



# **SECURITIES NOTE**

FL GROUP HF.  
JUNE 2007



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

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# 1. Risk Factors

The Issuer believes that the following factors may affect its ability to fulfil its obligations under 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.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bills are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Bills but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Bills may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate.

## **Risks Relating to the Bills**

Set out below is a brief description of certain risks relating to the Bills generally:

### **Issuer's liability to make payments under the Bills**

The Issuer is liable to make payments when due on the Bills. The obligations of the Issuer under the Bills are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other direct, unsecured, unconditional and unsubordinated obligations (save for any obligations required to be preferred by law).

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

### ***No Prior Public Market***

The Bills constitute a new issue of Bills. Prior to listing, there has been no public market for the Bills. Although application has been made to admit the Bills to trading on the regulated Market of the ICEX, there can be no assurance that an active public market for the Bills will develop and, if such a market were to develop, the Manager is under no obligation to maintain such a market. The liquidity and the market prices for the Bills can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect the liquidity and the market prices of the Bills, which may trade at a discount to the price at which a purchaser purchased the Bills.

### ***An investment in the Bills may not be suitable for all prospective investors***

The Bills are not suitable investments for all investors. In particular, prospective investors should not purchase the Bills unless they have sufficient knowledge and experience to make meaningful evaluation of the credit, liquidity and market risks associated with the Bills.

Prospective investors should possess, either alone or together with an investment advisor, the expertise necessary to evaluate the information contained in this Securities Note in the context of its financial situation and tolerance for risk. Potential investors should carefully consider, among other things, the factors described in this section before purchasing the Bills.

### ***Change of law***

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

## 2. Person responsible

FL Group hf., in its capacity as the Issuer, Icelandic ID-No. 601273-0129, registered office at Suðurlandsbraut 12, 108 Reykjavík, Iceland, hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

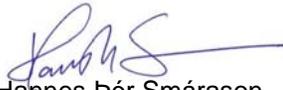
Reykjavík 28 June 2007

On behalf of the Issuer



Jón Ásgeir Jóhannesson

Chairman of the board



Hannes Þór Smáráson

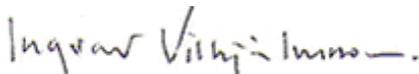
CEO

## 3. Manager

The Manager, Kaupthing Bank hf. – Capital Markets division, Icelandic ID-No. 560882-0419, registered office at Borgartun 19, 105 Reykjavík, Iceland has been the advisor to the Issuer in the preparation of this Securities Note. The Manager has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager as to the accuracy or completeness of the information contained or incorporated in this document or any other information provided by the Issuer in connection with the Bills of Exchange ("Bills"). The Manager does not accept any liability in relation to the information contained or incorporated by reference in this document or any other information provided by the Issuer in connection with the Bills.

Reykjavik, 28 June 2007

On behalf of the Manager



Ingvar Vilhjálmsson

Managing Director



Stefán Ákason

Head of Fixed Income Sales

## **4. References and Glossary of Terms and Abbreviations**

References to the "Issuer", "FL Group" and "the Company" in this Securities Note shall be construed as referring to FL Group hf., Icelandic ID-No. 601273-0129, unless otherwise clear from the context, and its subsidiaries and affiliates, unless otherwise clear from the context. Exista hf. is the legal Icelandic name of the Issuer.

References to "ICEX" in this Securities Note shall be construed as referring to the Iceland Stock Exchange, i.e. to Kauphöll Íslands hf., Icelandic ID-No. 681298-2829, unless otherwise clear from the context. References to the "admission to trading" and the "admission to trading on a regulated market" in this Securities Note shall be construed as referring to the admission to trading on the bond market of the Iceland Stock Exchange, unless otherwise clear from the context.

References to "ISD" in this Securities Note shall be construed as referring to the Icelandic Securities Depository, i.e. to Verðbréfaskráning Íslands hf., Icelandic ID-No. 500797-3209, Laugavegur 182, 105 Reykjavík, unless otherwise clear from the context.

References to the "Manager" in this Securities Note shall be construed as referring to Kaupthing Bank hf. – Capital markets division, Icelandic ID-No. 560882-0419, unless otherwise clear from the context.

References to the "Bills" in this Securities Note shall be construed as referring to the Bills of Exchange issue of ISK 5,000,000,000 which is described in this Securities Note, unless otherwise clear from the context

## **5. Notice to Investors**

In making an investment decision, potential investors should carefully consider the merits and risks of an investment in the Bills and carefully review the terms and conditions of the Bills described under issue and Bills characteristics.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Securities Note or any other information supplied in connection with the Bills and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Manager.

Neither this Securities Note nor any other information supplied in connection with the Bills (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or the Manager that any recipient of this Securities Note or any other information supplied in connection with the Bills should purchase any Bills. Each investor contemplating purchasing any Bills should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Securities Note nor any other information supplied in connection with the Issuer constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase any Bills.

Neither the delivery of this Securities Note nor the offering, sale or delivery of any Bills shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Bills is correct as of any time subsequent to the date indicated in the document containing the same. The Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Bills or to advise any investor in the Bills of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Securities Note when deciding whether or not to purchase any Bills.

The Bills have not been and will not be registered under the United States Securities Act of 1933,

as amended (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bills may not be offered, sold or delivered within the United States or to U.S. persons.

## 6. Key information

The Issuer's and the Bank's interests are connected in the following manner:

- At 27 June 2007 Kaupthing held 0.29% of the total issued share capital in FL Group.
- At 27 June 2007 FL Group held 0.34 % of the total issued share capital in Kaupthing Bank. The holding is a trading position.
- FL Group is a customer of Kaupthing Bank's Investment Banking, Capital Markets and Corporate Banking divisions.
- Kaupthing Bank is among FL Groups largest creditors.

## 7. Information concerning the securities to be admitted to trading

### **Authorisation**

The board of FL Group authorised a bill issue for at least ISK 5,000,000,000 on a board meeting held 26 January 2006. This Issuer has at the date of this Securities Note issued bills amounting in total to ISK 5,000,000,000 under FL 07 1112.

### **Issue and Bill characteristics**

The Bills bear no interest and are not indexed. The Bills are registered electronically at the Icelandic Securities Depository and are registered there under the name of the relevant billholder or his/her nominee. The Bills are all in the same class, and the ticker symbol on ICEX will be FL 07 1112.

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:	13 November 2006
Nominal amount:	ISK 5,000,000,000
Issued amount:	ISK 5,000,000,000
Denomination:	ISK 5,000,000
Currency:	ISK
Interest rates:	The Bills bear no interest.
Indication of yield:	15,30%
Calculation agent:	Kaupthing Bank hf.
Maturity date:	The date of maturity is 12 November 2007. Repayment is made on the aforementioned maturity date. It is not permitted to bring forward the

repayment of the Bills.

Method of payment: All amounts payable under the Bills will be paid to relevant financial institution where the registered owner has his/her VS account.

Restrictions on transfer: There are no restrictions on transferring the Bills to other parties.

ISIN code: IS0000013654

### ***Event of Default, Acceleration and Enforcement***

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

### ***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 (Héraðsdómur Reykjavíkur).

Legal action regarding the Bills may be proceeded with in accordance with Chapter 17 of the Act on Civil Procedure No. 91/1991 (Lög um meðferð einkamála).

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.

### ***Admission to trading***

Application has been made to the Icelandic Stock Exchange (the **ICEX**) as the competent authority in Iceland for the purpose of Directive 2003/71/EC (the **Prospectus Directive**), the Icelandic law no 33/2003, as amended and the relevant regulations based on the law for approval of this Securities Note. Application has also been made for the Bills to be admitted to trading on the regulated market of the ICEX, which is an EU regulated market within the meaning of Directive 2004/39/EC (the **regulated market of the Iceland Stock Exchange**), and to be listed on the Official List of the Iceland Stock Exchange.

The Bills will be admitted to trading on the Iceland Stock Exchange, 29 June 2007.

### ***Expenses of the admission to trading***

The expenses related the listing of the Bills ISK 450,000 according to ICEX fee structure. Annual expenses because of this listing will be fixed fee of ISK 165,000 plus a variable fee of 0.001% of the market value of the Bills according to ICEX fee structure. The estimated cost at the ISD is ISK 120,000. The Issuers cost relating to the preparation of the Prospectus is ISK 250,000.