Issuer under the Bills are direct, unsecured, unconditional and unsubordinated obligations, equally ranked without any preference amongst themselves and equal to the Issuer's other direct, unsecured, unconditional and unsubordinated obligations.

The Issuer has not entered into any restrictive covenants in connection with the issuance of the Bills regarding its permission to incur additional indebtedness ranking equally to the obligations under or in connection with the Bills.

Change of law

The Terms and Conditions of the Bills are based on Icelandic law in effect on the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change in Icelandic law or administrative practice after the date of this Prospectus.

The secondary market

The Bills may not have established a trading market when listed, and such a market may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bills easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

The Bills may not be a suitable investment for all investors.

Each investor in the Bills must determine the suitability of the investment in light of his own circumstances. In particular, each potential investor should:

1. Have sufficient knowledge and experience to make a meaningful evaluation of the Bills.
2. Understand the merits and risks of investing in the Bills and the information contained in this Prospectus. Potential investors should familiarize themselves thoroughly with this Prospectus.
3. Have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bills and the impact the Bills will have on its overall investment portfolio.
4. Have sufficient financial resources and liquidity to bear all of the risks of investing in the Bills.
5. Understand thoroughly the terms of the Bills and be familiar with the behaviour of any relevant indices and financial markets.
6. Be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

2 Notice to investors

This Securities Note concerns the listing of Bills issued by Icebank hf. and listed and admitted to trading on OMX Nordic Exchange Iceland hf. (OMX ICE). The trading is conducted in accordance with Icelandic law and regulations, including Act No. 108/2007 on Securities Transactions, Directive 2003/71/EC of the European Parliament and of the Council 4 November 2003 (the “Prospectus Directive”) which has been implemented by national law. This Securities Note is prepared pursuant to current legislation and rules for issuers on OMX ICE that apply to the trading.

OMX ICE has scrutinized and approved this Securities Note, which is published only in English. This Securities Note, the Registration Document published 6 March 2007 form a Prospectus according to Directive 2003/71 of the European Parliament.

This Securities Note has been prepared by Icebank, Legal Services in cooperation with the CEO and the Managing Director of Treasury and Capital Markets Division of Icebank.

In the Securities Note, “Icebank”, “the Bank” and the “the Issuer” refer to Icebank hf., and “OMX ICE” refers to the OMX Nordic Exchange Iceland hf, unless otherwise indicated by the wording or context.

Icebank is listed on OMX ICE as a Bills issuer with the ticker symbol ICB and complies with OMX ICE rules regarding on-going information disclosure for Bill issuers.

The purchase of Bills is inherently a risk investment. Investors are advised to familiarize themselves thoroughly with this Securities Note, the Registration Document published 6 March 2007 which together form the Prospectus. The information presented in this Securities Note reflects its date of issue. Each investor must base any decision to invest in Bills issued by Icebank on his own examination and analysis of the information presented in the Securities Note. Investors are advised to study their legal position, including taxation issues that may be relevant to their transactions involving the Bills. Investors are urged especially to acquaint themselves well with the discussion of risk in Chapter 1 of this Securities Note as well as the discussion of risk in the aforementioned Registration Document.

This Securities Note and any document forming a part of the Prospectus shall not be distributed or mailed or otherwise disseminated or sent in or into any country where distribution would require additional registration measures or any measures other than those required under Icelandic law and regulations, or where they would conflict with any law or regulation.

3 Persons responsible

Icebank hf., in its capacity as the issuer and the manager, Icelandic ID-No. 681086-1379, registered office at Raudararstigur 27, 105 Reykjavik, hereby declares that having taken all reasonable care to ensure that such is the case, the information contained in the prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 27 February 2008

On behalf of the Issuer

Agnar Hansson,
CEO and
Managing Director of Treasury and
Capital Markets Division

Ólafur S. Ottósson
Deputy CEO

4 Information concerning the securities to be admitted to trading

Authorisation

The Board of Directors of Icebank hf., Raudarárstígur 27, 105 Reykjavík, ID No. 681086-1379, authorised at a board meeting held on 20 November 2007 the issuance of up to 12 groups of Bills for a maximum amount of ISK 3,000,000,000 in each group.

Issue and Bill characteristics

The Bills bear no interest and are not indexed. The Bills will be traded on OMX ICE. The Bills are registered electronically in the Icelandic Securities Depository in the name of the each respective Billholder or his/her nominee. The group of the Bills has the following ticker Symbol, Issuing Date, Maturity Date, ISIN number and Issued Amount:

Ticker symbol	Date of Issue	Maturity Date	ISIN nr.	Issued Amount ISK	Admitted to trading
ICB 08 0312	03.12.2007	12.03.2008	IS0000016483	3,000,000,000	29.02.2008

Total amount being admitted to trading on OMX ICE on 29.02.2008 is ISK 270,000,000 nominal value.

Amounts payable under the Bills will be paid to the financial institution where the registered owner has his/her custody account.

The Bills constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Date of issue:	The issue of the Bills took place on 3 December 2007.
Issued amount:	The issued amount is ISK 3,000,000,000.
Denomination:	ISK 5,000,000.
Currency:	ISK.
Interest rate:	The Bills bear no interest.
Indication of Yield:	15.66%.
Calculation agent:	Icebank.
Depository Agent:	Icelandic Securities Depository (ISD), Laugavegur 182, 105 Reykjavik.
Paying Agent:	Icebank.
Method of payment:	All amounts payable under the Bills will be paid to the relevant financial institution where the registered owner has his/her custody account.

Restrictions on transfer:

There are no restrictions on transferring the Bills to other parties, except that the Bills must be transferred to parties referred to by name.

Event of default, acceleration and enforcement

In the event of default the Issuer shall pay default interest at the rate determined by the Central Bank of Iceland, cf. paragraph 1, article 6 of Act no. 38/2001.

Prescription

All claims according to the Bills against the acceptor expire three years after maturity, cf. paragraph 1, article 70 of Act no. 93/1933 on Bills.

Taxation

All payments by the Issuer in respect of the Bills will be made without withholding or deduction for or in connection with any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any tax jurisdiction unless such withholding or deduction is required by law. In such an event, the Issuer will not pay any additional amounts in respect of amounts withheld pursuant to such withholding or deduction requirements.

Governing law

The governing law is Icelandic law. The Issuer irrevocably agrees that any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavík.

Legal action regarding the Bills may be taken in accordance with Chapter 17 of the Act on Civil Procedure No. 91/1991.

The issued bills are governed by Act no. 93/1933 on Bills, as appropriate, cf. article 35 of Act No. 131/1997 on Electronic Registration of Title to Securities.

Expenses of the admission to trading

The total expenses related to the admission to trading of the Bills amount to ISK 450,000 according to the OMX ICE fee structure. Annual expenses because of this trading will be fixed fee of ISK 55,000 for the group plus a variable fee of 0.001% of the market value of the Bills according to OMX ICE fee structure. The estimated cost payable to the ISD is ISK 45,000.

5 Informations concerning the Issuer

Financial results

Icebank published its 2007 results on 5 February 2008. Icebank's after-tax profit was ISK 1,616 million and return on equity after taxes was 13.5%. Net interest income was up 87% in the year to ISK 2,341 million and was substantially higher than operating expenses. Total assets almost tripled to ISK 252.5 billion at the end of the year. Exposure to structured credit obligations (such as CDOs, SIVs and CLOs) is within 3% of total assets. These assets are not related to sub-prime loans. The capital adequacy ratio (CAD) stood at 11.0% at year-end. The Tier 1 capital ratio was 15.2%.

In May 2007 the Bank raised a syndicated loan amounting to EUR 217.5 million, its largest syndicated loan facility to date. The loan amount was EUR 117.5 million higher than the initial launch amount. The loan had a very positive impact on Icebank's liquidity position, as the Bank had no need to turn to the credit market in the latter half of the year when markets tightened.

Icebank was not immune to the turmoil in stock markets, being a shareholder in Exista. The Bank divested one-fourth of its holding in the company in the first quarter of the year 2007. At year-end 2007 its stake in Exista was down to 2.5%. The Bank has also entered into derivative contracts which provided hedging positions against unfavourable price development.

Total assets were up by 190% in 2007 to ISK 252.5 billion at year-end 2007, compared with ISK 86.9 billion a year earlier. This growth was largely driven by increased interbank trading with other financial institutions and repo transactions with the Central Bank.

Significant change in the issuer's financial or trading position

The CEO and the Deputy CEO on behalf of the Issuer hereby declare that no significant change in the financial or trading position of the Issuer has occurred since the release of the financial statement of Icebank for the year 2007. Icebank's 2.5% stake in Exista has, however, continued to impair during the two first months of 2008 with the price per share decreasing in value from 19,80 per share by year-end 2007 to 12,25 by 26.02.2008 or some 38%. Although Icebank's EUR 217.5 million syndicated loan in May 2007 had a very positive impact on the Bank's liquidity position, the currently prevailing liquidity squeeze in the financial markets has had a negative impact.

Documents incorporated by reference

The financial statement of Icebank for the year 2007 should be deemed to be incorporated into the prospectus by reference.

Documents on display

The financial statement of Icebank for year 2007 can be obtained from the Bank's website, www.icebank.is and at the Issuer's head office, Raudarárstígur 27, 105 Reykjavík.

Change in Icebank Ownership

As was announced on the OMX Nordic Exchange on 12 October 2007 and in the Securities Notes in December 2007, the two largest shareholders in Icebank, BYR Savings Bank and Reykjavík Savings Bank (SPRON), decided to reduce their holdings in Icebank to 4% each. Furthermore, three smaller

savings banks decided to sell their total holdings in the Bank. Buyers include the Keflavík Savings Bank (SpKef), Mýrasýsla Savings Bank (SPM), Bolungarvík Savings Bank, Svarfdælir Savings Bank, Vestamannaeyjar Savings Bank, the senior management of the Bank and investors. The transactions were conditional on the consent of foreign lenders to a change in ownership and the consent was obtained in November 2007. The savings banks continue to hold a majority share of 57.3% in the Bank but the abolishment of all restrictions on ownership in the Bank's Articles of Association and the broadening of the ownership base represent a significant step in the development of the Bank and its further expansion into the domestic and foreign markets.

Acquisition of Behrens Corporate Finance

Another significant step in the development of the Bank was the Bank's purchase of all the shares in Behrens Corporate Finance as was announced on the OMX Nordic Exchange on 17 October 2007 and in the Securities Notes in December 2007. The company's business activities will be merged into the Bank's operations. Behrens runs a corporate finance advisory in Iceland and the Baltic States, where the company has been among the leading players. The firm has also undertaken projects in other Eastern European countries, such as the Czech Republic, Serbia and Rumania. The company has operations in Reykjavík, Iceland, in Riga, Latvia, and in Vilnius, Lithuania. It employs a team of twelve employees, of which six are based outside Iceland. All employees of Behrens have become a part of Icebank's team.

Changes in Icebank's Management and Organization

At year-end 2007 the board engaged Agnar Hansson as the new CEO. The Bank's strategic mission remains unchanged; Icebank is a commercial bank focusing on wholesale and investment banking services to savings banks, Icelandic and foreign financial institutions and other large entities.

Agnar Hansson has been Manager of Icebank's Treasury and Capital Markets division for the past two years, and has over 10 years' experience of work in the financial sector. He was involved in the development of FBA Bank (Fjárfestingarbanki atvinnulífsins) and was the first Dean of the School of Business at Reykjavík University. Born in 1965, Agnar holds a Cand. Scient. Oecon. degree from the University of Århus, Denmark.

In the beginning of 2008 the Organisation of the Bank changed. A new profit centre, Investment Banking, has been added. Investment Banking provides Icebank's customers with services relating to sales and acquisitions of businesses in Iceland and abroad, focusing on investment opportunities in Eastern Europe. Also, the Bank's Operations division has been split up, and a new division, Finance and Information Technology, as been introduced.

Adalsteinn Jóhannsson has been appointed Managing Director of Icebank's Investment Banking division. Adalsteinn was one of the two founders of Behrens Corporate Finance hf, which Icebank acquired last autumn. Behrens Corporate Finance has in recent years carved out a foothold for itself in advisory services in sales and acquisitions of companies in Iceland and the Baltic States, where the company has been among the leading players. Prior to the establishment of Behrens Corporate Finance hf., Adalsteinn's career included work as investment manager at the Iceland Software Fund. Adalsteinn graduated as a business economist from the University of Reykjavik in 2001.

Sveinn Andri Sveinsson has been appointed Managing Director of Icebank's Finance and IT division. Sveinn Andri has been managing director of Hands Holding hf. since December 2006, a holding company in the IT sector with business activities in five countries. Before joining Hands Holding, Sveinn Andri was Chief Financial Officer at EJS, an IT company, and part of that time he served as CEO of EJS Group. Sveinn Andri was Chief Financial Officer at the media company Nordurljós and the Icelandic Broadcasting Company from 1996. Before that time, he worked at KPMG and the Connecticut Bank and Trust and taught at the Iceland Commercial College. Sveinn Andri is a business economist and graduated from the Faculty of Economics and Business Administration of the University of Iceland in 1988.

The new Icebank's Organization is following on the next page:

