## AGREEMENT REACHED WITH ISLANDSBANKI AND MINISTRY OF FINANCE ON COMPENSATION INSTRUMENTS

On September 13, 2009 the Resolution Committee (the "Resolution Committee") of Glitnir banki hf. ("Glitnir") concluded its negotiations with Islandsbanki hf. ("Islandsbanki") and the Ministry of Finance of Iceland (the "Ministry of Finance") regarding the form of the compensation instruments (the "Instruments") to be issued to Glitnir.

The Instruments will be held by Glitnir and will be among its principal assets. Glitnir's creditors will have an interest in the Instruments through their claim on Glitnir. Brief details of the nature of the Instruments are described below. Further details of the arrangements will be provided to creditors over the next few days and at the open creditors' meeting to be held in Reykjavik on September 22, 2009.

**Outline of the Proposal**

On August 14, 2009, the Icelandic government provided capitalization to Islandsbanki with approximately ISK 65 billion of Tier 1 capital in the form of Icelandic government bonds, giving Islandsbanki a core Tier 1 ratio of approximately 12%. Such capitalization was made pending the completion of the joint capitalization or alternative capitalization alternatives described below.

The documentation executed on September 13, 2009 provides Glitnir with two alternative compensation structures:

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

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

**The Joint Capitalization Option**

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

Upon completion of the JCA, Islandsbanki will transfer to Glitnir Icelandic government bonds (which were transferred to it by the Icelandic government in consideration for the capitalization of Islandsbanki referred to above). In return Glitnir will cancel Bond A, Bond B and Bond C and the Equity Option.

- Glitnir will use the Icelandic government bonds to acquire 9.5 billion ordinary shares in Islandsbanki from the Icelandic government, representing 95% of Islandsbanki's issued share capital.

- During the period between the parties signing the JCA and its completion, certain matters, including material disposals or changes in business, will require the consent of Glitnir or a director nominated by it.
- The Ministry of Finance, Islandsbanki and Glitnir will enter into a shareholders' agreement giving the Ministry of Finance certain rights in respect of its minority holding.
- The Ministry of Finance will provide capital of ISK 25 billion through ten-year Tier II capital instruments denominated in Euros and issued by Islandsbanki.
  - The Icelandic government through lending of government bonds will make available to Islandsbanki an ISK 25 billion liquidity facility.

**The Alternative Capitalization Option**

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

*Bond A, Bond B and Bond C*

- Pursuant to a Bond Issue Agreement to be entered into between Glitnir and Islandsbanki, Islandsbanki agrees to issue Bond A, Bond B and Bond C to Glitnir upon the completion of the ACA.
- Bond A has an aggregate principal amount of EUR 346,182,012 (being the Euro equivalent of ISK52 billion as at October 2008).
- Bond B and Bond C will initially not have a principal amount inserted but will be transferred to an Escrow Agent pending the revaluation mechanism described below.
- The revaluation mechanism in respect of Bond B and Bond C are designed to capture 90% of any increases in Islandsbanki's equity above ISK risk free return + 4% up to a maximum of ISK 80 billion during the revaluation period from January 1, 2009 to December 31, 2011.
- An interim valuation to be made on March 31, 2009 by reference to the financial year ended December 31, 2009 will result in the principal amount of Bond C being revalued in an amount up to ISK17 billion with effect from December 31, 2009. Such amount will be converted into Euros at then prevailing exchange rates.
- The final valuation to be made on March 31, 2012 by reference to the financial year ended December 31, 2011 will result in the principal amount of Bond B being issued in an amount up to ISK 80 billion less the principal amount of Bond C with effect from December 31, 2011. Such amount will be converted into Euros at then prevailing exchange rates.

- The final maturity date of all the Bonds will be October 15, 2015. Principal in respect of the Bonds will be payable in 12 equal quarterly instalments commencing on January 15, 2013.

- Interest is payable on all Bonds quarterly at EURIBOR plus 3% with a step-up in the margin to 4% after October 15, 2011.

- The Bonds may be redeemed prior to their final maturity following the Icelandic Government ceasing to hold more than 50% of the voting shares of Islandsbanki or upon the occurrence of certain events of default.

- The bonds are initially structured as domestic Icelandic bonds but can be converted into marketable Eurobonds at the option of the holders.

- All of the Bonds will have the benefit of security to be granted by Islandsbanki designed to ensure that bondholders' recovery is on a pari passu basis with depositors in the event of an insolvency of Islandsbanki.

*Equity Option*

In addition to the Bonds, the Ministry of Finance will also issue an equity option to Glitnir the principal features of which are as follows:

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

- The option is granted by the Icelandic government.

- The purchase price is based on a value per share representing the initial government investment plus an " ISK risk free" rate plus 5%.

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