Base Prospectus

Íslandsbanki hf.

(*incorporated with limited liability in Iceland*)

U.S.$750,000,000
Global Medium Term Note Programme

Under the U.S.$750,000,000 Global Medium Term Note Programme (the **Programme**) described in this base prospectus (the **Base Prospectus**), Íslandsbanki hf. (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively, **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$750,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement (as defined herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*". Without prejudice to the other risks described in "*Risk Factors*", potential investors should note that:

- **under current Icelandic law, Noteholders will rank behind certain depositors of the Issuer in a winding-up of the Issuer, as further described under "*Risk Factors – The claims of Noteholders will be subordinated to the claims of certain of the Issuer's depositors*" and Condition 3 of the Terms and Conditions of the Notes; and**

- **as a result of capital controls currently in force in Iceland, any prepayment or early redemption of Notes (including any payment acceleration following the occurrence of an Event of Default) will be subject to the Issuer obtaining an exemption from such capital controls from the Central Bank of Iceland in respect of payment by the Issuer of the redemption amount thereof, as further described under "*Risk Factors – Existing capital controls in force in Iceland may prevent the Issuer from redeeming Notes prior to their scheduled maturity, including in circumstances where an Event of Default has occurred and a Noteholder has accelerated repayment of the Notes*" and Condition 10 of the Terms and Conditions of the Notes.**

This Base Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive (as defined below). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (**EU**) law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive** or **MiFID**) and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the official list of the Irish Stock Exchange (the **Official List**) and to trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of MiFID. Reference in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Main Securities Market.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer has senior unsecured debt ratings of BB+ (long term debt) and B (short term debt) from Standard & Poor's Credit Market Services Europe Limited, UK, Filial Sweden (**S&P**) as at the date of this Base Prospectus. S&P is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. The Programme is also rated by S&P, with Notes maturing in one year or more assigned a rating of BB+, and Notes maturing in less than one year assigned a rating of B. Notes issued under the Programme may be rated or unrated by S&P or by another rating agency. Where a Tranche of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The requirement to publish a prospectus under the Prospectus Directive only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in any Member State of the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). References in this Base Prospectus to **Exempt Notes** are to Notes for which no prospectus is required to be published under the Prospectus Directive. The Central Bank of Ireland has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or any U.S. state securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (**Regulation S**) under the Securities Act and within the United States only (i) to persons who are "qualified institutional buyers" (**QIBs**) in reliance on Rule 144A (**Rule 144A**) under the Securities Act or (ii) to persons who are "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (**Institutional Accredited Investors**) and who execute and deliver an IAI Investment Letter (as defined in "*Terms and Conditions of the Notes*") in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

Arranger

BofA Merrill Lynch

Dealers

Barclays	**BNP PARIBAS**
BofA Merrill Lynch	**Citigroup**
Deutsche Bank	**J.P. Morgan**
Nomura	**UBS Investment Bank**

The date of this Base Prospectus is 11 June 2014.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the Prospectus Directive).

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms or Pricing Supplement for each Tranche (as defined under *"Terms and Condition of the Notes"*) of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information in the section entitled "*Book-Entry Clearance Systems*" on pages 130 to 133 has been extracted from information provided by the clearing systems referred to therein. In addition, certain information in the sections entitled "*The Republic of Iceland*" and "*Financial Markets in Iceland*" on pages 123 to 129 has been extracted from publications by the National Economic Institute, the Ministry of Finance and the Central Bank of Iceland, where indicated as such. The Issuer confirms that, in each case, such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

In relation to any Tranche, the aggregate nominal amount of the Notes of such Tranche, the interest (if any) payable in respect of the Notes of such Tranche, the issue price and certain other information which is relevant to such Tranche will be set out in a final terms document (Final Terms) or, in the case of Exempt Notes, a pricing supplement (Pricing Supplement) substantially in the form set out under "*Form of Final Terms*" and "*Form of Pricing Supplement*", respectively, below.

In relation to Notes to be listed on the Irish Stock Exchange, the Final Terms will be filed with the Central Bank of Ireland on or before the date of issue of the Notes of such Tranche. Copies of Final Terms relating to Notes listed on the Irish Stock Exchange will be published on the website of the Central Bank of Ireland at http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx and on the website of the Irish Stock Exchange at www.ise.ie. Copies of Final Terms will also be available from the registered office of the Issuer and from the offices of the Principal Paying Agent (as defined below).

The Dealers have 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 Dealers as to the accuracy or completeness of the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

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 Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be

considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes 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 Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and Iceland), the People's Republic of China, Hong Kong, Singapore, Switzerland and Japan, see "*Subscription and Sale and Transfer and Selling Restrictions*".

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Notes may not be a suitable investment for all investors. Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

(a) has sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;

(d) understands thoroughly the terms of the relevant Notes and is familiar with the behaviour of financial markets; and

(e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

None of the Dealers and the Issuer makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs and Institutional Accredited Investors (each as defined under "*Form of the Notes*") for informational use solely in connection with the consideration of the purchase of certain Notes issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by United States Treasury regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and the United States Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs or to Institutional Accredited Investors, in either case in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act (Rule 144A) or any other applicable exemption.

Each U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Purchasers of Definitive IAI Registered Notes will be required to execute and deliver an IAI Investment Letter (as defined under "*Terms and Conditions of the Notes*"). Each purchaser or holder of Definitive IAI Registered Notes, Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together Legended Notes) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in a deed poll dated 20 June 2013 (the Deed Poll) to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the Exchange Act) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a corporation organised under the laws of Iceland. All of the officers and directors named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside Iceland upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Iceland predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Icelandic law, including any judgment predicated upon United States federal securities laws.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the consolidated financial information of the Issuer as of and for the years ended 31 December 2013, 2012 and 2011 included in this Base Prospectus has been derived from the audited consolidated annual financial statements of the Issuer as of and for the years ended 31 December 2013, 2012 and 2011 (together, the Annual Financial Statements), which have been incorporated by reference in this Base Prospectus. Additionally, the consolidated income statement information of the Issuer for the three months ended 31 March 2014 and 2013 and the consolidated statement of financial position information as of 31 March 2014 included in this Base Prospectus have been derived from the unaudited consolidated interim financial statements of the Issuer as of and for the three months ended 31 March 2014 (the Interim Financial Statements), incorporated by reference in this Base Prospectus.

The Issuer's financial year ends on 31 December, and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The unaudited consolidated interim financial statements of the Issuer as of and for the three months ended 31 March 2014 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (IAS 34).

Certain Defined Terms and Conventions

Capitalised terms which are used but not defined in any particular section of this Base Prospectus will have the meaning attributed thereto in "*Terms and Conditions of the Notes*" or any other section of this Base Prospectus.

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

All references in this document to *U.S. dollars, U.S.$* and *$* refer to United States dollars; to *Sterling* and £ refer to pounds sterling; and to *ISK, króna* or *krónur* refer to the currency of Iceland. In addition, all references to *euro* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of the Issuer*" and other sections of this Base Prospectus. The Issuer has based these forward looking statements on the current view of its management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this Base Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted.

The risks and uncertainties referred to above include:

- **the Issuer's ability to achieve and manage the growth of its business;**
- **the performance of the markets in Iceland and the wider region in which the Issuer operates;**
- **the Issuer's ability to realise the benefits it expects from existing and future projects and investments it is undertaking or plans to or may undertake;**
- **the Issuer's ability to obtain external financing or maintain sufficient capital to fund its existing and future investments and projects;**
- **changes in political, social, legal or economic conditions in the markets in which the Issuer and its customers operate; and**
- **actions taken by the Issuer's joint venture partners that may not be in accordance with its policies and objectives.**

Any forward looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems to be non-material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.

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

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme

Set forth below are certain risks that could materially adversely affect the Issuer's future business, operating results or financial condition.

Existing capital controls in force in Iceland may prevent the Issuer from redeeming Notes prior to their scheduled maturity, including in circumstances where an Event of Default has occurred and a Noteholder has accelerated repayment of the Notes

Articles 13.e(5) and 13.j(8) of the Act on Foreign Exchange No. 87/1992 (the **Act on Foreign Exchange**) stipulate that cross-border capital movement for prepayment of financial instruments is prohibited. This effectively means that, in respect of any Notes, any early redemption of such Notes pursuant to the Terms and Conditions thereof, for example, following the occurrence of an Event of Default where a Noteholder has accelerated repayment of the Notes or an early redemption for taxation reasons, is prohibited. Therefore, as long as the Act on Foreign Exchange is in place or remains unchanged, the Issuer would need to obtain from the Central Bank of Iceland an exemption from the restrictions set out in Articles 13.e(5) and 13.j(8) thereof in order to redeem the Notes early and repay the principal amount of the Notes and accrued interest (if applicable) to the Noteholders. Any such exemption would be granted at the discretion of the Central Bank of Iceland, subject to the Minister of Industries and Innovation's approval, and may not be granted.

The claims of Noteholders will be subordinated to the claims of certain of the Issuer's depositors in the event of a winding-up

Typically, the claims of holders of senior ranking unsecured debt instruments, such as the Notes, issued by a financial institution holding bank deposits would not be subordinated to the claims of depositors. However, as a result of the enactment of Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., which is usually referred to as the **Emergency Act**, should the Issuer enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, the claims of Noteholders would be subordinated to the claims of certain of the Issuer's depositors. If this were to occur, there may not be sufficient assets in the resulting estate to pay the claims of Noteholders after the claims of depositors have been paid.

Existing capital controls in force in Iceland may prevent Icelandic residents from investing in the Notes and may adversely affect Noteholders in the event of the Issuer's winding-up

Althingi, the Icelandic legislature, has imposed capital controls pursuant to the Act on Foreign Exchange in order to prevent serious difficulties with regard to Iceland's balance of payments and to stabilise the exchange rate. Such capital controls are expected to remain in effect for the near future. As a result, in the event that the Issuer were to enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, the Noteholders would have to submit their claims to the Issuer's Winding-up Board. This could result in Noteholders receiving from the resulting bankruptcy estate their principal (or the claimable portion of it) in ISK and then being restricted from transferring the funds out of Iceland due to the capital outflow restrictions under the Act on Foreign Exchange. In the case of a winding-up, any creditors, including the Noteholders, that are paid out of the bankruptcy estate in ISK would need an exemption from the Central Bank of Iceland in order to be able to receive such ISK payments, to convert such ISK into a foreign currency and transfer such foreign currency out of Iceland.

In addition, Article 13.e of the Act on Foreign Exchange places significant restrictions on the investment activity of Icelandic residents, including a prohibition from investing in transferable financial instruments denominated in currencies other than ISK. Therefore, the Act on Foreign Exchange effectively prohibits Icelandic residents from investing in foreign currency instruments such as the Notes, unless such Icelandic residents are exempted from the prohibition (e.g. listed as being exempt from the prohibition on the Central Bank of Iceland's website), or have invested in such foreign currency denominated financial instruments before 28 November 2008 and are using the sale proceeds gained from the sale of those instruments to reinvest in the Notes within six months of the sale. Therefore, Icelandic residents, in the absence of any applicable exemption, may not purchase the Notes.

It should be noted that whether or not an Icelandic resident is exempt from the Act on Foreign Exchange is entirely the investor's responsibility and the Issuer is not obligated to verify if the investor has such an exemption, unless the Issuer acts as an intermediary in the transaction. Should an investor be found to have breached the Act on Foreign Exchange by buying the Notes the Issuer will not bear any liability to the investor whatsoever for any losses, direct or indirect, which the investor may incur in relation thereto.

Further amendments were made to the Act on Foreign Exchange with Act No. 35/2013, Act No. 16/2013 and Act No. 17/2012. The most significant changes, relevant to the Issuer, are the removal of the time limit on the controls and the application process for certain exemptions has now been made subject to the Minister of Finance and Economic Affairs' approval, including such applications in the case of the Issuer. The Central Bank of Iceland was also granted authority to publish general rules on exemptions, subject to the Minister of Finance and Economic Affairs' approval, enabling the Central Bank of Iceland to lift the controls gradually having regard to the economic conditions at any given time.

The Issuer's results may be adversely affected by general economic conditions and other business conditions

The Issuer's results are affected by general economic and other business conditions. These conditions include changing economic cycles that affect demand for investment and banking products. 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, industrial output, labour or social unrest and political uncertainty.

In particular, the Issuer's business, financial condition and results of operations are affected directly by economic and political conditions in Iceland.

There is great uncertainty concerning economic development in Iceland's main trading partner countries and concerning the downturn in consumption occurring throughout the world. Expected loss rates are, among other factors, dependent upon unemployment, inflation and exchange rates as well as possible changes in legislation and compliance. The recovery rates also depend on asset price evolvement and legislation changes concerning liquidation of assets.

The Issuer's results may be adversely affected by the European debt crisis

Since April 2010, financial markets have been periodically negatively impacted by ongoing fears surrounding the large sovereign debts and/or fiscal deficits of several countries in Europe (primarily Portugal, Italy, Ireland, Greece and Spain). The Issuer has no exposure to sovereign debt in these countries. There have also been broader concerns about the liquidity and even solvency of certain countries and their banking systems. These concerns led to significant increases in secondary market yields for sovereign debt of the affected countries and other fixed income assets in 2010 and 2011. This uncertainty has also led to general market volatility, reduced sovereign credit ratings in certain instances, and significant exchange rate volatility. Eurozone member states have agreed measures to stabilise the euro and assist Eurozone members facing liquidity concerns. However, if the current concerns over sovereign solvency (and the solvency of those financial institutions holding sovereign debt) continue, this may further affect the availability and cost of funding to financial institutions.

Changes in interest rates may impact the Issuer's results

The results of the Issuer's operations are affected by its management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income and investment income. The composition of the Issuer's assets and liabilities, and any gap position resulting from the composition, causes the interest income to vary as interest rates change. In addition, variations in interest rate sensitivity may exist within the re-pricing periods or between the different currencies in which the Issuer holds interest rate positions. 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 the Issuer's business. The Issuer might in some cases have limited ability to raise interest rates and margins on loans, without it resulting in increased impairments at the same time. The Issuer's management of interest rate risk does not completely eliminate the effect of those factors on its performance.

Changes to capital controls may materially affect the Issuer's financial condition

The Issuer currently has limited access to the international financial markets. The Issuer has since incorporation engaged in primarily domestic lending in króna. The majority of the Issuer's funding comes from deposits by customers. Should current capital controls be lifted, the Issuer's funding could be adversely affected by the removal of deposits by customers whose current investment opportunities are restricted due to such capital controls. The Central Bank of Iceland has stated its intention to manage the capital controls, thus mitigating the risk of capital flight from such customers.

In addition, capital controls are helping to support the value of the króna. Certain restrictions on capital inflows were partially lifted in October 2009. On 25 March 2011, the Central Bank of Iceland announced a new strategy for the gradual removal of remaining capital controls in phases, each of which is subject to conditions. The three conditions for lifting of controls include: macroeconomic stability, an adequate level of foreign reserves and a sound financial system. While the strategy does not specify a timetable for the removal of capital controls, the Central Bank of Iceland stated that conditions are favourable for starting to relax some parts of the controls. On 9 March 2013, the Act on Foreign Exchange was amended by removing the original time limit of 31 December 2013. The capital controls are now in place indefinitely. Subsequently more authority has been granted to the Central Bank of Iceland permitting the Central Bank of Iceland to issue rules in relation to the Central Bank of Iceland's strategy for the removal of capital controls. By doing so, it is now in the hands of the Central Bank of Iceland to evaluate the stability of the Icelandic economy and gradually ease the capital controls without having to amend the law each time. Further amendments were implemented none of which affect the Issuer's business directly.

Capital controls also limit the Issuer’s ability to engage in foreign currency transactions. Even though some of the Issuer’s assets are denominated in foreign currencies, the Issuer does not have access to foreign funding or exchange rate hedging to the same degree as was available before the restructuring of the banking sector. As a result, the Issuer has experienced, and is expected to continue to experience, more difficulty protecting the value of its portfolios.

The Issuer’s loan portfolio is concentrated in certain industries and borrowers

At year end 2013, the Issuer’s loan portfolio was exposed to concentration in certain industry sectors, namely households, financial institutions, real estate, the geothermal sector and the seafood industry. The Issuer’s financial condition is sensitive to downturns in these industries and the consequent inability of the Issuer’s customers to meet their obligations towards the Issuer. Declines in the financial condition of the Issuer’s largest borrowers could also materially affect the Issuer’s business, financial condition and results of operations.

The Issuer is subject to credit risk and may be unable to sufficiently assess credit risk of potential borrowers and may provide advances to customers that increase credit risk exposure

Third parties that owe the Issuer money, securities or other assets may be unable to meet their obligations towards the Issuer. Accurate and comprehensive financial information and other credit information may be limited for certain types of borrowers such as small enterprises or individuals. Despite any credit risk determination procedures the Issuer has in place, the Issuer may be unable to evaluate correctly the current financial condition of each prospective borrower to determine their long-term financial viability. Failure to address any risks associated with any borrower may lead to higher risk and could materially affect the Issuer’s business.

Price fluctuations of financial investments in the Issuer’s portfolio could materially affect the Issuer’s results of operations and financial condition

The Issuer has an investment portfolio that includes mainly debt securities. A decline in the price of these securities could substantially reduce the value of the Issuer’s securities portfolio. These securities are measured at fair value at the end of each financial period, and declines in the market value of the portfolio could accordingly materially affect the Issuer’s profitability, even if those declines have not been realised through the sale of the relevant securities. Price fluctuations could also materially affect the Issuer’s regulatory capital and the capital ratios that the Issuer is required to maintain under applicable law.

The Issuer has limited equity risk in its trading portfolios and in its banking book. The Issuer also has some exposure in equities classified as non-current assets held for sale (foreclosures).

The Issuer’s risk management methods may leave the Issuer exposed to unidentified, unanticipated, or incorrectly quantified risks, which would lead to material losses or material increases in liabilities

The Issuer will at all times attempt to properly manage risks. The Issuer’s risk management may not at all times be able to protect the Issuer against certain risks, especially risks that have not been identified or anticipated. The risk management methods may not take all risks into account, and it is possible that the methods are incorrect or based on wrong information. Unanticipated or incorrectly quantified risk exposures could materially affect the Issuer’s business, financial condition and results of operations.

The Issuer is subject to counterparty and market risk which may have an adverse effect on its cost of funds

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Issuer’s businesses. Adverse changes in the credit quality of the Issuer’s borrowers and counterparties or a general deterioration in the Icelandic economy or global economic conditions, or arising from systemic risks in the financial markets, could affect the recoverability and value of the Issuer's assets and require an increase in its provision for bad and doubtful debts and other provisions. To the extent that any of the instruments and strategies the Issuer uses to hedge or otherwise manage its exposure to market or credit risk are not effective, it may not be able to mitigate effectively its risk exposures in particular market environments or against particular types of risk. The Issuer's trading revenues and interest rate risk depend upon its ability to identify properly, and mark to market, changes in the value of its financial instruments caused by changes in market prices or rates. Its earnings will also depend upon how its critical accounting estimates prove accurate and upon how effectively it determines and assesses the cost of credit and manages its risk concentrations. To the extent its assessments of migrations in credit quality and of risk concentrations, or its assumptions or estimates used in establishing its valuation models for the fair value of its assets and liabilities or for its loan loss reserves, prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses.

The Issuer is subject to liquidity risk which may have an adverse effect on its results

The Issuer defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds. The Issuer's liquidity risk policy assumes that the Issuer has at all times sufficient liquid funds to meet liabilities maturing over the next twelve months. The inability of the Issuer to anticipate and provide for unforeseen decreases or changes in funding sources could have an adverse effect on the Issuer's ability to meet its obligations as and when they fall due.

The Issuer intends to comply with international best practice in its management of liquidity risk and has revised its liquidity risk policies to address recent and upcoming regulatory changes, including the new Basel III rules (see "*Changes to the Capital Requirements Directive could adversely affect the Issuer's results*" below).

Various metrics and measures, both static and forward-looking, are used to assess and quantify the Issuer's liquidity position and thereby its liquidity risk. Deposits are the Issuer's main funding source and the Issuer focuses on managing the deposits towards reduced concentration. One of the main uncertainties regarding liquidity relates to the lifting of capital controls by the Central Bank of Iceland (see "*Existing capital controls in force in Iceland may prevent Icelandic residents from investing in the Notes and may adversely affect Noteholders in the event of the Issuer's winding-up*" above). The Issuer is well prepared to meet the short-term outflow of funds, but the eventual removal of capital controls is vital for the health and stability of the financial system in Iceland.

Increases in the Issuer's loan losses or allowances for loan losses may have an adverse effect on its results

The Issuer's banking businesses establish provisions for loan losses, which are reflected in the provision for credit losses on its income statement, in order to maintain its allowance for loan losses 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 each entity, industry standards, past due loans, economic conditions and other factors related to the collectability of the loan portfolio. Although management uses its best efforts to establish the provision for loan losses, that determination is subject to significant judgment, and the Issuer's 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. 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 effect on the Issuer's results of operations and financial condition.

The Issuer depends on the accuracy and completeness of information about customers and counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, the Issuer may rely on information furnished to it by or on behalf of customers and counterparties, including financial statements and other financial information. It may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit, it may assume that a customer's audited financial statements conform with generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. It may also rely on the audit report covering those financial statements. The Issuer's financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or that are materially misleading.

The Issuer is vulnerable to the failure of IT systems and breaches of security systems

Any significant interruption, degradation, failure or lack of capacity of the Issuer's IT systems could cause it to fail to complete transactions on a timely basis or at all and materially affect the Issuer.

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

The Issuer relies on certain key members of management

The Issuer is highly dependent on its Chief Executive Officer and senior management. The loss of the services of key members of its senior management or staff may significantly delay the Issuer's business objectives and could have a material adverse effect on its business, financial condition and results of operations. In addition, competition in Iceland to hire qualified personnel could have a material adverse effect on the Issuer's ability to recruit new senior managers.

There is operational risk associated with the Issuer's industry which, when realised, may have an adverse impact on its results

The Issuer, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorised transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Given the Issuer's high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, its dependence upon automated systems to record and process its 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. The Issuer may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to suspension of services to customers and loss to or liability to the Issuer. The Issuer is further exposed to the risk that external vendors may be unable to fulfil their contractual obligations to the Issuer (or will be subject to the same risk of fraud or operational errors by their respective employees as the Issuer), and to the risk that its (or its vendors') business continuity and data security systems prove not to be sufficiently adequate. The Issuer also faces the risk that the design of its controls and procedures prove inadequate, or are circumvented, thereby causing delays in detection of errors in information. Although the Issuer has increased focus on operational risk and operational risk measurement framework, there can be no assurance that it will not suffer losses from operational risks in the future, as it has in the past, which may be material in amount.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Issuer together with its Subsidiaries (as defined below) (together, the **Group**) will be unable to comply with its obligations as a company with securities admitted to the Official List.

Regulatory changes or enforcement initiatives could adversely affect the Issuer's business

The Issuer is subject to banking and financial services laws and government regulation. Regulatory agencies have broad administrative power over many aspects of the financial services business, 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 the Issuer and its subsidiaries may change at any time in ways which have a material effect on the Issuer's business. Furthermore, the Issuer cannot predict the timing or form of any future regulatory initiatives. Changes in existing banking and financial services laws and regulations may materially affect the way in which the Issuer conducts its business, the products or services it may offer and the value of its assets. If it fails to address, or appears to fail to address, appropriately these changes or initiatives, its reputation could be harmed and it could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against it or subject it to enforcement actions, fines and penalties. Regulatory agencies have the power to bring administrative or judicial proceedings against the Issuer, which could result, among other things, in suspension or revocation of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm its results of operations and financial condition.

The Icelandic government has passed and issued many statutes and regulations affecting the banking and financial services industry since 2008. Recently, an increased tax on banking and financial institutions has been imposed. There can be no assurance that the Icelandic government will not enact new regulations or further tax increases.

There also have been discussions in the Icelandic Parliament regarding the geothermal sector. The discussions have focused on the maximum leasing time for geothermal resources and the adoption of restrictions on foreign ownership of power plants. Restrictive actions taken by the Icelandic government in this matter could affect the willingness of foreign entities to invest in the geothermal sector and in Iceland in general. As the geothermal sector is one of the Issuer's niches, any regulations affecting the sector are closely monitored and their impact on the Issuer's business model is assessed accordingly.

Changes to the Capital Requirements Directive could adversely affect the Issuer's results

The Issuer's capital management framework is based on Basel II and the EU Capital Requirements Directive (2006/48/EC and 2006/49/EC, the **CRD**). The CRD has been implemented in the European Union (**EU**), and is included in Icelandic financial legislation as part of the European Economic Area (**EEA**) agreement.

The new international regulatory framework for banks, Basel III, has been developed to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In December 2010, the Basel Committee issued the first version of the Basel III framework and a revised version in June 2012. The Basel Committee contemplated implementation of the Basel III reforms as of 1 January 2013. However, implementation of these reforms in the European Economic Area was delayed but has now been achieved through Directive (2013/36/EU) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time (**CRD IV**) and Regulation (575/2013) of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time (the **CRR**). These texts were published in the Official Journal of the European Union on 27 June 2013 and became effective on 1 January 2014 (except for certain provisions which shall apply as from 1 January 2015 (liquidity and disclosure of leverage requirements in the CRR) and from 1 January 2016 (stable funding requirements in the CRR and capital buffers in CRD IV)). The global implementation plan of the framework extends throughout 2018. The Ministry of Industries and Innovation has formed a committee to implement CRD IV and the CRR in Iceland. The timeframe for the implementation in Iceland has not yet been published.

The introduction of new rules in Iceland reflecting CRD IV and the CRR could limit the Issuer's ability to effectively manage its capital requirements. These and other changes to capital adequacy and liquidity requirements imposed on the Issuer may require the Issuer to raise additional tier 1, core tier 1 and tier 2 capital by way of further issuances of securities and could result in existing tier 1 and tier 2 securities ceasing to count towards the Group's regulatory capital, either at the same level as present or at all. Any failure by the Issuer to maintain any increased regulatory capital requirements or to comply with any other requirements introduced by regulators could result in intervention by regulators or the imposition of sanctions, which may have a material adverse effect on the Issuer's profitability and results and may also have other effects on the Issuer's financial performance and on the pricing of the Notes, both with or without the intervention by regulators or the imposition of sanctions. Prospective investors in the Notes should consult their own advisers as to the consequences of the implementation of CRD IV and the CRR in Iceland.

Impact of the European bank recovery and resolution directive

On 6 May 2014, the Council of the European Union adopted a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**). The BRRD will come into force following its publication in the Official Journal of the EU, which is expected to be in June 2014. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) an institution is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such institution within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business – which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution – which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation – which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) bail-in – which gives resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims including Notes to equity (the **general bail-in tool**), which equity could also be subject to any future application of the general bail-in tool.

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

An institution will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; its assets are, or are likely in the near future to be, less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts as they fall due; or it requires extraordinary public financial support (except in limited circumstances).

The BRRD provides that it will be applied by Member States from 1 January 2015, except for the general bail-in tool which is to be applied from 1 January 2016.

The powers set out in the BRRD will impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. Once the BRRD is implemented, holders of Notes may be subject to write-down or conversion into equity on any application of the general bail-in tool, which may result in such holders losing some or all of their investment. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of the Noteholders, the price or value of their investment in the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

Systemic risk could adversely affect the Issuer's business

Concerns about, or a default by, one financial institution could lead to significant liquidity problems, losses or defaults by other financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between these institutions. This risk is sometimes referred to as "systemic risk" and may materially affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Issuer interacts on a daily basis, and could materially affect the Issuer.

The Issuer's performance is subject to substantial competitive pressures that could adversely affect its results of operations

There is substantial competition for the types of banking and other products and services that the Issuer provides in the regions and in the industries in which it conducts its business. Such competition is affected by consumer demand, technological changes, and impact of consolidation, regulatory actions and other factors. The Issuer expects competition to intensify as continued merger activity in the financial services industry produces larger, better-capitalised companies that are capable of offering a wider array of products and services, and at more competitive prices. If the Issuer is unable to provide attractive products and services that are profitable, it may lose market share or incur losses on some or all activities.

The Issuer is subject to legal risk which may have an adverse impact on its results

It is inherently difficult to predict the outcome of possible litigation, regulatory proceedings and other adversarial proceedings involving the Issuer's 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 the Issuer's consolidated financial statements, its 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 effect on the Issuer's results.

Changes to Icelandic legislation relating to or judgments affecting the terms or validity of inflation-linked mortgage loans may adversely affect the Issuer's results and financial condition

The government of Iceland has taken steps toward implementing a plan aimed at reducing the payment burden under inflation-linked mortgages as the monthly repayment of such mortgages increase if and to the extent that inflation in Iceland increases. Such changes may involve changes to legislation which may affect the value of Islandsbanki's loan portfolio.

In addition, borrowers have commenced proceedings against Icelandic banks in which they are challenging the validity of inflation-linked loans to individuals. The District Court of Reykjavik has requested that the EFTA Court issue an advisory opinion on the interpretation of certain provisions of directives relating to consumer credit and unfair terms in consumer contracts in connection with such inflation-linked mortgages. Judgments of the EFTA Court and Icelandic courts may affect the terms or validity of inflation-linked mortgage loans and may adversely affect the Issuer's results and financial condition.

Risks regarding the winding-up of Glitnir

Glitnir, the owner of 95 per cent. of the shares in the Issuer, is currently subject to winding-up proceedings according to Chapter XII of the Act on Financial Undertakings No. 161/2002 (the **Act on Financial**

Undertakings). According to the aforementioned Act, winding-up proceedings of a financial undertaking can have two possible outcomes. Either the financial undertaking will enter into a composition with its creditors and remain as a going concern, or it will be placed into bankruptcy proceedings subject to the Act on Bankruptcy etc. No. 21/1991, which would likely lead to the liquidation of its assets, including the shares it holds in the Issuer. As at the date of this Base Prospectus, it is not known whether the winding-up proceedings of Glitnir will result in a composition or liquidation. Uncertainties surrounding the Issuer's ownership may have a negative impact on the results of the Issuer.

Noteholders may have limited rights in the event the Issuer is subject to winding-up proceedings

It should be noted that there is currently some doubt regarding securities that are held by a trustee and the filing of claims against a financial institution, in the event an issuer becomes insolvent and is subject to winding-up proceedings. In a recent judgment regarding a debt issuance programme similar to this Programme, the Supreme Court held that only an indenture trustee can file a claim against an estate, not beneficial owners themselves. As at the date hereof, investors who want to buy the Notes through a trust should be aware that they may not be able to file a claim against the Issuer, should the Issuer become insolvent, as only the indenture trustee itself would be able to. This means that Noteholders may lose all rights other than financial rights, i.e. rights to participate and vote in creditor meetings as well as other rights which they may have, such as the right to exercise set-off.

Catastrophic events, terrorist attacks and other acts of war could have a negative impact on the Issuer's business and results

Catastrophic events, terrorist attacks, other acts of war or hostility, and responses to those acts may create economic and political uncertainties, which could have a negative impact on economic conditions in the regions in which the Issuer operates and, more specifically, on the Issuer's business and results in ways that cannot be predicted.

The Issuer's insurance coverage may not adequately cover losses resulting from the risks for which it is insured

The Issuer maintains customary insurance policies for the Issuer's operations, including insurance for liquid assets, money transport and directors' and officers' liability. Due to the nature of the Issuer's operations and the nature of the risks that the Issuer faces, there can be no assurance that the coverage that the Issuer maintains is adequate.

Factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain of such features:

If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the relevant Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates compared to prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility compared to more conventional interest-bearing securities with comparable maturities.

Risks related to the Notes generally

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

The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Principal Paying Agent and the Issuer may agree, without the consent of any of the Noteholders or Couponholders to any modification of the Notes, the Coupons, the Deed of Covenant, the Deed Poll or the Agency Agreement (as defined under "*Terms and Conditions of the Notes*") which, in the opinion of the Issuer, is of a formal, minor or technical nature or is made to correct a manifest error to comply with mandatory provisions of the law.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obligated to make gross up payments. This would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on the securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Terms and Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

United States federal tax legislation known as FATCA may impose a withholding tax on payments made by the Issuer with respect to the Notes to certain holders

The United States Foreign Account Tax Compliance Act (**FATCA**) was enacted on 18 March 2010 and will, effective for certain payments made after 30 June 2014, impose a 30 per cent. United States withholding tax on certain payments made by a foreign financial institution that enters into an agreement with the U.S. Department of the Treasury (the **U.S. Treasury**) to collect and provide to the U.S. Treasury substantial information regarding United States account holders, including certain account holders that are foreign entities with United States owners.

Pursuant to U.S. Treasury regulations, the 30 per cent. United States withholding tax may be imposed on non-U.S. source payments (foreign passthru payments) made by the Issuer with respect to the Notes after 31 December 2016. However, the withholding tax will not be imposed on payments pursuant to obligations giving rise to withholdable payments solely because payments are treated as foreign passthru payments if the obligation is executed on or before the date that is six months after the date on which final regulations defining the term foreign passthru payment are filed with the United States Federal Register. If the Issuer determines withholding is appropriate with respect to the Notes, the Issuer will withhold tax at the applicable statutory rate without being required to pay any additional amounts with respect to amounts so withheld. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*."

Tax exemptions from withholding may not be available if definitive Notes are required to be issued.

The Icelandic statutory exemption from withholding only applies to Notes held through a securities depositary in an Organisation for Economic Co-operation and Development (**OECD**) state, EU state, a European Free Trade Association (**EFTA**) state or the Faroe Islands. If Notes in definitive form are issued, holders should be aware that the tax exemption may not be available. However, the Issuer will be required to pay the necessary additional amounts under Condition 8 in such circumstances to cover any resulting amounts deducted.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes and any such change could materially adversely impact the value of any Notes affected by it.

There are circumstances in which a court may apply Icelandic laws (or the laws of other jurisdictions) notwithstanding the choice of English law to govern the Terms and Conditions of the Notes

Whilst the choice of English law as the governing law of the Terms and Conditions of the Notes will generally be upheld as a valid choice by many courts, there will be circumstances in which that choice may not be upheld or may, at least partially, be displaced. There may, therefore, be circumstances in which Icelandic laws (for example capital or exchange control laws) or indeed the laws of another jurisdiction may be applied by a court notwithstanding the choice of English law to govern the Terms and Conditions of the Notes.

In particular (a) the English courts may give effect to the "overriding mandatory provisions" of the law of the country where the obligations arising out of the Terms and Conditions of the Notes have to be or have been performed, "insofar as those overriding mandatory provisions render the performance of the contract unlawful" (Article 9(3) of Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 (**Rome I**)); and (b) there are circumstances in which reorganisation measures adopted by certain states in respect of credit institutions must be given effect to in other states pursuant to Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions (this directive is incorporated into English law by the Credit Institutions (Reorganisation and Winding Up) Regulations 2004).

As a result, there are circumstances in which a law other than English law may determine whether certain Terms and Conditions of the Notes are enforceable against the Issuer. It should be noted in this context that there may be circumstances in which proceedings arising out of or in connection with the Terms and Conditions of the Notes may be brought in courts other than the English courts and/or in which the English courts may refuse to hear proceedings brought before them.

There may be circumstances in which courts other than the Icelandic courts may give judgments in ISK and/or in which a judgment of courts other than the Icelandic courts may not be enforceable in Iceland (or, if it is enforceable in Iceland, which may result in the judgment creditor receiving ISK)

There may be circumstances in which a court hearing a dispute arising out of or in connection with the Terms and Conditions of the Notes may give judgment in ISK. Further, judgments given by courts other than the Icelandic courts may not necessarily be enforceable against the Issuer in Iceland. For example, a judgment given in the English courts may not be enforceable in Iceland if recognition of the judgment is manifestly contrary to Icelandic public policy. Even if a judgment is enforceable in Iceland, the enforcement process may result in the judgment creditor receiving ISK and then being restricted from transferring the funds out of Iceland due to the capital outflow restrictions under the Act on Foreign Exchange and/or converting such ISK into a foreign currency and transferring such foreign currency out of Iceland.

Investors who purchase Notes in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bearer Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Bearer Notes are issued, holders should be aware that definitive Bearer Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be delivered to a common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC (each as defined under "*Form of the Notes*"). Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

The Notes are unsecured and do not have the benefit of a negative pledge provision

The Notes will be unsecured and do not have the benefit of a negative pledge provision. If the Issuer defaults on the Notes, or in the event of a bankruptcy, liquidation or reorganisation, then, to the extent that the Issuer has granted security over its assets, the assets that secure those obligations will be used to satisfy the obligations thereunder before the Issuer could sell or otherwise dispose of those assets in order to make payment on the Notes. As a result of the granting of such security, there may only be limited assets available to make payments on the Notes in the event of an acceleration of the Notes. In addition, the Issuer is able to issue other similar securities which do have the benefit of security which may impact on the market price of its securities, such as the Notes, which are unsecured.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell its Notes

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

If an investor holds Notes which are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in the investor not receiving payments on those Notes

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates

Investment in Fixed Rate Notes involves the risk that subsequent increases in market interest rates above the rate paid on the relevant Fixed Rate Notes will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Base Prospectus:

(i) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2011 (including the auditors' report thereon) contained in the Annual Report 2011 which can be viewed online at http://www.islandsbanki.is/english/investor-relations/financials/;

(ii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2012 (including the auditors' report thereon) contained in the Annual Report 2012 which can be viewed online at http://www.islandsbanki.is/english/investor-relations/financials/;

(iii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2013 (including the auditors' report thereon) contained in the Annual Report 2013 which can be viewed online at http://www.islandsbanki.is/english/investor-relations/financials/; and

(iv) the unaudited consolidated interim financial statements of the Issuer for the period ended 31 March 2014 contained in the Issuer's report entitled 'Condensed Consolidated Interim Financial Statements – Three Months Ended 31 March 2014' which can be viewed online at http://www.islandsbanki.is/english/investor-relations/financials/.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can also be obtained from the registered office of the Issuer and from the specified office of the Principal Paying Agent in London.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Notes.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the Terms and Conditions of any particular Tranche of Notes, the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions of the Notes, in which event, in the case of listed Notes only and if appropriate, a new prospectus or a supplement to this Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 (as amended) implementing the Prospectus Directive.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this Overview.

Issuer:	Íslandsbanki hf.
Description:	Global Medium Term Note Programme
Arranger:	Merrill Lynch International
Dealers:	Barclays Bank PLC BNP Paribas Citigroup Global Markets Limited Deutsche Bank AG, London Branch J.P. Morgan Securities plc Merrill Lynch International Nomura International plc UBS Limited and any other Dealers appointed in accordance with the Programme Agreement.
Programme Size:	Up to U.S.$750,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*") including the following restrictions applicable at the date of this Base Prospectus. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and*

	Sale and Transfer and Selling Restrictions".
Issuing and Principal Paying Agent:	Citibank, N.A., London Branch
Currencies:	Notes may be denominated in any currency agreed between the Issuer and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions - Notes having a maturity of less than one year*" above.
Issue Price:	Notes may be issued at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:	Notes may be redeemable at par or at such other higher redemption amount as may be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, as determined between the Issuer and the relevant Dealer. The applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions - Notes having a maturity of less than one year*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency). Unless otherwise stated in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the minimum denomination of each Definitive IAI Registered Note will be U.S.$500,000 or its approximate equivalent in other Specified Currencies.
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction, except as required by law, as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Merger, Consolidation and Sale of All or Substantially All Assets:	The Issuer will not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries (as defined in Condition 4.1)) to another person unless such consolidation, merger, amalgamation or sale or disposal of all or substantially all assets qualifies as a Permitted Transaction (as defined in Condition 4.1).
Negative Pledge:	The terms of the Notes will not contain a negative pledge provision.

Events of Default:	The terms of the Notes will contain, amongst others, the following events of default: (a) default in payment of any principal or interest due in respect of the Notes, continuing for a specified period of time (b) non-performance or non-observance by the Issuer of any of its other obligations under the Terms and Conditions continuing for a specified period of time; (c) (i) any Financial Indebtedness of the Issuer or any of its Principal Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Principal Subsidiaries fails to make any payment in respect of any Financial Indebtedness on the due date for payment; (iii) any security given by the Issuer or any of its Principal Subsidiaries for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Issuer or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Financial Indebtedness of any other person, which events either alone or together with any of the other events specified in (i) to (iv) above amount to at least U.S.$10,000,000; and (d) events relating to the insolvency or winding up of the Issuer and its Principal Subsidiaries.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will 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. In relation to obligations required to be preferred by law, current Icelandic law provides that, in the event that the Issuer enters into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, the claims of the holders of the Notes and any relative Coupons will be subordinated to the claims of the Issuer's depositors.
Use of Proceeds:	The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes.
Listing and Admission to Trading:	Application has been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to trading on the Main Securities Market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the relevant Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Iceland), the People's Republic of China, Hong Kong, Singapore, Switzerland and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale and Transfer and Selling Restrictions*".
United States Selling Restrictions:	Regulation S, Category 2, Rule 144A and Section 4(a)(2) and TEFRA C or D/TEFRA not applicable, as specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.
Exempt Notes:	The Issuer may agree with any Dealer that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event the relevant provisions will be included in the relevant Pricing Supplement (as defined herein).

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of a temporary global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, a permanent global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, each a **Bearer Global Note**) which, in either case, will:

(a) if the Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg** and, together with Euroclear, the **International Central Securities Depositories** or **ICSDs**); or

(b) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg.

Where the Bearer Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will also indicate whether such Bearer Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Note, if the Temporary Bearer Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On or after the date (the **Exchange Date**) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United

States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Note, if the Permanent Bearer Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 10) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available, or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common depositary or the common safekeeper for Euroclear and Clearstream, Luxembourg, as the case may be, on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than one year and on all interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

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

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a **Regulation S Global Note**). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche offered and sold in the United States or to U.S. persons may only be offered and sold in private transactions (i) to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act (**QIBs**) or (ii) to "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions (**Institutional Accredited Investors**) and who execute and deliver an IAI Investment Letter (as defined under "*Terms and Conditions of the Notes*") in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a **Rule 144A Global Note** and, together with a Regulation S Global Note, each a **Registered Global Note**).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (**DTC**) or (ii) be deposited with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

The applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will specify whether or not such Registered Global Notes are intended to be held in a manner which would allow Eurosystem eligibility and therefore whether such Registered Global Notes are intended to be held under the New Safekeeping Structure (the **NSS**). Any indication that the Registered Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. Notes intended to be held under the NSS will be deposited with, and registered in the name of a common nominee of, one of the ICSDs acting as common safekeeper. The common safekeeper for Notes held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

The Registered Notes of each Tranche sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (**Definitive IAI Registered Notes**). Unless otherwise set forth in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, Definitive IAI Registered Notes will be issued only in minimum denominations of U.S.$500,000 and integral multiples of U.S.$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Registered Notes will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under "*Subscription and Sale and Transfer and Selling Restrictions*". Institutional Accredited Investors that hold Definitive IAI Registered Notes may not elect to hold such Notes through DTC, Euroclear or Clearstream, Luxembourg, but transferees acquiring such Notes in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under "*Subscription and Sale and Transfer and Selling Restrictions*". The Registered Global Notes and the Definitive IAI Registered Notes will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 6.4) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent and the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant

Record Date (as defined in Condition 6.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act and no alternative clearing system is available, (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note or in the form of a Definitive IAI Registered Note and Definitive IAI Registered Notes may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such Notes in the form of an interest in a Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see *"Subscription and Sale and Transfer and Selling Restrictions".***

General

Pursuant to the Agency Agreement, the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement or as may otherwise be approved by the Issuer and the Principal Paying Agent.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on the day immediately following such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 20 June 2013 and executed by the Issuer. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

The Issuer may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a new prospectus or a supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes which are not Exempt Notes issued under the Programme

[*Date*]

ÍSLANDSBANKI HF.

(*incorporated with limited liability in Iceland*)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$750,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 11 June 2014 (the **Base Prospectus**) [as supplemented by the supplement[s] to it dated [*date*] [and [*date*]]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purpose of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement[s]] [has] [have] been published on the website [of [the Issuer] at [ ] [and] [the Central Bank of Ireland at http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx [and on the website of the Irish Stock Exchange at www.ise.ie]] and copies may be obtained during normal business hours from the registered office of the Issuer at Kirkjusandur 2, 155 Reykjavik, Iceland and from the offices of the Principal Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	Issuer:		Íslandsbanki hf.
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
	(c)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and from a single Series with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 21 below, which is expected to occur on or about [ ]]] [Not Applicable]
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		

	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6.	(a)	Specified Denominations:	[ ] *(In the case of Registered Notes this means the minimum integral amount in which transfers can be made)* *(N.B. Where Bearer Notes with multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:* *"€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No Notes in definitive form will be issued with a denomination above €199,000.")*
	(b)	Calculation Amount:	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations*.)
7.	(a)	Issue Date:	[ ]
	(b)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for Zero Coupon Notes.*)
8.	Maturity Date:		[*Fixed rate - specify date*/ *Floating rate* - Interest Payment Date falling in or nearest to [*specify month and year*]]
9.	Interest Basis:		[[ ] per cent. Fixed Rate] [[ ] month [LIBOR/EURIBOR/NIBOR/STIBOR/ REIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] (further particulars specified below)
10.	Redemption/Payment Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount
11.	Change of Interest Basis:		[ ]/[Not Applicable] [*Specify details of any provision for conversion of Notes into another interest basis by cross-referring to paragraphs 14, 15 and/or 16 below.*]

12.	Put/Call Options:		[Investor Put] [Issuer Call] [Not Applicable] [(further particulars specified below)][*]
13.	(a)	Status of the Notes:	[Condition 3 applies]
	(b)	Date Board approval for issuance of Notes obtained:	[ ] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	[ ] [and [ ]] in each year up to and including the Maturity Date (*N.B. This will need to be amended in the case of long or short coupons*)
	(c)	Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*)	[[ ] per Calculation Amount]/[Not Applicable]
	(d)	Broken Amount(s): (*Applicable to Notes in definitive form*)	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]]/[Not Applicable]
	(e)	Day Count Fraction:	[30/360]/[Actual/Actual (ICMA)]
	(f)	Determination Date(s):	[[ ] in each year]/[Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*)
15.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]

[*] Notes should not be issued with an Issuer Call or Investor Put unless an exemption from the prepayment restrictions under the Act on Foreign Exchange has been obtained from the Central Bank of Iceland in advance of issue.

(c)	Additional Business Centre(s):	[ ]
(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[ ]
(f)	Screen Rate Determination:	
	• Reference Rate, Relevant Time and Relevant Financial Centre:	Reference Rate: [ ] month [LIBOR/EURIBOR/NIBOR/ STIBOR/REIBOR] Relevant Time: [ ] in the Relevant Financial Centre Relevant Financial Centre: [London/Brussels/Oslo/ Stockholm/Reykjavík]
	• Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR. For NIBOR, STIBOR and REIBOR, insert second [Oslo/Stockholm/Reykjavík] business day prior to the start of each Interest Period)*
	• Relevant Screen Page:	[ ]
(g)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ]
(h)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(i)	Margin(s):	[+/-] [ ] per cent. per annum
(j)	Minimum Rate of Interest:	[ ] per cent. per annum
(k)	Maximum Rate of Interest:	[ ] per cent. per annum

	(l)	Day Count Fraction:	[Actual/Actual (ISDA)] [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)]
16.	Zero Coupon Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]

PROVISIONS RELATING TO REDEMPTION

17.	Issuer Call:*			[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):		[ ]
	(b)	Optional Redemption Amount:		[ ] per Calculation Amount
	(c)	If redeemable in part:		
		(i)	Minimum Redemption Amount:	[ ]
		(ii)	Maximum Redemption Amount:	[ ]
	(d)	Notice period (if other than as set out in the Conditions):		[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)

* Notes should not be issued with an Issuer Call or Investor Put unless an exemption from the prepayment restrictions under the Act on Foreign Exchange has been obtained from the Central Bank of Iceland in advance of issue.

18.	Investor Put:*	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[ ]
	(b) Optional Redemption Amount:	[ ] per Calculation Amount
	(c) Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)
19.	Final Redemption Amount:	[ ] per Calculation Amount
20.	Early Redemption Amount payable on redemption for taxation reasons or on event of default:	[ ] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21.	Form of Notes:	
	(a) Form:	[Bearer Notes [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]] [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]] [Permanent Bearer Global Note exchangeable for Definitive Notes only upon an Exchange Event]] [Registered Notes: [Regulation S Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]] [Rule 144A Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for DTC]] [Definitive IAI Registered Notes]]

		(*In the case of an issue with more than one Global Note or a combination of one or more Global Notes and Definitive IAI Notes, specify the nominal amounts of each Global Note and, if applicable, the aggregate nominal amount of all Definitive IAI Notes if such information is available*)
	(b) New Global Note:	[Yes] [No]
22.	Additional Financial Centre(s):	[Not Applicable/*give details*] (*Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraph 15(c) relates*)
23.	Talons for future Coupons to be attached to Definitive Bearer Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

Signed on behalf of Íslandsbanki hf.:

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing:	[Official List of the Irish Stock Exchange/[ ]]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [the Main Securities Market of the Irish Stock Exchange]/[ ] with effect from [ ]]
(iii)	Estimate of total expenses related to admission to trading:	[ ]

2. RATINGS

Ratings: [The Notes to be issued] [[have been]/[are expected to be]] rated]:

[*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*].

[Each of [*defined terms*] is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.]

4. YIELD (*Fixed Rate Notes only*)

Indication of yield: [ ]

5. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	CUSIP:	[ ]
(iv)	CINS:	[ ]
(v)	Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]

(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) and/or Transfer Agent(s) (if any):	[ ]
(viii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes, Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] [*include this text for Registered Notes which are to be held under the NSS*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.] [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS [*include this text for Registered Notes which are to be held under the NSS*]]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.]

6. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/*give names*]
(iii)	Date of Subscription Agreement:	[ ]
(iv)	Stabilising Manager(s) (if any):	[Not Applicable/*give name(s)*]
(v)	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
(vi)	TEFRA applicability:	[TEFRA D/TEFRA C/TEFRA not applicable]

7. THIRD PARTY INFORMATION

[[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes issued under the Programme

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC AS AMENDED FOR THE ISSUE OF NOTES DESCRIBED BELOW.

[*Date*]

ÍSLANDSBANKI HF.

(*incorporated with limited liability in Iceland*)

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$750,000,000
Global Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Base Prospectus dated 11 June 2014 (the **Base Prospectus**) [as supplemented by the supplement[s] dated [ ] [and [ ]]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplement[s]] [has] [have] been published on the website of the Central Bank of Ireland at http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx [and on the website of the Irish Stock Exchange at www.ise.ie] and copies may be obtained during normal business hours from the registered office of the Issuer at Kirkjusandur 2, 155 Reykjavik, Iceland and from the offices of the Principal Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	Issuer:		Íslandsbanki hf.
2.	(a)	Series Number:	[ ]
	(b)	Tranche Number:	[ ]
	(c)	Date on which the Notes will be consolidated and form a single Series:	[The Notes will be consolidated and from a single Series with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 21 below, which is expected to

		occur on or about [ ]]] [Not Applicable]
3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount:	
	(a) Series:	[ ]
	(b) Tranche:	[ ]
5.	Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6.	(a) Specified Denominations:	[ ] *(In the case of Registered Notes this means the minimum integral amount in which transfers can be made)* *(N.B. Where Bearer Notes with multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:* *"€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No Notes in definitive form will be issued with a denomination above €199,000.")*
	(b) Calculation Amount:	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations*.)
7.	(a) Issue Date:	[ ]
	(b) Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for Zero Coupon Notes.*)
8.	Maturity Date:	[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9.	Interest Basis:	[[ ] per cent. Fixed Rate] [[ ] month [LIBOR/EURIBOR/NIBOR/STIBOR/ REIBOR] +/- [ ] per cent. Floating Rate] [Zero Coupon] [*specify other*] (further particulars specified below)

10.	Redemption/Payment Basis:		[Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount]/[*specify other*]
11.	Change of Interest Basis:		[ ]/[Not Applicable]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [Not Applicable] [(further particulars specified below)]*
13.	(a)	Status of the Notes:	[Condition 3 applies]
	(b)	Date Board approval for issuance of Notes obtained:	[ ] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes*)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	Fixed Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	[ ] [and [ ]] in each year up to and including the Maturity Date (*N.B. This will need to be amended in the case of long or short coupons*)
	(c)	Fixed Coupon Amount(s): (*Applicable to Notes in definitive form*)	[[ ] per Calculation Amount]/[Not Applicable]
	(d)	Broken Amount(s): (*Applicable to Notes in definitive form*)	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]]/[Not Applicable]
	(e)	Day Count Fraction:	[30/360]/[Actual/Actual (ICMA)]/[*specify other*]
	(f)	Determination Date(s):	[[ ] in each year]/[Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*)
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*give details*]

* Notes should not be issued with an Issuer Call or Investor Put unless an exemption from the prepayment restrictions under the Act on Foreign Exchange has been obtained from the Central Bank of Iceland in advance of issue.

15.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(c)	Additional Business Centre(s):	[ ]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[ ]
	(f)	Screen Rate Determination:	
		• Reference Rate, Relevant Time and Relevant Financial Centre:	Reference Rate: [ ] month [LIBOR/EURIBOR/NIBOR/ STIBOR/REIBOR/*specify other*] Relevant Time: [ ] in the Relevant Financial Centre Relevant Financial Centre: [London/Brussels/Oslo/ Stockholm/Reykjavík/*specify other*]
		• Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR. For NIBOR, STIBOR and REIBOR, insert second [Oslo/Stockholm/Reykjavík] business day prior to the start of each Interest Period)*
		• Relevant Screen Page:	[ ]
	(g)	ISDA Determination:	
		• Floating Rate Option:	[ ]
		• Designated Maturity:	[ ]

	• Reset Date:	[ ]
(h)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short of long interest period*)]
(i)	Margin(s):	[+/-] [ ] per cent. per annum
(j)	Minimum Rate of Interest:	[ ] per cent. per annum
(k)	Maximum Rate of Interest:	[ ] per cent. per annum
(l)	Day Count Fraction:	[Actual/Actual (ISDA)] [Actual/Actual] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [*specify other*]
(m)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]

16.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Accrual Yield:	[ ] per cent. per annum
	(b) Reference Price:	[ ]
	(c) Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365] [*specify other*]

PROVISIONS RELATING TO REDEMPTION

17.	Issuer Call:[*]	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[ ]

[*] Notes should not be issued with an Issuer Call or Investor Put unless an exemption from the prepayment restrictions under the Act on Foreign Exchange has been obtained from the Central Bank of Iceland in advance of issue.

	(b)	Optional Redemption Amount:	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]
	(d)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)
18.	Investor Put:*		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount:	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	Notice period (if other than as set out in the Conditions):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent*)
19.	Final Redemption Amount:		[[ ] per Calculation Amount/*specify other*/see Appendix]

* Notes should not be issued with an Issuer Call or Investor Put unless an exemption from the prepayment restrictions under the Act on Foreign Exchange has been obtained from the Central Bank of Iceland in advance of issue.

20.	Early Redemption Amount payable on redemption for taxation reasons or on event of default:	[[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21.	Form of Notes:	
	(a) Form:	[Bearer Notes [Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]] [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date]] [Permanent Bearer Global Note exchangeable for Definitive Notes only upon an Exchange Event]] [Registered Notes: [Regulation S Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]] [Rule 144A Global Note (U.S.$[ ] nominal amount) registered in the name of a nominee for DTC]] [Definitive IAI Registered Notes]] (*In the case of an issue with more than one Global Note or a combination of one or more Global Notes and Definitive IAI Notes, specify the nominal amounts of each Global Note and, if applicable, the aggregate nominal amount of all Definitive IAI Notes if such information is available*)
	(b) New Global Note:	[Yes] [No]
22.	Additional Financial Centre(s):	[Not Applicable/*give details*] (*Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraph 15(c) relates*)
23.	Talons for future Coupons to be attached to Definitive Bearer Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
24.	Other terms or special conditions:	[ ]

Signed on behalf of Íslandsbanki hf.:

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing:	[[ ]/None]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [*specify market – note this should not be a regulated market*] with effect from [ ]]/Not Applicable]

2. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	CUSIP:	[ ]
(iv)	CINS:	[ ]
(v)	Any clearing system(s) other than DTC, Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) and/or Transfer Agent(s) (if any):	[ ]
(viii)	Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] [*include this text for Registered Notes which are to be held under the NSS*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.] [No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS [*include this text for Registered*

	Notes which are to be held under the NSS]]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.]

3. DISTRIBUTION

(i)	Method of distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated, names of Managers:	[Not Applicable/*give names*]
(iii)	Date of Subscription Agreement:	[ ]
(iv)	Stabilising Manager(s) (if any):	[Not Applicable/*give name(s)*]
(v)	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
(vi)	TEFRA applicability:	[TEFRA D/TEFRA C/TEFRA not applicable]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note.

This Note is one of a Series (as defined below) of Notes issued by Íslandsbanki hf. (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;

(b) any Global Note;

(c) any definitive Notes in bearer form (**Bearer Notes**) issued in exchange for a Global Note in bearer form; and

(d) any definitive Notes in registered form (**Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 20 June 2013 and made between the Issuer, Citibank, N.A., London Branch in its capacities as issuing and principal paying agent and agent bank (the **Principal Paying Agent**, which expression shall include any successor principal paying agent, and, together with any substitute or additional paying agents appointed in accordance with the Agency Agreement, the **Paying Agents**) and as exchange agent (the **Exchange Agent**, which expression shall include any successor exchange agent) and Citigroup Global Markets Deutschland AG in its capacities as registrar (the **Registrar**, which expression shall include any successor registrar) and as transfer agent and the other transfer agents named therein (together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents).

Interest bearing definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms (as defined below) or (in the case of Exempt Notes) Pricing Supplement (as defined below), talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

The Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 20 June 2013 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, a deed poll (the **Deed Poll**) dated 20 June 2013 and made by the Issuer and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar and the other Paying Agents, the Exchange Agent and the other Transfer Agents (such Agents and the Registrar being together referred to as the **Agents**).

References herein to **Exempt Notes** are to Notes for which no prospectus is required to be published under Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**).

The final terms for this Note (or the relevant provisions thereof) are set out in (i) in the case of Notes other than Exempt Notes, Part A of a final terms document (**Final Terms**) attached to or endorsed on this Note which completes these Terms and Conditions (the **Conditions**) or (ii) in the case of Exempt Notes, Part A of a pricing supplement (**Pricing Supplement**) which supplements, amends, modifies and replaces these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References herein to the **applicable Final Terms** or (in the case of Exempt Notes) **applicable Pricing Supplement** are accordingly to Part A of the Final Terms or Pricing Supplement, as the case may be, (or the relevant provisions thereof) relating to the Notes.

Copies of the Final Terms will, in the case of Notes admitted to trading on the regulated market of the Irish Stock Exchange, be published on the website of the Central Bank of Ireland at http://www.centralbank.ie/regulation/securities-marekts/prospectus/Pages/approvedprospectus.aspx and on the website of the Irish Stock Exchange at www.ise.ie. If the Notes are to be admitted to trading on any other regulated market in the European Economic Area, the applicable Final Terms will be published in accordance with the rules and regulations of the relevant listing authority or stock exchange and otherwise in accordance with Article 14 of the Prospectus Directive.

Copies of the applicable Final Terms are also available for viewing at the registered office of the Issuer and of the Principal Paying Agent and copies may be obtained from those offices.

In the case of Exempt Notes, copies of the applicable Pricing Supplement may be obtained from the registered office of the Issuer and the offices of the Principal Paying Agent only by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity.

The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed Poll, the Deed of Covenant and the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

The Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

For so long as The Depository Trust Company (**DTC**) or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement or as may otherwise be approved by the Issuer and the Principal Paying Agent.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

2.2 Transfers of Registered Notes in definitive form

Subject as provided in Conditions 2.5, 2.6 and 2.7 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 10 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 7, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Transfers of interests in Regulation S Global Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

(a) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a **Transfer Certificate**), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made:

(i) to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(ii) to a person who is an Institutional Accredited Investor, together with a duly executed investment letter from the relevant transferee substantially in the form set out in the Agency Agreement (an **IAI Investment Letter**); or

(b) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

In the case of (a)(i) above, such transferee may take delivery through a Legended Note in global or definitive form and, in the case of (ii) above, such transferee may take delivery only through a Legended Note in definitive form. After expiry of the applicable Distribution Compliance Period (A) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (B) such certification requirements will no longer apply to such transfers.

2.6 Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

(a) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(b) to a transferee who takes delivery of such interest through a Legended Note:

(i) where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(ii) where the transferee is an Institutional Accredited Investor, subject to delivery to the Registrar of a Transfer Certificate from the transferor to the effect that such transfer is being made to an Institutional Accredited Investor, together with a duly executed IAI Investment Letter from the relevant transferee; or

(c) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any state of the United States,

and, in each case, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Notes transferred by Institutional Accredited Investors to QIBs pursuant to Rule 144A or outside the United States pursuant to Regulation S will be eligible to be held by such QIBs or non-U.S. investors through DTC, Euroclear or Clearstream, Luxembourg, as appropriate, and the Registrar will arrange for any Notes which are the subject of such a transfer to be represented by the appropriate Registered Global Note, where applicable.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

2.7 Exchanges and transfers of Registered Notes generally

Holders of Registered Notes in definitive form, other than Institutional Accredited Investors, may exchange such Notes for interests in a Registered Global Note of the same type at any time.

2.8 Definitions

In this Condition, the following expressions shall have the following meanings:

Distribution Compliance Period means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue);

Institutional Accredited Investor means **accredited investors** (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions;

Legended Note means Registered Notes in definitive form that are issued to Institutional Accredited Investors and Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer (a **Legend**);

QIB means a **qualified institutional buyer** within the meaning of Rule 144A;

Regulation S means Regulation S under the Securities Act;

Regulation S Global Note means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

Rule 144A means Rule 144A under the Securities Act;

Rule 144A Global Note means a Registered Global Note representing Notes sold in the United States to QIBs; and

Securities Act means the United States Securities Act of 1933, as amended.

3. STATUS OF THE NOTES

The Notes and any relative Coupons are 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.

In relation to obligations required to be preferred by law, Icelandic Act No. 125/2008 on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. (the **Emergency Act**) provides that, in the event that the Issuer enters into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings No. 161/2002, the claims of the holders of the Notes and any relative Coupons will be subordinated to the claims of certain of the Issuer's depositors.

4. COVENANTS

4.1 Merger, Consolidation and Sale of All or Substantially All Assets

The Issuer will not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets (determined on a consolidated basis for it and its Subsidiaries (as defined below)) to another person unless such consolidation, merger, amalgamation or sale or disposal of all or substantially all assets qualifies as a Permitted Transaction.

Permitted Transaction means the consolidation, merger or amalgamation with or into (whether or not the Issuer is the surviving corporation), or sale, assignment or conveyance, transfer, lease, or other disposal of, in one transaction or a series of transactions, all or substantially all of the Issuer's assets (determined on a consolidated basis for it and its Subsidiaries) to, another person, when:

(a) the resulting, surviving or transferee person, if other than the Issuer (the **Surviving Entity**), (A) is a person organised and existing under the laws of Iceland, any member state of the European Union, the European Economic Area, the United States of America, any state thereof, the District of Columbia or Canada and (B) expressly assumes, pursuant to a deed of assumption, executed and delivered to the Principal Paying Agent, the Issuer's obligations under the Notes and the Deed of Covenant;

(b) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any obligation of the Issuer or any Subsidiary incurred in connection with or as a result of such transaction or series of transactions as having been incurred by the Issuer or such Subsidiary at the time of such transaction), no Event of Default, or event or act which, with the lapse of time and/or the giving of any notice, certification, declaration or demand, would constitute an Event of Default, will have occurred and be continuing;

(c) the Issuer or the Surviving Entity will have delivered to the Principal Paying Agent, in form and substance satisfactory to independent legal counsel of recognised standing, a certificate signed by two Directors of the Issuer or the Surviving Entity, as the case may be, (attaching the computations to demonstrate compliance with paragraph (b) above) and an opinion of independent legal counsel of recognised standing, each stating that such consolidation, merger, sale, assignment, conveyance, transfer, lease or other disposition, and if a deed of assumption is required in connection with such transaction, such deed of assumption complies with the requirements of paragraphs (a), (b) and (e) of this Condition 4.1 (except for the opinion of independent legal counsel which shall only address paragraphs (a) and (e)) and that all conditions precedent in paragraphs (a), (b) and (e) of this Condition 4.1 (except for the opinion of independent legal counsel which shall only address paragraphs (a) and (e)) relating to such transaction have been satisfied and that the Notes and the Deed of Covenant constitute legal, valid and binding obligations of the continuing person, enforceable in accordance with their terms;

(d) each stock exchange on which the Notes are admitted to trading shall have confirmed that, following such transaction or series of transactions, the Notes will continue to be admitted to trading on such stock exchange; and

(e) immediately thereafter, the Surviving Entity shall succeed to, and be substituted for and may exercise every right and power of, the Issuer under the Notes. Upon such succession and substitution, the Issuer shall be relieved of all obligations and covenants under the Notes and the Deed of Covenant.

Subsidiary means any entity whose affairs are required by law or in accordance with generally accepted accounting principles applicable in Iceland to be consolidated in the Issuer's consolidated accounts.

The Issuer undertakes to give notice of the occurrence of any Permitted Transaction to the Noteholders in accordance with Condition 14 within seven days following the completion of such Permitted Transaction.

Any documents delivered in connection with a Permitted Transaction (including, without limitation, any deed of assumption, legal opinion or certificate) pursuant to paragraphs (a) to (e) above shall be delivered to, and kept by, the Principal Paying Agent. Copies of the documents will be made available for inspection during normal business hours at the specified office of the Principal Paying Agent.

4.2 Obtaining any Consent, Exemption or Approval

In the event that the Issuer is required to obtain any consent, exemption or approval in order to make any payment due from it hereunder, it undertakes to use its best endeavours to obtain such consent, exemption or approval as soon as practicable.

5. INTEREST

5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or

(b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest, in accordance with this Condition 5.1:

(i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement:

(A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement) that would occur in one calendar year; or

(B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if “30/360” is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

5.2 Interest on Floating Rate Notes

(a) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (b) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement; and

(b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System (the **TARGET 2 System**) is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under an interest rate swap transaction for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement;

(B) the Designated Maturity is a period specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement; and

(C) the relevant Reset Date is the day specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at the Relevant Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of subclause (A) above, no offered quotation appears or, in the case of subclause (B) above, fewer than three offered quotations appear, in each case as at the Relevant Time, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Relevant Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the inter-bank market of the Relevant Financial Centre (if any other Reference Rate is used) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Relevant Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the

Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) or the inter-bank market of the Relevant Financial Centre (if any other Reference Rate is used) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

For the purposes of these Conditions:

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market; in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market; and, in the case of a determination of a Reference Rate that is not LIBOR or EURIBOR, the principal office in the Relevant Financial Centre of four major banks in the inter-bank market of the Relevant Financial Centre, in each case selected by the Principal Paying Agent.

Reference Rate shall mean (i) the London interbank offered rate (**LIBOR**), (ii) the Eurozone interbank offered date (**EURIBOR**), (iii) the Norwegian interbank offered rate (**NIBOR**), (iv) the Stockholm interbank offered rate (**STIBOR**), or (v) the Reykjavík interbank offered rate (**REIBOR**), in each case for the relevant period, as specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

Relevant Financial Centre shall mean (i) London, in the case of a determination of LIBOR, (ii) Brussels, in the case of a determination of EURIBOR, (iii) Oslo, in the case of a determination of NIBOR, (iv) Stockholm, in the case of a determination of STIBOR, or (v) Reykjavík, in the case of a determination of REIBOR, as specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

Relevant Screen Page shall mean the screen page specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

Relevant Time shall mean the time specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement specify a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement specify a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(ii) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Interest Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{D_1}$ is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

$\mathbf{D_2}$ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{D_1}$ is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

$\mathbf{D_2}$ is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

D_1 is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

(e) Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Principal Paying Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Principal Paying Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 14. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2 by the Principal Paying Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the other Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Principal Paying Agent in connection with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

5.3 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 14.

6. PAYMENTS

6.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

6.2 Presentation of definitive Bearer Notes and Coupons

Payments of principal in respect of definitive Bearer Notes will be made in the manner provided in Condition 6.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

6.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Global Note, where applicable, against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

6.4 Payments in respect of Registered Notes

Payments of principal in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non resident of Japan, shall be a non resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer and the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

6.5 General provisions applicable to payments

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

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

6.6 Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 9) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

    (i) in the case of Notes in definitive form only, the relevant place of presentation;

    (ii) each Additional Financial Centre specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement;

(b) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET 2 System is open; and

(c) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

6.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 8;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7.5(b)); and

(f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

7. REDEMPTION AND PURCHASE

7.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement in the relevant Specified Currency on the Maturity Date.

7.2 Redemption for tax reasons

The Notes may, save as provided below, be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Principal Paying Agent and, in accordance with Condition 14, the Noteholders, if:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

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

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

The Issuer will only have the right to exercise its option to redeem the Notes pursuant to this Condition 7.2 if, prior to giving notice to redeem as described above, it has obtained, so far as required to do so under Icelandic law to make payment hereunder in the Specified Currency, an exemption (which exemption remains valid on the date of redemption) from the Central Bank of Iceland to Article 13.e(5) and 13.j(8) of the Icelandic Act on Foreign Exchange No. 87/1992 (the **Act on Foreign Exchange**) which will permit payment by the Issuer in such Specified Currency of the

Early Redemption Amount in respect thereof, together (if appropriate) with interest accrued to (but excluding) the date of redemption, and such payment is made in the Specified Currency. The Issuer undertakes that any redemption of the Notes pursuant to this Condition 7.2 will only be made in compliance with all the requirements set out herein including, but not limited to, all payments being made in the Specified Currency.

7.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the Issuer may, save as provided below, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 14; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 14 at least five days prior to the Selection Date.

The Issuer will only have the right to exercise its option to redeem the Notes pursuant to this Condition 7.3 if, prior to giving notice to redeem as described above, it has obtained, so far as required to do so under Icelandic law to make payment hereunder in the Specified Currency, an exemption (which exemption remains valid on the date of redemption) from the Central Bank of Iceland to Article 13.e(5) and 13.j(8) of the Act on Foreign Exchange which will permit payment by the Issuer in such Specified Currency of the Optional Redemption Amount in respect thereof, together (if appropriate) with interest accrued to (but excluding) the relevant Optional Redemption Date and such payment is made in the Specified Currency. The Issuer undertakes that any redemption of the Notes pursuant to this Condition 7.3 will only be made in compliance with all the requirements set out herein including, but not limited to, all payments being made in the Specified Currency.

7.4 Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified as being applicable in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, save as provided below, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7.4 in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 7.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 7.4 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

The Issuer undertakes that, in respect of any Tranche of Notes for which Investor Put is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, it will obtain prior to the date on which agreement is reached to issue such Tranche, so far as required to do so at such time under Icelandic law to make payment hereunder in the Specified Currency, an exemption from the Central Bank of Iceland to Article 13.e(5) and 13.j(8) of the Act on Foreign Exchange which will permit all payments under this Condition 7.4 in respect of such Notes to be made in the Specified Currency.

7.5 Early Redemption Amounts

For the purpose of Condition 7.2 above and Condition 10, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note (other than a Zero Coupon Note) the amount specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement or, if no such amount or manner is so specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, at its nominal amount; or

(b) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

Early Redemption Amount = RP x $(1 + AY)^{y}$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360 day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days form (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and payable and the denominator will be 365).

7.6 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise if, prior to such a purchase taking place, it has obtained, so far as required to do so under Icelandic law to make payment hereunder in the Specified Currency, an exemption (which exemption remains valid on the date of purchase) from the Central Bank of Iceland to Article 13.e(1) of the Act on Foreign Exchange which will permit payment by the Issuer under this Condition 7.6. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

7.7 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.6 above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

7.8 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 7.1, 7.2, 7.3 or 7.4 above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.5(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 14.

8. TAXATION

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

(a) presented for payment in Iceland; or

(b) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.6); or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

(f) on account of any tax, assessment or other governmental charge that is imposed or withheld by reason of the application of Section 1471 through 1474 of the United States Internal Revenue Code of 1986 (or any successor provisions), any regulation, pronouncement or agreement thereunder, official interpretations thereof, or any intergovernmental agreement or any law implementing an intergovernmental approach thereto, whether currently in effect or as published and amended from time to time.

As used herein:

(i) **Tax Jurisdiction** means Iceland or any political subdivision or any authority thereof or therein having power to tax; and

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

Pursuant to point 8 of the first Paragraph of Article 3 of Icelandic Act No 90/2003 on Income Tax (the **Icelandic Income Tax Act**), non-Icelandic residents are not subject to tax on any interest income derived by them from the Notes and Coupons provided the Notes are registered with a securities depository within the Organisation for Economic Co-operation and Development, the European Economic Area or a member of the European Free Trade Association or the Faroe Islands (any such securities depository, an **Eligible Securities Depository**) and the Issuer registers the Notes with the Directorate of Internal Revenue in Iceland. The Issuer undertakes to ensure that any Notes are registered and accepted for clearance with an Eligible Securities Depository (which would include Euroclear and Clearstream, Luxembourg) and to register any Notes with the Directorate of Internal Revenue in Iceland on or prior to the Issue Date of the Notes and to obtain a certificate of exemption in respect thereof. In the event that such exemption to the Icelandic Income Tax Act is forfeited, suspended or revoked as a result of the Issuer failing to register the Notes as aforesaid or the Notes being in definitive form and held outside an Eligible Securities Depository or the Notes otherwise ceasing to be registered with an Eligible Securities Depository or for any other reason and any payment in respect of the Notes is accordingly subject to withholding or deduction pursuant to the Icelandic Income Tax Act, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction (and the exceptions set out in paragraphs (a) to (f) above shall not be applicable).

9. PRESCRIPTION

The Notes (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.2 or any Talon which would be void pursuant to Condition 6.2.

10. EVENTS OF DEFAULT

If any one or more of the following events (each an **Event of Default**) shall occur with respect to any Note:

(a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of three days in the case of principal and seven days in the case of interest; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) if (i) any Financial Indebtedness (as defined below) of the Issuer or any of its Principal Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Principal Subsidiaries fails to make any payment in respect of any Financial Indebtedness on the due date for payment; (iii) any security given by the Issuer or any of its Principal Subsidiaries for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Issuer or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Financial Indebtedness of any other person, provided that no such event shall constitute an Event of Default unless the Financial Indebtedness or other relative liability either alone or when aggregated with other Financial Indebtedness and/or liabilities relative to all (if any) other events specified in (i) to (iv) above which shall have occurred and be outstanding shall amount to at least U.S.$10,000,000 (or its equivalent in any other currency); or

(d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries (save for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent); or

(e) if the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business (save for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the Principal Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent), or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(f) if (i) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation, winding-up or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator, winding-up committee or other similar official, or an administrative or other receiver, manager, administrator, winding-up committee or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (ii) in any case (other than the appointment of an administrator) the same is not discharged or stayed within l4 days; or

(g) if the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation, winding-up or other similar laws or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(h) if any event occurs which, under the laws of any relevant jurisdiction, has or may have an analogous effect to any of the events referred to in paragraphs (d) to (g) above,

then any holder of a Note may, by written notice to the Issuer at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount (as defined in Condition 7.5), together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.[*]

For the purposes of these Conditions:

Financial Indebtedness means any indebtedness for or in respect of:

(i) moneys borrowed;

(ii) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;

(iii) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by a member of the Group which is cash collateralised);

(iv) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;

(v) receivables sold or discounted (otherwise than on a non-recourse basis);

(vi) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial or economic effect of a borrowing and which, for the avoidance of doubt, includes any transaction that is required to be classified and accounted for as borrowings, for financial reporting purposes in accordance with IFRS;

(vii) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);

(viii) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; or

(ix) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (i) to (viii) above;

Group means the Issuer and its Subsidiaries;

IFRS means International Financial Reporting Standards;

Principal Subsidiary at any time shall mean any Subsidiary of the Issuer:

(a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent not less than five per cent. of the consolidated gross revenues, or, as the case may

[*] As a result of capital controls currently in force in Iceland, any prepayment or early redemption of Notes (including any payment acceleration following the occurrence of an Event of Default) will be subject to the Issuer obtaining or having obtained an exemption from such capital controls from the Central Bank of Iceland in respect of payment by the Issuer of the redemption amount thereof. Where no exemption is obtained, the Issuer will be prohibited under Icelandic law from making any such payment and in such circumstances or for any other reason where the Issuer does not make the due payment then the only remedies available under Icelandic law to a holder will be to seek to enforce a judgment in Iceland against the Issuer which may ultimately involve the Board of Directors of the Issuer applying to the Icelandic court to put the Issuer into winding-up, as further described under "*Risk Factors – Existing capital controls in force in Iceland may prevent Icelandic residents from investing in the Notes and may adversely affect Noteholders in the event of the Issuer's winding-up*" herein. In the event of a winding-up, any creditors, including the Noteholders, that are paid out of the bankruptcy estate in Icelandic króna would need an exemption from the Central Bank of Iceland in order to be able to receive such Icelandic króna payments and to convert such Icelandic króna into a foreign currency and transfer such Icelandic króna out of Iceland.

be, consolidated total assets, of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries;

(b) to which is transferred the whole or substantially the whole of the undertaking and assets of another Subsidiary of the Issuer which immediately before the transfer is a Principal Subsidiary; or

(c) that is licensed by law, in any jurisdiction, to operate as a financial institution or provide any financial services,

all as more particularly defined in the Agency Agreement.

A certificate by two Directors of the Issuer that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Noteholders, provided that in giving such certificate the Directors must act reasonably and in good faith, and on the basis of the latest audited, and, in the case of the Issuer, consolidated, financial statements for the Issuer and its Subsidiaries.

11. REPLACEMENT OF NOTES, COUPONS AND TALONS

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

12. AGENTS

The names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents or Transfer Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City;

(d) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(e) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.5. Notice of any variation, termination, appointment or change in Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

13. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

14. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

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

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

15. MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons or amending the Deed of Covenant in certain respects), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders or Couponholders, to any modification of the Notes, the Coupons, the Deed of Covenant, the Deed Poll or the Agency Agreement which, in the opinion of the Issuer, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

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

16. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing law

The Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with Agency Agreement, the Deed of Covenant, the Deed Poll, the Notes and the Coupons, are and shall be governed by, and construed in accordance with, English law.

18.2 Submission to jurisdiction

(a) Subject to Condition 18.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(b) For the purposes of this Condition 18.2, each of the Issuer and any Noteholders or Couponholders in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(c) This Condition 18.2(c) is for the benefit of the Noteholders and the Couponholders only. To the extent allowed by law, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

18.3 Appointment of Process Agent

The Issuer appoints LOGOS Legal Services Ltd. at 42 New Broad Street, London EC2M 1JD as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and undertakes that, in the event of LOGOS Legal Services Ltd. ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

18.4 Waiver of immunity

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

18.5 Other documents

The Issuer has in the Agency Agreement, the Deed of Covenant and the Deed Poll submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes.

DESCRIPTION OF THE ISSUER

NAME, INCORPORATION AND REGISTRATION

The Issuer's legal and commercial name is Íslandsbanki hf. The Issuer is a public limited company incorporated in Iceland on 14 October 2008. It is registered with the Register of Enterprises (*Fyrirtækjaskrá Ríkisskattstjóra*) in Iceland and bears the registration number 491008-0160. The registered office of the Issuer is at Kirkjusandur 2, 155 Reykjavik, Iceland, and its telephone number is +354 440 4000. The Issuer's homepage is: www.islandsbanki.is. Information on the website is not part of this Base Prospectus.

The Issuer's operations are subject to the provisions of the Act on Public Limited Companies No. 2/1995 and the Act on Financial Undertakings. The Issuer is authorised to provide all financial services stipulated in the Act on Financial Undertakings. Its activities are under the supervision of the Financial Supervisory Authority (**FME**).

HISTORY & DEVELOPMENT OF THE ISSUER

The Issuer traces its roots back to 1904 when the original Íslandsbanki hf. was founded as the first privately-owned bank in Iceland. Útvegsbanki Íslands took over Íslandsbanki's operations in 1930 and in 1990, Útvegsbanki Íslands, Alþýðubanki Íslands, Iðnaðarbanki Íslands and Verslunarbanki Íslands merged into Íslandsbanki hf. In 2000, Íslandsbanki hf. merged with The Icelandic Investment Bank (**FBA**), which itself was created through the merger of three state-owned credit funds, forming Íslandsbanki-FBA hf. (**Bank**). As a result of the merger, the Bank further solidified its connections with the corporate sector, particularly in the seafood industry. In the years 2000 to 2007, the Bank expanded its business beyond Iceland by first lending to seafood enterprises in northern Europe and North America, and later through strategic acquisitions in the Nordic countries. In March 2006, the Bank was rebranded as Glitnir banki hf. (all the aforementioned banks collectively referred to as "Glitnir").

Following the collapse of the Icelandic banking system in October 2008, by decree of the newly passed Act on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. No. 125/2008 (usually referred to as the Emergency Act), the Issuer assumed the domestic assets and liabilities of Glitnir while the remainder of Glitnir's assets, which were mostly foreign assets, were left within Glitnir under the supervision of a Resolution Committee (**Resolution Committee**), which was appointed to maximise the recovery value of those assets for the benefit of its creditors. The Issuer, initially named New Glitnir banki hf., reverted to its previous brand name of Íslandsbanki hf., on 20 February 2009.

On 13 September 2009, Glitnir, on behalf of its creditors, and the Icelandic government reached an agreement on the settlement of assets and liabilities between the Issuer and Glitnir. Under the agreement, the Resolution Committee acquired a 95 per cent. stake in the Issuer. Glitnir therefore assumed majority control of the Issuer and a new Board of Directors was appointed on 25 January 2010. The 95 per cent. stake is now owned by ISB Holding ehf., a holding company wholly owned by GLB Holding ehf, which is a subsidiary of Glitnir.

In June 2011, the Issuer announced that it had successfully won a public bid for the entire share capital of Byr hf., a local bank in Iceland. Byr hf. focused mainly on retail banking and was built on the foundation of an older savings bank, which became insolvent in April 2010. The shares were acquired from the Byr hf.'s winding up committee and the Icelandic government. The acquisition price was ISK 6.6 billion. The acquisition agreement was executed on 29 November 2011 and the acquisition was completed in the first quarter of 2012. As a result of the acquisition, the balance sheet of the Issuer increased by approximately 20 per cent. and the total capital ratio of the Issuer remains well above the minimum requirements required by the FME.

In March 2011, the Issuer acquired all shares of the credit card company, Kreditkort hf. and on 27 March 2012, Kreditkort hf. was merged into the Issuer.

BUSINESS OVERVIEW

The Issuer is an Icelandic bank headquartered in Iceland. Its primary market is Iceland.

The Issuer is licensed as a commercial bank in Iceland in accordance with Point 1 of Art. 4(1) of the Act on Financial Undertakings and offers comprehensive services to the retail and corporate sectors. The Issuer is one of Iceland's three main banks and maintains a strong market share across the spectrum of banking services in the country. According to Capacent Gallup market surveys, as of December 2013, the Issuer had approximately 33 per cent. of the market share in consumer banking, 33.3 per cent. of the market share in small to medium-sized enterprise banking and 30 per cent. of the market share of banking services to Iceland's 300 largest companies. The Issuer seeks to provide the highest quality services to consumers and corporations, with a focus on building value and retaining a strong sense of social responsibility.

The Issuer operates 19 branches, the majority of which are based around the Reykjavík metropolitan area. It also maintains a presence in larger municipalities across Iceland.

When the Issuer assumed the domestic operations of Glitnir, it decided that it would continue to build on Glitnir's industry focus in the fields of seafood and geothermal energy, Glitnir and its predecessors had based their overseas strategy on lending and advising services to these fields.

The Issuer's business lines are as follows:

Corporate Banking

The primary activities of the Corporate Banking division (**CB**) include credit services and other related services to medium to large-sized companies and institutional investors. This entails providing services to current customers as well as developing business with potential new customers.

Business managers in the business management unit are responsible for maintaining customer relationships. Credit management supported by credit experts support the business managers in servicing the customers as well as monitoring and managing the credit exposure.

Portfolio management is responsible for all portfolio analysis and monitoring and reporting requirements of CB, including risk assessment, financial reporting and analysis and the provision process.

Wealth Management

Wealth Management (**VÍB**) division offers comprehensive solutions in asset management and private banking for private investors and institutional clients. In addition, VÍB provides advisory, investment and pension services for retail investors as well as portfolio management services for affluent private investors.

Mutual funds and discretionary portfolios for institutional clients are managed through an independent subsidiary, Íslandssjódir hf., which manages some of the largest fixed income funds in Iceland.

Retail Banking

The Retail Banking division serves private customers and small and medium-sized enterprises. Retail Banking operates through 19 branches and offers a full range of retail banking services, including online and telephone banking, credit cards, commercial banking, mortgages, credit lines, construction loans and guarantees. The Issuer is one of the three leading retail banks in Iceland and has approximately 33 per cent. market share of the retail banking market according to a Capacent Gallup market survey conducted in December 2013.

Retail Banking is the Issuer’s largest generator of profit and revenue stream for the Issuer. The Issuer is the only Icelandic bank with an asset-based financing unit known as ERGO within the Issuer’s network of branches. This asset-based financing unit provides customers with financing to purchase or lease cars, equipment and heavy machinery.

Markets

The Markets division is comprised of five units: Securities Sales, Foreign Exchange (**FX**) Sales, Interbank Markets, Corporate Finance and Research. In the current economic climate, product offering is heavily dependent on market access and capital flow restrictions. The sluggish recovery in capital markets and capital controls placing heavy limits on the ability to trade in foreign currencies have limited the Issuer’s income from this division. The completion of restructuring of the corporate sector should give rise to a corporate bond market but currently the only active market is the Icelandic government bond market.

The Securities Sales and FX Sales units cover institutional investors, large corporations and financial institutions, providing them access to the financial markets. The Securities Sales unit offers spot deals in equities and fixed income as well as forward deals and options on fixed income. The FX Sales unit carries out spot deals and forward and swap deals on various currencies, as well as FX options.

The Interbank Markets unit is responsible for trading and market making in FX, bonds, money market and equities. In addition, the Interbank Market unit handles cash-management and interest rate risk management and is responsible for the Issuer’s short term liquidity position, reserve requirements and operations in the domestic payment systems.

The Corporate Finance unit offers a full range of services, including advice on sales, acquisitions, mergers, rights issues, listings and de-listings, as well as restructurings. The Corporate Finance unit mainly targets medium to large-sized Icelandic enterprises.

The Research unit conducts in-depth market analysis and issues regular forecasts on the main economic indicators in Iceland. The Research unit publishes a daily newsletter both in English and Icelandic.

The present capital controls in Iceland have a material effect on the business of the Markets division. Currency trades are limited to transactions that can be verifiably linked to external trade in goods and services.

Support Divisions

Finance and Treasury

The Finance and Treasury division includes finance and accounting operations as well as treasury and financial institutions and investor relations. This division also manages and oversees shareholding in the Issuer’s subsidiaries.

Risk Management and Credit Control

The Risk Management and Credit Control division is a core division of the Issuer. The role of Risk Management is to oversee, monitor and manage risk in the Issuer’s operations. Risk Management reports on risks to internal and external stakeholders and ensures that risk limits are adhered to and in line with the Issuer's risk policy as defined by the Board of Directors. Credit Control is accountable for the execution of the credit process in accordance with credit policies.

Operations & Information Technology

The Operations & Information Technology division (**IT**) is responsible for operational services, branch services, back office functions, the Issuer's IT platform, and systems and software development.

Legal

The Legal division is divided into two departments: Legal Department and Legal Collection. The Legal Department provides general legal advice, assists in negotiating contracts with customers and manages legal disputes on the Issuer's behalf. The Legal Collection department enforces obligations of customers in default and manages and monetizes foreclosed real estate.

Human Resources

The Human Resources division is responsible for recruiting, training, and dismissing the Issuer's employees. The division works closely with management on corporate development and the implementation of organisational changes.

Marketing

The Marketing division is responsible for the Issuer's marketing policy, advertising and product development in cooperation with the business segments and event management.

Corporate Communications

The Corporate Communications division is responsible for internal and external relations as well as media relations. This division is also responsible for the Issuer's social media strategy and social corporate responsibility policy.

Compliance

The Compliance division has an independent position within the Issuer's organizational structure. The Compliance division's function is to assist in managing compliance risk on a consolidated basis. Compliance risk can be defined as the risk of legal or regulatory sanctions, financial loss, or damage to the Issuer's reputation in the event of failure to comply with applicable laws, regulations, and codes of conduct and standards of good practice. The Compliance division, in cooperation with Group Internal Audit, performs a special fit and proper test by gathering information via questionnaires and examinations to management and key employees.

Group Internal Audit

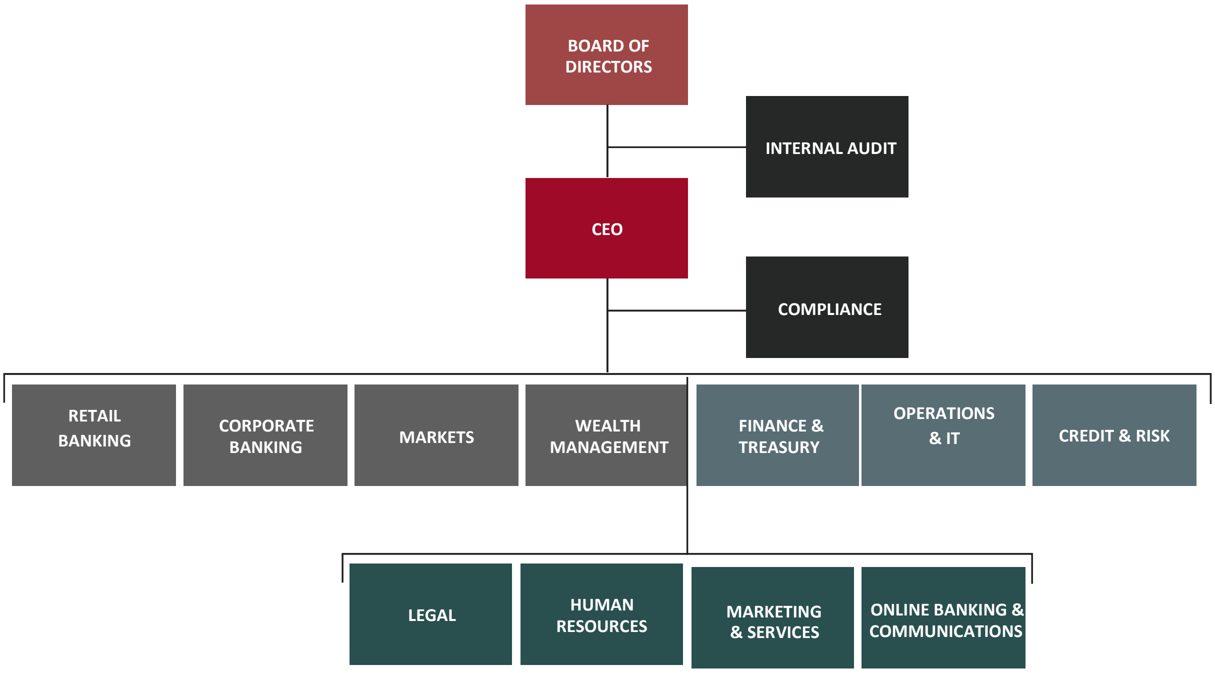
Group Internal Audit is responsible for the Issuer's internal audits in accordance with the Act on Financial Undertakings. The role of Group Internal Audit is to provide the Issuer with independent and objective assurance and consulting services designed to add value and improve the Issuer's operations. Group Internal Audit also assists the Issuer in evaluating and improving the effectiveness of its risk management, controls and governance processes. The Chief Audit Executive is appointed by the Board of Directors and reports directly to the Board of Directors.

ORGANISATIONAL STRUCTURE

ISB Holding ehf., ID-No. 660309-1010 owns 95 per cent. of the Issuer's share capital. The remaining 5 per cent. is owned by the Icelandic government through Icelandic State Financial Investments (**ISFI**). ISB

Holding ehf. is wholly owned by GLB Holding ehf., ID no. 481100-2240, which is wholly owned by Glitnir. Under the Act on Financial Undertakings, FME must authorise direct or indirect holdings in a company which represents 10 per cent. or more of such company's equity capital, voting rights or other holding which enables the exercise of a significant influence over the management of such company. Furthermore, any intention of a change in ownership of the Issuer or ISB Holding ehf. will require notification to and authorisation by FME.

The following chart illustrates the Issuer's organisational structure:



SUBSIDIARIES

The table below lists the Issuer's subsidiaries and the nature of their business as of 31 December 2013:

Subsidiary	Ownership by Issuer	Company Description
Borgun hf.	62.2%	Payment processing company
Island Fund S.A. (formerly Glitnir Asset Management)	99.9%	Asset management company, Luxembourg
Glacier Geothermal and Seafood Corp.	100%	Holding company
Glacier Securities LLC	100%	Broker dealer advisory firm
Manston Properties Limited (Formerly Air Atlanta Properties Ltd.)	100%	Real estate holding company
Íslandssjódir hf.	100%	Fund management company
Ergo ehf. (Formerly Lómur ehf.)	100%	Dormant
Rivulus ehf	100%	Real estate holding company
Kreditkort ehf. (Formerly Audengi hf.)	100%	Financial transactions for Midengi
GREF hf.	64.64%	Real estate holding company
HTO ehf. formerly Hofdatorg ehf.	72.5%	Real estate holding company
Geysir Green Investment Fund slhf.	100%	Investment company
SPV fjárfesting hf	100%	Investment company
Lava Capital Ltd. UK	100%	Investment company
Lava Capital ehf	100%	Investment company
Hringur Eignarhaldsfélag ehf.	100%	Holding company
Allianz Íslandi hf.	100%	Sales agent for insurance

StjórnarZ ehf	100%	Holding company
D-1 ehf	100%	Real estate company
Summa Rekstrarfélag hf.	66%	Fund management company
EFF 2 ehf	100%	Real estate holding company
EFF 4 ehf	100%	Real estate holding company
Fergin ehf	80%	Holding company
Frumherji hf.	80%	Inspections and testing company
Midengi ehf.	100%	Holding company
Fastengi ehf.	100%	Real estate holding company
Bréfabaer ehf	100%	Real estate holding company
Sparvernd ehf	100%	Real estate holding company
Fjárvari ehf	100%	Real estate holding company
Básbryggja ehf.	100%	Real estate holding company
Gráhella	100%	Real estate holding company
ÍSB fasteignir	100%	Real estate holding company
Njardarnes ehf.	100%	Real estate holding company
Hafnargata 7 ehf.	100%	Real estate holding company
LT lodir ehf.	100%	Real estate holding company
Strandhogg i Nordri ehf.	100%	Real estate holding company
SPW ehf.	71.1%	Holding company
Bláfugl ehf.	71.1%	Cargo airline
IG Invest ehf.	71.1%	Aircraft trading company
Saevarhofdi 2 ehf.	100%	Real estate holding company

In addition, the Issuer acquired five dormant companies as part of the merger with Byr hf.

Islandssjodir hf., Midengi ehf., D-1 ehf., and Summa ehf. are part of the Issuer's core business but the Issuer is not dependent upon them.

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

Board of Directors

The Issuer's Board of Directors consists of nine directors. Seven are elected by ISB Holding ehf. as holder of a 95 per cent. stake in the Issuer. The remaining two directors are appointed by the Icelandic State Financial Investments, a state holding Company as holder of the remaining 5 per cent. stake in the Issuer, based on nominations from a selection committee. Two alternate members are also appointed, one appointed by ISB Holding ehf. and one by the Icelandic State Financial Investments.. The Board of Directors appoints the Chief Executive Officer and the Chief Audit Executive. The Chief Executive Officer appoints the Managing Directors of the Issuer.

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

Set forth below are the members of the Issuer's Board of Directors:

Name	Title
Mr. Fridrik Sophusson	Chairman
Mr. John E. Mack	Vice Chairman
Mr. Árni Tómasson	Member of the Board
Mr. Neil Graeme Brown	Member of the Board
Dr. Daniel Levin	Member of the Board
Ms. Marianne Økland	Member of the Board
Ms. María E. Ingvadóttir	Member of the Board
Ms. Helga Valfells	Member of the Board
Ms. Thóranna Jónsdóttir	Member of the Board

Mr. Fridrik Sophusson (Chairman)

Fridrik Sophusson has nearly forty years of experience in fiscal policy making, management and public service in Iceland. Mr. Sophusson holds a Cand. Jur. degree in Law from the University of Iceland.

Mr. John E. Mack (Vice Chairman)

John E. Mack, a U.S. national, has many years of experience in international banking and mergers and acquisitions.

Mr. Mack holds an MBA from the University of Virginia, Darden School of Business and an undergraduate degree in Economics from Davidson College.

Mr. Árni Tómasson (Member of the Board of Directors)

Árni Tómasson has extensive experience in accounting and teaching. Mr. Tómasson was appointed chairman of Glitnir's Resolution Committee in October 2008 and led the committee's work until October 2011 when he resigned from the committee

Mr. Tómasson has a Cand. Oecon. degree in Business Administration from the University of Iceland and is a State Authorised Public Accountant.

Mr. Neil Graeme Brown (Member of the Board of Directors)

Neil Graeme Brown, a British national, has spent the majority of his professional life dealing with finance and restructuring of international businesses.

Mr. Brown holds a Master of Arts degree in business from Emmanuel College Cambridge and is an associate of the Institute of Chartered Accountants.

Dr. Daniel Levin (Member of the Board of Directors)

Daniel Levin, a U.S. and Swiss national, has extensive experience in capital markets and financial institutions. Dr. Levin has been advising governments and development agencies globally in the development of financial and capital markets and has been working closely with supervisory agencies and regulators on the implementation of ethical and corporate governance standards for financial institutions. He has been actively involved in numerous financial legislation and parliamentary initiatives, with a particular focus on the supervision of financial institutions, prosecutorial investigations, conflicts of interest prevention, privatisation transactions, and debt restructurings.

Daniel Levin holds lic.iur. (J.D.) and Dr.iur. (J.S.D./Ph.D.) degrees from the faculty of Law of the University of Zürich, Switzerland, and an L.L.M. degree from Columbia University School of Law.

Ms. Marianne Økland (Member of the Board of Directors)

Marianne Økland, a Norwegian national, has spent most of her career in the banking industry dealing with debt financing and has held various positions at J.P. Morgan and Union Bank of Switzerland.

Ms. Økland holds a Master of Science degree in Finance, Economics and Mathematics from the Norwegian School of Economics and Business Administration.

Ms. María E. Ingvadóttir (Member of the Board of Directors)

María E. Ingvadóttir has over 20 years of experience in management, finance and consulting. Ms. Ingvadóttir holds a Cand. Oecon. degree in Business Administration from the University of Iceland.

Ms. Helga Valfells (Member of the Board of Directors)

Helga Valfells is the Managing Director of the New Business Venture Fund (NBVF). Ms Valfells holds a BA degree in Economics and English literature from Harvard University and an MBA from London Business School.

Ms. Thóranna Jónsdóttir (Member of the Board of Directors)

Thóranna Jónsdóttir holds the position of Dean of the School of Business at Reykjavík University. Ms. Jónsdóttir holds a Doctorate Degree (DBA) in the field of Corporate Governance from Cranfield University in the United Kingdom, and an MBA degree from IESE Business School in Barcelona, as well as a Master's Degree in Pharmaceuticals from the University of Iceland. In addition, she is qualified as a Chartered Stockbroker in Iceland.

The alternate members of the Issuer's Board of Directors are as follows:

Name	**Title**
Mr. Jón Eiríksson	Alternate Member of the Board of Directors
Mr. Gunnar Fjalar Helgason	Alternate Member of the Board of Directors

Mr. Jón Eiríksson (Alternate Member of the Board of Directors)

Jón Eiríksson has extensive experience in accounting. Mr. Eiríksson has been a state authorised public accountant since 1978.

Mr. Gunnar Fjalar Helgason (Alternate Member of the Board of Directors)

Gunnar Fjalar Helgason has extensive experience and expertise in the field of international investment banking, particularly in the field of mergers and acquisitions. Mr. Helgason holds a B.Sc. in Economics from the University of Iceland.

Senior Management

The Executive Board consists of the following eight members:

Ms. Birna Einarsdóttir, Chief Executive Officer

Birna Einarsdóttir worked at Iðnaðarbankinn hf., a predecessor of Glitnir, from 1987. After six years with Royal Bank of Scotland from 1998, Ms. Einarsdóttir rejoined Glitnir in the fall of 2004 as the Managing Director of Sales and Marketing. She was appointed Executive Vice President of Retail Banking of Glitnir in August 2007. Ms. Einarsdóttir assumed the role of CEO of the Issuer in October of 2008.

Ms. Einarsdóttir´s has worked as head of marketing for the Icelandic Broadcasting Company Ltd. (Channel 2) and Managing Director for the Icelandic Football Pools (*Íslensk getspá*).

Ms. Einarsdóttir holds a B.Sc. in Business Administration from the University of Iceland and an MBA from the University of Edinburgh.

Mr. Jón Guðni Ómarsson, Chief Financial Officer

Jón Guðni Ómarsson worked in the Capital Markets division at Glitnir from 2000 to 2002. He rejoined Glitnir in 2005 and has held various positions in the Leverage Finance and Treasury divisions, working on different types of investment and funding transactions. In October 2008, he was appointed Executive Director of Treasury and in October 2011, he was appointed Chief Financial Officer of the Issuer.

Mr. Ómarsson holds a B.Sc. degree in Industrial and Mechanical Engineering from the University of Iceland and a Master's degree in Financial Engineering from the Georgia Institute of Technology. He is a CFA charterholder.

Mr. Sverrir Örn Thorvaldsson, Chief Risk Officer

Sverrir Örn Thorvaldsson joined Glitnir in 2006 as Executive Director of Risk Management. Prior to joining the Issuer, he worked in research and software development for deCODE Genetics Ltd. where he served as Executive Director of Data Management and Data Processing.

Mr. Thorvaldsson holds a B.Sc. degree in Mathematics from the University of Iceland and a Master's degree in Financial Mathematics from Stanford University. He is a certified securities broker and a financial risk management specialist certified by the Global Association of Risk Professionals.

Mr. Stefán Sigurdsson, Managing Director VÍB (Wealth Management)

Stefán Sigurdsson joined Glitnir's Corporate Finance unit in Copenhagen in 2006. He became Managing Director of Glitnir's Business Development division in May 2008 and was appointed Managing Director of VÍB in October 2008. He has worked in the financial sector since 1997 and has extensive experience of capital markets, treasury, corporate finance and business development.

Mr. Sigurdsson holds a B.Sc. degree in Economics from the University of Iceland and a M.Sc. degree in Economics from the University of Copenhagen.

Ms. Sigríður Olgeirsdóttir, Chief Operating Officer

Sigríður Olgeirsdóttir was appointed Chief Operating Officer of the Issuer in September 2010. Ms Olgeirsdóttir has worked in the information and technology industry since 1984 and prior to joining the Issuer, she was Executive Director of the Information and Technology division of Tæknival hf., Managing Director of Ax Business Intelligence A/S in Denmark and Managing Director of Ax Business Intelligence in Iceland.

Ms. Olgeirsdóttir is a systems analyst educated at EDB School in Odense, Denmark, holds a degree in Business Operations from the Institute of Continuing Education at the University of Iceland and an MBA in International Management from Reykjavík University.

Ms. Una Steinsdóttir, Managing Director Retail Banking

Una Steinsdóttir joined Glitnir in 1991 as a specialist in International Banking. Ms. Steinsdóttir has over 20 years of experience in working for the Issuer and its predecessors and has, among other things, worked in credit control and service management. Ms. Steinsdóttir was a branch manager in Keflavik for eight years from 1999 to 2007 until she was appointed director of Retail Banking in 2007. She was then appointed Managing Director of Retail Banking for the Issuer in October 2008.

Ms. Steinsdóttir holds a Cand. Oecon degree in Business Administration from the University of Iceland.

Mr. Vilhelm Már Thorsteinsson, Managing Director Corporate Banking

Vilhelm Már Thorsteinsson joined Glitnir in 1999. He has held various positions in the Capital Markets and Leverage Finance divisions and within the CEO's office working on different types of transactions and strategic projects in Iceland and internationally. In May 2008, he was appointed Executive Vice President of Treasury and Corporate Centre and in October 2008, he was appointed Managing Director of Corporate Banking of the Issuer.

Mr. Thorsteinsson holds a B.Sc. degree in Business Administration from Reykjavík University, an MBA from Pace University in New York and is a licensed securities broker.

Mr. Tryggvi Björn Davíðsson, Managing Director Markets

Tryggvi Björn Davíðsson was appointed Managing Director of Markets in September 2011. Mr. Davíðsson has a broad experience of international financial markets. For seven years prior to joining the Issuer, Tryggvi had been a Director of Distressed Debt at Barclays Capital in London where he built up some of Barclay's core credit trading relationships and covered key participants in the European distressed market. Before his time at Barclays, Mr. Davíðsson was an analyst in asset trading at Íslandsbanki-FBA. Additionally he was a commercial Attaché for the Icelandic Ministry of Foreign Affairs in Paris as well as a Research Associate with the Central Bank of Iceland.

Ms. Davíðsson holds an MBA from INSEAD in France and Singapore and a Masters degree in Finance and Econometrics from Université de Toulouse.

Potential Conflict of Interest

Mr. Árni Tómasson (Member of the Board) is a former chairman of the Resolution Committee which through its subsidiary, ISB Holding ehf., holds 95 per cent. of the shares in the Issuer. Mr. Tómasson resigned from the Resolution Committee on 1 October 2011 but will continue as a member of the Board of Directors of the Issuer. The Issuer and Glitnir, as owner of GLB Holding ehf. and ISB Holding ehf., may have different interests with respect to the financial reorganisations of customers who have obligations with both parties.

There are no other potential conflicts of interest with any of the other members of the management or supervisory bodies of the Issuer.

SHAREHOLDERS

The Issuer's shareholders as of the date of this Base Prospectus are:

ISB Holding ehf.:	9,500,000,000 shares or 95 per cent. of the Issuer's share capital
Icelandic State Financial Investments:	500,000,000 shares or 5 per cent. of the Issuer's share capital

Voting Rights

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

Change In Control Of The Issuer

It has been publicly declared by the Resolution Committee that the Issuer's shares held by ISB Holdings ehf. will be offered for sale, as it does not intend to be a long-term owner of the Issuer' shares. The Icelandic government has also stated that they do not intend to be a long-term owner of the Issuer's shares.

Direct or Indirect Ownership or Control by Shareholders

The Issuer is not directly or indirectly owned or controlled by parties other than the shareholders listed above.

FINANCIAL INFORMATION

IFRS

The Issuer's Annual Financial Statements, incorporated by reference in this Base Prospectus, were prepared on a going concern basis in accordance with IFRS as adopted by the EU and the Interim Financial Statements, incorporated by reference in this Base Prospectus, were prepared in accordance with IAS 34.

Independent Auditors

The consolidated financial statements as of and for the years ended 31 December 2013, 2012 and 2011, incorporated by reference in this Base Prospectus, were audited by Deloitte ehf. The unaudited consolidated interim financial statements as of and for the three months ended 31 March 2014 and 2013 are the responsibility of management. Deloitte ehf. has neither audited nor reviewed the consolidated financial statements as of and for the three months ended 31 March 2014, incorporated by reference in this Base Prospectus. Deloitte ehf. does not provide any form of assurance with respect thereto for the purpose of this Base Prospectus. The Deloitte ehf. reports incorporated by reference in this Base Prospectus relate to the consolidated financial statements as of and for the years ended 31 December 2013, 2012 and 2011. The reports do not extend to the unaudited consolidated interim financial statements as of and for the three months ended 31 March 2014 and 2013 and should not be read to do so.

Explanatory Notes

Detailed information regarding the consolidated financial statements is accessible in the explanatory notes in the relevant financial statements.

Selected Historical Consolidated Financial Information

The following tables set forth selected historical consolidated financial information of the Issuer and should be read in conjunction with the Annual Financial Statements and the Interim Financial Statements. The selected historical consolidated financial information for each of the financial years ended 31 December 2013, 2012 and 2011 has been derived from the Annual Financial Statements, incorporated by reference in this Base Prospectus. The consolidated income statement data as of and for the three months ended 31 March 2014 and 2013 and the consolidated statement of financial position data as of 31 March 2014 has been derived from the Interim Financial Statements, incorporated by reference in this Base Prospectus.

CONSOLIDATED INCOME STATEMENT

ISK (in millions)	For the three months ended 31 March 2014	2013
Net interest income	**6,646**	7,473
Net fee and commission income	**2,854**	2,452
Net financial income	**863**	881
Net foreign exchange loss	**(291)**	(1,563)
Share profit of associates net of tax	**0**	3
Other net operating income	**1,113**	412
Total operating income	**11,185**	9,658
Administrative expenses	**(5,909)**	(6,236)
Contribution to the Depositors' and Investors' Guarantee Fund	**(258)**	(246)
Bank tax (3)	**(592)**	(67)
Profit before loan impairment charges and net valuation changes	**4,426**	3,109
Loan impairment charges and net valuation changes(4)	**1,520**	2,993
Profit before tax	**5,946**	6,102
Income tax	**(1,394)**	(1,448)
Profit for the period from continuing operations	**4,552**	4,654
Profit (loss) from discounted ops, net of tax	**3,744**	(69)
Profit for the period	**8,296**	4,585

ISK (in millions)	For the year ended 31 December 2013	2012	2011
Interest income	**54,333**	59,419	52,671
Interest expense	**(25,903)**	(26,479)	(21,446)
Net interest income (1)	**28,430**	32,940	31,225
Fee and commission income	**16,695**	14,812	8,698
Fee and commission expense	**(6,262)**	(5,353)	(2,732)
Net fee and commission income	**10,433**	9,459	5,966
Net financial income (1)	**4,612**	1,517	2,649
Net foreign exchange (loss)/gain(1)	**(2,423)**	2,737	937
Share of profit or loss of associates (2)	**3**	0	39
Other net operating income	**1,542**	996	894
Other net operating income	**3,734**	5,250	4,519
Total operating income	**42,597**	47,649	41,710
Administrative expenses	**(25,551)**	(24,589)	(19,870)
Impairment of goodwill	**0**	(425)	(17,873)
Contribution to the Depositors' and Investors' Guarantee Fund	**(1,016)**	(1,055)	(965)
Bank tax(3)	**(2,321)**	(858)	(682)
Profit before loan impairment charges and net valuation changes	**13,709**	20,722	2,320
Loan impairment charges and net valuation changes(4)	**16,299**	5,710	(1,220)
Profit before tax	**30,008**	26,432	1,100
Income tax	**(7,866)**	(6,253)	(75)
Profit for the year from continuing operations	**22,142**	20,179	1,025
Profit from discounted operations, net of income tax	**927**	3,239	841
Profit for the year	**23,069**	23,418	1,866

(1) Comparable information related to Net interest income, Net financial income and Net foreign exchange (loss)/gain for the years ended December 2012 and 2011 has been restated due to a change in methodology. For the year ended 31 December 2012, the amounts have been restated as follows: Net interest income increased by 1,705 million ISK, Net financial income decreased by 1.138 million ISK and Net foreign exchange (loss)/gain decreased by 567 million ISK. For the year ended 31 December 2011, the amounts have been restated as follows: Net interest income increased by 289 million ISK, Net financial income increased by 361 million ISK and Net foreign exchange (loss)/gain decreased by 650 million ISK.

(2) Moved from other expenses to other net operating income for both 2012 and 2011.

(3) Moved from being below Income tax to being part of Total operating expenses for both year 2012 and 2011.

(4) Previously presented as Net valuation changes, has been moved down from being below Net interest income to being below the line item Profit before loan impairment charges and net valuation changes. As a result, total operating income changed from 53,359 million ISK to 47,649 million ISK in 2012 and 2011 from 40,451 million ISK to 41,710 million ISK.

STATEMENT OF FINANCIAL POSITION

ISK (in millions)

ASSETS	**As of 31 March 2014**
Cash and balances with Central Bank	**136,735**
Derivatives	**1,328**
Bonds and debt instruments	**76,165**
Shares and equity instruments	**11,795**
Loans to credit institutions	**47,895**
Loans to customers	**565,952**
Investment in associates	**1,556**
Property and equipment	**8,691**
Intangible assets	**292**
Deferred tax assets	**1,155**
Non-current assets and disposal groups held for sale	**24,116**
Other assets	**8,363**
Total assets	**884,043**

LIABILITIES & EQUITY	**As of 31 March 2014**
Derivative instruments and short positions	**8,806**
Deposits from Central Bank	**32**
Deposits from credit institutions	**26,815**
Deposits from customers	**502,925**
Debt issued and other borrowed funds	**95,035**
Subordinated loans	**21,437**
Current tax liabilities	**11,652**
Deferred tax liabilities	**20**
Non-current liabilities and disposal groups held for sale	**3,447**
Other liabilities	**38,501**
Total liabilities	**708,670**
Total equity	**175,373**
Total liabilities and equity	**884,043**

ASSETS	As of 31 December 2013	2012	2011
Cash and balances with Central Bank	**111,779**	85,500	57,992
Derivatives	**843**	127	339
Bonds and debt instruments	**75,186**	64,035	58,662
Shares and equity instruments	**9,208**	10,445	11,107
Loans to credit institutions	**44,078**	54,043	43,655
Loans to customers	**554,741**	557,857	564,394
Investment in associates	**1,563**	503	1,070
Property and equipment	**8,772**	5,579	5,276
Intangible assets	**299**	261	544
Deferred tax assets	**1,275**	864	2,629
Non-current assets and disposal groups held for sale	**47,106**	39,046	42,690
Other assets	**11,159**	5,115	7,557
Total assets	**866,009**	823,375	795,915

LIABILITIES & EQUITY	As of 31 December 2013	2012	2011
Derivative instruments and short positions	**11,176**	18,435	13,373
Deposits from Central Bank	**63**	54	73
Deposits from credit institutions	**29,626**	38,218	62,772
Deposits from customers	**489,331**	471,156	462,943
Debt issued and other borrowings	**89,193**	66,571	63,221
Subordinated loans	**21,890**	23,450	21,937
Current tax liabilities	**10,806**	2,052	2,670
Deferred tax liabilities	**20**	20	17
Non-current liabilities and disposal groups held for sale	**9,456**	6,805	7,317
Other liabilities	**37,130**	48,954	37,889
Total liabilities	**698,691**	675,715	672,212
Total equity	**167,318**	147,660	123,703
Total liabilities and equity	**866,009**	823,375	795,915

RISK MANAGEMENT

The Issuer is exposed to various risks. Managing these risks is an integral part of the Issuer's operations. All amounts are presented in ISK million, unless otherwise stated, and some disclosures are only provided on an annual basis.

More detailed information about the Issuer's risk management and risk assessment processes is available in the Risk Report 2013 which can be found on the Issuer's website.

Risk Governance

Íslandsbanki's management body has a dual structure where the Chief Executive Officer (**CEO**) is responsible for daily operations while the Board of Directors has a supervising role.

The CEO is responsible for developing and maintaining adequate and effective risk management and internal control functions of the Issuer. In addition, the CEO appoints the Chief Risk Officer (**CRO**) as well as the other members of the Executive Board, the Risk Committee, the Asset and Liability Committee (**ALCO**) and the Investment Committee.

Internal Audit conducts independent evaluations and reviews internal control and risk management for their appropriateness, effectiveness and their compliance with the Issuer’s procedures. The Chief Audit Executive (**CAE**) is appointed by and reports to the Board of Directors. The CAE is responsible for the internal audit of the Issuer.

The Compliance group is responsible for ensuring that the Issuer maintains adequate policies and procedures governing compliance by the Board of Directors and employees of the Issuer with applicable law, regulations and internal policies and proper and sound business practices and customs of the financial market.

The Risk Management division is responsible for maintaining and developing internal directives and frameworks regarding risk management and internal control. The Risk Management division is also responsible for setting competency standards, training staff on the Issuer's policies, internal directives and frameworks related to risk management and internal control, and assisting and providing information and guidance to heads of the Issuer’s business units on risk management and internal control issues. The Risk Management division also advises on risk and risk assessment. It develops, maintains and tests risk models and provides other forms of support within its expertise.

The CRO, a member of the Executive Board, is responsible for the risk management of the Issuer and heads the Risk Management division. The CRO is responsible for defining the daily tasks of the Risk Management division and assessing the qualifications of the members of the Risk Management division. In addition, the CRO is responsible for ensuring that the Issuer has the right resources and the appropriate organisational structure to manage the Issuer’s risks efficiently. The CRO’s responsibility also includes risk management functions of the Issuer’s branches and subsidiaries.

The Risk Management division reports risk assessments and non-compliance, or breaches of risk limits, to internal and external stakeholders to ensure that the appropriate actions are taken to address any risk related issues. The Risk Management division is independent from the Issuer’s other business lines and departments but provides strategic support to the other business lines and departments. Although the Issuer has an independent Risk Management division, management also manages all risks arising in the Issuer’s business and operations.

Management committees

The implementation of the risk management practises and internal monitoring, in accordance with the Board of Director’s authorisation, is delegated to the management committees: the Executive Board, the Risk Committee, the ALCO, and the Investment Committee. Under this authorisation, these management committees issue detailed guidelines for risk assessment and individual risk thresholds in accordance with the Issuer's defined risk appetite. The members of the management committees are appointed by the CEO, and their mandate and rules of procedure are documented in charters approved by the Board of Directors.

The Executive Board is responsible for the operational risk framework. The operational risk framework covers how operational risk is identified, assessed, measured, monitored, controlled and mitigated. In addition, the Executive Board supervises reputational risk, business risk and strategic risk and governs the Issuer's operational risk policy.

The Risk Committee is responsible for supervising and monitoring the Issuer's credit and credit concentration risks. The Risk Committee governs the Issuer's credit risk policy and other credit rules and procedures such as credit limits. The Risk Committee can delegate authorisation power to subcommittees and the Risk Committee and each of its subcommittees have the authority to decide on credit proposals, credit risk and counterparty credit risk within defined limits. Decisions on exposures that exceed committee limits are referred to a more senior committee. In turn, credit decisions exceeding the limits of the Risk Committee are referred to the Board of Directors for confirmation. The Risk Committee is also responsible for approving products and services in accordance with a formal product approval process.

The ALCO supervises other financial risks, including market risk, liquidity risk and interest rate risk in the Issuer’s banking book (non-trading portfolio). The ALCO decides on and sets limits for these risks and governs the Issuer's market and liquidity risk policies. The ALCO also oversees the Issuer's capital allocation framework and transfer pricing mechanism.

The Investment Committee makes decisions pertaining to the purchase or sale of equity stakes in other companies as well as other types of investments, such as investments in investment funds and real estate.

Credit Risk

Credit risk is defined as current or prospective risk to the Issuer’s earnings and capital arising from an obligor’s potential failure to meet the term of, or to perform under, any contract with the Issuer. Credit risk arises principally from the Issuer’s loans and advances to customers and other banks but also arises from balances with the Central Bank of Iceland and off-balance sheet items such as guarantees, loan commitments and derivatives. This risk comprises of default risk, recovery risk, country risk, settlement risk and credit concentration risk. Credit concentration risk is the risk of credit concentration in a particular group of borrowers which is based on common underlying factors among borrowers such as business sector, geographical location, type of financial instrument or any relationship among borrowers.

Credit Risk Management

The Issuer has policies and procedures dedicated to identifying, measuring and managing credit risk. The objective of the Issuer’s credit risk management is to achieve an appropriate balance between risk and return and to minimise potential adverse effects of credit risk on the Issuer’s financial performance.

A thorough analysis of a borrower’s financial standing, past and estimated future cash flows and a borrower’s general ability to repay its obligations is the basis for all credit decisions. The Issuer structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, groups of borrowers, countries and industry segments. The Issuer measures and consolidates its credit risk for each borrower or group of connected borrowers in accordance with the Issuer’s credit policies which set out the criteria to determine both each borrower’s credit risk and the credit concentration risk among borrowers. The Issuer has adopted and implemented a range of policies and practices to mitigate credit risk. The most traditional of these policies and procedures is the taking of security in a borrower’s assets. The principal collateral types for loans are properties, vehicles, equipment, vessels and securities. When applicable, other credit risk mitigation is employed.

The loan portfolio acquired from Glitnir is the largest part of the credit exposure of the Issuer.

Credit Risk Exposure

The Issuer’s credit risk exposure comprises of both on-balance sheet and off-balance sheet items. Maximum exposure to credit risk for on-balance sheet assets is the net carrying amount as reported in the statement of financial position before the collective impairment allowance is subtracted. The maximum exposure for off-balance sheet items is the amount that the Issuer might have to pay against financial guarantees and loan commitments, less provisions the Issuer has made because of these items. The maximum credit exposure for a derivative contract is calculated by adding future credit exposure to the market value of the contract, as described in Annex III of the European Parliament directive 2006/48/EC (Basel II).

The table below shows the Issuer’s credit exposure by industry before taking account of any collateral held or other credit enhancements. The breakdown follows an internal industry classification based on the Icelandic ISAT 2008, which is derived from the European NACE Rev. 2 classification standard.

Maximum credit exposure as of 31.03.2014

	Individuals	**Central governments**	**Commerce and services**	**Construction**	**Energy**	**Financial services**	**Industrials and transportation**	**Investment companies**	**Public sector and non-profit organisations**	**Real estate**	**Seafood**	**Total**
Cash and balances with Central Bank	-	136,735	-	-	-	-	-	-	-	-	-	136,735
Derivatives	19	1,424	61	-	623	617	111	52	-	41	96	3,044
Bonds and debt instruments	-	68,655	101	-	54	5,744	-	928	349	334	-	76,165
Loans to credit institutions	-	-	-	-	-	47,895	-	-	-	-	-	47,895
Loans to customers:	254,627	-	74,655	18,272	3,578	188	50,402	13,259	11,271	73,851	69,075	569,178
Overdrafts	14,619	-	9,217	3,836	1	171	4,977	352	1,720	2,513	2,089	39,495
Credit cards	13,647	-	1,237	141	6	17	393	32	167	50	42	15,732
Mortgages	178,968	-	-	-	-	-	-	-	-	-	-	178,968
Leases	9,507	-	14,791	2,467	8	-	5,488	215	285	1,278	238	34,277
Other loans	37,886	-	49,410	11,828	3,563	-	39,544	12,660	9,099	70,010	66,706	300,706
Off-balance sheet items:												
Financial guarantees	1,480	-	2,205	2,059	-	1,500	1,459	24	36	162	627	9,552
Undrawn loan commitments	-	-	328	1,135	9,002	-	2,932	-	-	5,691	1,276	20,364
Undrawn overdraft	8,610	-	6,267	1,198	222	1,853	2,329	166	1,413	670	1,456	24,184
Credit card commitments	24,593	-	3,269	448	28	73	835	118	874	163	139	30,540
Total maximum credit exposure	289,329	206,814	86,886	23,112	13,507	57,870	58,068	14,547	13,943	80,912	72,669	917,657

Maximum credit exposure as of 31.12.2013:

	Individuals	Central governments	Commerce & services	Construction	Energy	Financial services	Industrials and transportation	Investment companies	Public sector & non-profit organizations	Real estate	Seafood	Total
Cash and balances with CB........	-	111,779	-	-	-	-	-	-	-	-	-	111,779
Derivatives................................	10	1,036	53	-	520	434	131	43	-	4	137	2,368
Bonds & debt instruments..........	-	67,268	-	-	58	6,326	-	967	116	451	-	75,186
Loans to credit institutions.........	-	-	-	-	-	44,078	--	-	-	-	-	44,078
Loans to customers:	255,044	-	81,522	18,640	3,614	34	46,433	10,306	6,894	66,647	69,289	558,423
Overdrafts	14,885	-	9,862	4,109	1	20	4,000	290	1,746	2,208	2,318	39,439
Credit cards	16,008	-	1,265	154	4	14	369	28	140	51	47	18,080
Mortgages	176,421	-	-	-	-	-	-	-	-	-	-	176,421
Leases....................................	9,586	-	14,244	2,451	8	-	5,227	213	304	1,475	228	33,736
Other loans	38,144	-	56,151	11,926	3,601	-	36,837	9,775	4,704	62,913	66,696	290,747
Off-balance sheet items:												
Financial guarantees..............	1,299	-	2,559	2,343	-	1,500	1,298	24	11	48	492	9,574
Undrawn loan commitments...	-	-	392	879	9,069	-	3,880	-	-	4,995	186	19,401
Undrawn overdrafts...............	9,646	-	5,634	1,013	202	1,102	2,125	195	1,704	726	1,324	23,671
Credit card commitments	22,594	-	3,267	408	12	91	800	124	887	160	144	28,487
Total maximum credit exposure	288,593	180,083	93,427	23,283	13,475	53,565	54,667	11,659	9,612	73,031	71,572	872,967

Collateral

Collateral and other credit mitigants vary between types of obligors and credit facilities. Loans to credit institutions are usually unsecured. For loans to individuals, the principal collateral are residential property against mortgages. For corporate entities, the Issuer takes a security interest on assets such as real estate, fishing vessels, cash and securities, as well as other types of collateral including accounts receivables, inventory, vehicles and equipment. Loans to government entities and to municipalities are usually unsecured. Derivative exposures are generally made under ISDA master agreements with a Credit Support Annex or pledged collateral in the form of cash and government bonds. In some cases the Issuer uses guarantees as a credit enhancement, but since guarantees effectively transfer credit risk from one counterparty to another, they do not represent a reduction in maximum exposure to credit risk. Covenants in loan agreements are also an important credit enhancement but do not reduce maximum credit exposure. Valuation of collateral is based on market price, official valuation from the Iceland Property Registry or an expert opinion of the Issuer's employees. In the case of fishing vessels, the fishing quotas are included in the valuation for the vessels. Collateral is allocated according to the claim value of loans, not carrying amount, and is measured without taking into account the effect of overcollateralisation. This means that if some loans have collateral values in excess of their claim value, the excess is removed in order to reflect the Issuer's actual maximum exposure to credit risk. The total value of pledged assets can thus be higher than the claim value indicates. An estimate of the collateral held by the Issuer against credit exposure is shown below:

As of 31 March 2014:

	Real estate	**Fishing vessels**	**Cash & securities**	**Vehicles & equipment**	**Other collateral**	**Cre dit exposure covered by collateral**
Derivatives	-	-	1,936	-	-	1,936
Loans & commitments to customers:	339,402	60,013	7,330	29,065	17,703	453,513
Individuals	204,817	30	906	8,514	5	214,272
Commerce & services	36,739	218	1,136	11,717	7,287	57,097
Construction	9,237	132	107	3,921	1,419	14,816
Energy	2,871	-	457	-	117	3,445
Financial services	4	-	-	-	-	4
Industrial and transportation	19,743	-	100	4,384	5,888	30,115
Investment companies	4,221	-	3,333	42	204	7,800
Public sector & non-profit organisations	1,485	2	8	159	-	1,654
Real estate	55,451	24	472	123	50	56,120
Seafood	4,834	59,607	811	205	2,733	68,190
Total	339,402	60,013	9,266	29,065	17,703	455,449

As of 31 December 2013:

	Real estate	**Fishing vessels**	**Cash & securities**	**Vehicles & equipment**	**Other collateral**	**Cre dit exposure covered by collateral**
Derivatives	-	-	1.820	-	-	1.820
Loans & commitments to customers:	321,247	59,488	6,895	31,053	14,603	433,286
Individuals	202,593	26	1,410	8,791	5	212,825
Commerce & services	30,764	217	1,098	12,998	5,193	50,270
Construction	8,912	143	84	3,961	1,418	14,518

Energy	3,242	-	87	-	122	3,451
Financial services	4	-	-	-	-	4
Industrial and transportation	18,161	-	98	4,682	5,029	27,970
Investment companies	4,108	-	2,783	44	55	6,990
Public sector & non-profit organisations	1,438	3	3	223	-	1,667
Real estate	47,377	25	445	155	21	48,023
Seafood	4,648	59,074	887	199	2,760	67,568
Total	321,247	59,488	8,715	31,053	14,603	435,106

Credit Quality of Financial Assets

Loans are classified as impaired loans if contractual cash payments are not expected to be fulfilled and if financial restructuring of the obligor is expected to lead to a loss on that particular loan. In most cases, loss is avoided because of the difference between the claim value and the carrying amount resulting from the deep discount of the acquired loan portfolio.

The full carrying amount of all loans which give rise to individual impairment is included in impaired loans even if the loan is collateralized. The collective impairment has not been subtracted from the carrying amount in the tables below.

As of 31 March 2014:

	Neither past due nor impaired	**Past due but not impaired**	**Classified as impaired**	**Total carrying amount**
Cash and balances with Central Bank	136,735	-	-	136,735
Derivatives	3,044	-	-	3,044
Bonds and debt instruments	76,165	-	-	76,165
Loans to credit institutions	47,895	-	-	47,895
Loans to customers:	500,111	38,531	30,536	569,178
Individuals	221,232	25,070	8,325	254,627
Commerce and services	62,328	4,993	7,334	74,655
Construction	15,976	1,501	795	18,272
Energy	3,578	-	-	3,578
Financial services	185	3	-	188
Industrial and transportation	47,108	1,364	1,930	50,402
Investment companies	12,377	363	519	13,259
Public sector and non-profit organisations	11,072	181	18	11,271
Real estate	61,540	2,877	9,434	73,851
Seafood	64,715	2,179	2,181	69,075
Total	763,950	38,531	30,536	833,017

As of 31 December 2013:

	Neither past due nor impaired	**Past due but not impaired**	**Classified as impaired**	**Total carrying amount**
Cash and balances with the Central Bank of Iceland	111,779	-	-	111,779
Derivatives	2,368	-	-	2,368
Bonds and debt instruments	75,186	-	-	75,186
Loans to credit institutions	44,078	-	-	44,078
Loans to customers:	496,705	34,618	27,100	558,423
Individuals	222,791	23,944	8,309	255,044
Commerce and services	71,177	3,759	6,586	81,522
Construction	16,780	1,005	855	18,640
Energy	3,614	-	-	3,614

Financial services	34	-	-	34
Industrial and transportation	43,175	1,318	1,940	46.433
Investment companies	9,293	506	507	10,306
Public sector and non-profit organisations	6,818	52	24	6,894
Real estate	58,694	2,356	5,597	66,647
Seafood	64,329	1,678	3,282	69,289
Total	730,116	34,618	27,100	791,834

Loans

Neither Past Due Nor Impaired Loans

The Issuer uses internal rating models to assess the default probability of corporate and retail customers. The models assign one of ten risk classes to each customer. One risk class is for customers in default (risk class 10), and the other nine risk classes are for performing customers (risk classes 1-9). Risk classes are assigned based on factors relating to the customer and not the loan amount.

The rating of corporate customers is based on a company's most recent financial statement, together with a qualitative assessment of its management, market position and industry sector. For retail customers, the Issuer uses two different statistical rating models. One model is for individuals and another is for small companies with a total exposure to the Issuer of less than ISK 150 million. These models are behavioural scoring models and are based on a customer's payment history, the amount of debt and deposits, and demographic variables to assess the probability that a customer will default on any of its obligations within 12 months of the rating assessment.

The table below shows loans that are neither past due nor impaired, categorized into five customer groups based on probability of default. Groups 1 to 4 represent low risk, groups 5 to 6 represent moderate risk, groups 7 to 8 represent increased risk, group 9 represents high risk, and risk group 10 represents customers in default. Loans under the "Unrated" column are loans without a formal risk rating or loans with an expired rating which were previously included in risk group 9. Comparable figures have been adjusted accordingly. A customer can have loans that are more than 90 days past due or impaired and have other loans that are neither past due nor impaired. Such customers are in risk class 10 and their loans that are neither past due nor impaired are included in the table below.

As of 31 March 2014:

	Risk Class 1-4	**Risk Class 5-6**	**Risk Class 7-8**	**Risk Class 9**	**Risk Class 10**	**Unrated**	**Total**
Loans to customers:							
Individuals	8,679	79,689	80,579	42,092	7,176	3,017	221,232
Commerce and services	13,422	14,780	27,111	2,731	1,789	2,495	62,328
Construction	-	3,535	11,257	595	370	219	15,976
Energy	2,143	1,414	21	-	-	-	3,578
Financial services	157	4	14	7	-	3	185
Industrial and transportation	19,479	17,173	8,293	1,045	438	680	47,108
Investment companies	652	5,726	3,555	989	205	1,250	12,377
Public sector and non-profit organisations	5,822	4,006	796	94	5	349	11,072
Real estate	125	35,300	11,916	1,484	8,005	4,710	61,540
Seafood	27,027	22,742	10,577	1,147	1,252	1,970	64,715
Total	77,506	184,369	154,119	50,184	19,240	14,693	500,111

As of 31 December 2013:

	Risk Class 1-4	Risk Class 5-6	Risk Class 7-8	Risk Class 9	Risk Class 10	Unrated	Total
Loans to customers:							
Individuals	8,388	77,267	82,203	44,295	7,609	3,029	222,791
Commerce and services	14,544	20,982	27,505	2,751	2,768	2,627	71,177
Construction	-	4,279	10,864	606	601	430	16,780
Energy	2,150	1,445	19	-	-	-	3,614
Financial services	6	1	19	5	-	3	34
Industrial and transportation	13,909	16,431	8,796	3,278	410	351	43,175
Investment companies	837	3,220	3,654	924	142	516	9,293
Public sector and non-profit organisations	1,756	3,060	1,804	93	3	102	6,818
Real estate	127	35,019	11,140	1,470	8,093	2,845	58,694
Seafood	21,363	29,347	11,719	300	1,339	261	64,329
Total	63,080	191,051	157,723	53,722	20,965	10,164	496,705

Restructuring and Forbearance

Restructuring of customer debt has been one of the Issuer's main tasks since October 2008. This has been a challenge as many customers were in need of restructuring and forbearance measures due to legal issues, the political environment and the general Icelandic economy. However, the Issuer has set in place processes and resources to address restructuring and forbearance, and the Issuer's management team is informed of the status of restructuring and forbearance on a regular basis.

The Issuer has offered several debt relief measures and restructuring options for its customers since its establishment. These restructuring options include principal adjustment and recalculation of currency-linked loans, debt adjustment for companies and individuals, 110 per cent. adjustment of mortgages, write-offs and tailor-made solutions in complicated cases where general solutions are not sufficient.

Other forbearance measures which the Issuer can make available include temporary payment holidays, extension of loan terms, capitalisation of arrears and waiving of covenants. In many cases these measures are precursors to a more formal restructuring process.

The table below shows the carrying amount of loans to customers that are neither past due nor impaired, broken down by restructuring and forbearance status.

	31.12.2013
Loans discharged from restructuring in 2013	6,046
Loans where forbearance agreements were made in 2013	7,174
Other loans neither past due nor impaired	483,485
Loans to customers neither past due nor impaired	496,705

Comparative figures not available.

Past Due But Not Impaired Loans

Past due but not impaired loans are loans where contractual interest or principal payments have passed due dates without the obligor making full payment but specific impairment is not appropriate. The reason is usually that contractual payments are expected to be eventually fulfilled or these loans are expected to be restructured without any loss to the Issuer. In some cases, loss is avoided because of the difference between the claim value and the carrying amount, resulting from the deep discount of the acquired loan portfolio. In other cases, there is sufficient collateral. Amounts reported as loans past due refer to the total loan exposure and not only the payment or sum of payments that are past due. Payments that are three days or less in arrears are not considered to be past due and the corresponding loans are therefore omitted in the table below. Past due but not impaired loans are as follows:

As of 31 March 2014:

	Past due 4-30 days	**Past due 31-60 days**	**Past due 61-90 days**	**Past due more than 90 days**	**Total past due loans**
Loans to customers:					
Individuals	9,514	4,473	2,019	9,064	25,070
Commerce and services	2,281	1,584	272	856	4,993
Construction	500	460	137	404	1,501
Energy	-	-	-	-	-
Financial services	-	3	-	-	3
Industrial and transportation	353	386	48	577	1,364
Investment companies	150	51	33	129	363
Public sector and non-profit organisations	173	7	-	1	181
Real estate	1,512	472	178	715	2,877
Seafood	490	34	126	1,529	2,179
Total	14,973	7,470	2,813	13,275	38,531

As of 31 December 2013:

	Past due 4-30 Days	**Past due 31-60 Days**	**Past due 61-90 Days**	**Past due more than 90 days**	**Total past due loans**
Loans to customers:					
Individuals	8,615	4,181	786	10,362	23,944
Commerce and services	1,349	1,000	335	1,075	3,759
Construction	330	279	24	372	1,005
Energy	-	-	-	-	-
Financial services	-	-	-	-	-
Industrial and transportation	375	203	45	695	1,318
Investment companies	181	35	137	153	506
Public sector and non-profit organisations	38	6	1	7	52
Real estate	1,040	460	109	747	2,356
Seafood	790	107	78	703	1,678
Total	12,718	6,271	1,515	14,114	34,618

Large Exposure Disclosure

When the Issuer’s total exposure to a group of connected clients is 10 per cent. or higher of the Issuer’s capital base it is considered a large exposure.

Both on-balance sheet and off-balance sheet items from all types of financial instruments are included in the exposure as defined by FME rules 625/2013. The Issuer has internal criteria that define connections between clients. These criteria reflect the Issuer’s interpretation of Article (1)(a) of law 161/2002 on Financial Undertakings, where groups of connected clients are defined. In line with the law, the capital base from 31 December 2013 is used.

The exposure is evaluated both gross and net of credit risk mitigating effects eligible under the FME rules. Net of mitigating effects, the Issuer has currently no large exposure above 10 per cent. of its capital base. In particular, no large exposure is above the maximum 25 per cent. single large exposure limit set by the law. The following tables show the Issuer’s large exposures as a percentage of the Issuer’s capital base, gross and net of eligible credit risk mitigating effects.

Client groups[1]	31.3.2014 Gross	Net
Group 1	92%	0%

Client groups[1]	31.12.2013 Gross	Net
Group 1	78%	0%

[1] Group references may not refer to the same group of connected clients for all periods. For example, Group 1 for 31 December 2013 may be not the same group of connected clients for 31 December 2012.

Liquidity Risk

The Issuer defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds.

Liquidity Risk Management

The Issuer's main source of funding is customer deposits. The Issuer's Treasury is responsible for managing the Issuer's funding and liquidity within the limits approved by the Board of Directors and the ALCO. The Issuer's Interbank desk manages the Issuer's intraday liquidity.

The Risk Management division is responsible for measuring, monitoring and reporting on the Issuer's liquidity position. The Issuer's liquidity risk policy assumes that the Issuer has at all times sufficient liquidity to meet all maturing liabilities and other obligations, at least over the next twelve months. The tables below show the contractual payments of principal and interest for the Issuer's financial liabilities as of 31 March 2014. Thus, the total figures for each liability class in the table below are higher than the respective balance sheet amount. Cash flows for payments of an unknown nature, such as for floating rate, CPI-linked or foreign currency denominated payments are based on internal yield curves and forecasts. For financial liabilities with set payment and maturity dates, the amounts are grouped into maturity buckets according to contractual maturities of principal and estimated contractual payments of interest. For demand deposits or other non-dated liabilities, the figures are grouped according to the first possible required payment date. . The tables showing the cash flow of financial assets include principal payments, whereas the tables showing cash flow of financial liabilities include both principal and interest payments.

Maturity analysis 31 March 2014

Financial liabilities	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No maturity**	**Total**
Short positions	-	126	688	7,167	824	-	8,805
Deposits from Central Bank	32	-	-	-	-	-	32
Deposits from credit institutions	22,910	3,599	310	-	-	-	26,819
Deposits from customers	347,910	67,785	49,477	23,782	29,406	-	518,360
Debt issued and other borrowed funds	11	6,467	15,386	72,878	15,269	-	110,111
Subordinated loans	-	-	719	6,210	23,541	-	30,470
Other financial liabilities	35,294	3,752	9,112	1,772	-	-	49,930
Total financial liabilities	406,157	81,729	75,692	111,809	69,040	-	744,427

Off-balance sheet liabilities show the amount of contractual obligations that the Issuer has with customers, either by committing to lend money in the future, or as third party guarantees. The amounts shown reflect the maximum amount of the obligation and do not take into account the Issuer's ability to reduce overdraft or credit card limits before the current undrawn amount is fully utilised by the customer. These obligations have been categorised as on-demand since contractually, on a case by case basis, the Issuer could be required to fulfil these obligations instantaneously.

The table below shows the Issuer's off-balance sheet liabilities as of 31 March 2014:

Off balance sheet liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Financial guarantees	9,552	-	-	-	-	-	9,552
Undrawn loan commitments	20,364	-	-	-	-	-	20,364
Undrawn overdrafts	24,184	-	-	-	-	-	24,184
Credit card commitments	30,540	-	-	-	-	-	30,540
Total	84,640	-	-	-	-	-	84,640
Total non-derivative financial liabilities and off-balance sheet liabilities	490,797	81,729	75,692	111,809	69,040	-	829,067

The table below shows the contractual cash flow of the Issuer's derivative liabilities, i.e. derivatives that have a negative carrying amount at the date of reporting. Derivatives with a positive carrying amount are detailed separately. For derivatives settled on a gross basis, both gross and net cash flow are shown since netting cannot be applied upon settlement.

The table below shows the Issuer's derivative financial liabilities as of 31 March 2014:

Derivative financial liabilities	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Gross settled derivatives							
Inflow	-	618	907	74,751	-	-	76,276
Outflow	-	(639)	(718)	(78,724)	-	-	(80,081)
Total	-	(21)	189	(3,973)	-	-	(3,805)
Net settled derivatives	-	(78)	-	-	-	-	(78)
Total	-	(99)	189	(3,973)	-	-	(3,883)

Maturity classification of assets is based on contractual maturity. For loans that were acquired at a deep discount and have not yet been restructured, the contractual amount is scaled to reflect the carrying amount of the claim. For bonds and debt instruments in the banking book, the maturity classification is based on contractual maturity dates, while for bonds and debt instruments held for trading, the maturity classification is based on the estimated liquidation time of the asset.

The table below shows the Issuer's financial assets and derivative financial assets as of 31 March 2014. The total amount of loans to customers is shown before collective impairment allowance and is therefore higher than the total amount shown in the Interim Financial Statements incorporated herein:

Financial assets	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Cash and balances with Central Bank	25,445	111,290	-	-	-	-	136,735
Bonds and debt instruments	-	34,933	2,501	34,581	4,150	-	76,165
Shares and equity instruments	-	-	9	250	10,515	1,021	11,795
Loans to credit institutions	27,585	20,147	163	-	-	-	47,895
Loans to customers	6,981	70,194	44,130	157,319	290,554	-	569,178
Other financial assets	4,626	1,061	79	87	-	2,995	8,848
Total financial assets	64,637	237,625	46,882	192,237	305,219	4,016	850,616
Derivative financial assets							
Gross settled derivatives							
Inflow	-	8,135	3,363	19,778	2,548	-	33,824
Outflow	-	(7,963)	(3,227)	(19,213)	(2,828)	-	(33,231)

Total	-	172	136	565	(280)	-	593
Net settled derivatives	-	160	-	-	-	-	160
Total	-	332	136	565	(280)	-	753

The tables below show the comparative amounts for financial assets and liabilities at 31 December 2013.

Maturity analysis as of 31 December 2013

Financial liabilities	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No maturity**	**Total**
Short positions	9,462	-	-	-	-	-	9,462
Deposits from Central Bank	63	-	-	-	-	-	63
Deposits from credit institutions	26,804	2,457	413	-	-	-	29,674
Deposits from customers	346,352	47,265	52,685	29,918	29,429	-	505,649
Debt issued and other borrowed funds	2	6,765	15,988	52,993	28,397	-	104,145
Subordinated loans	-	-	749	6,869	24,919	-	32,537
Other financial liabilities	33,576	4,874	9,196	-	74	-	47,720
Total financial liabilities	416,259	61,361	79,031	89,780	82,819	-	729,250

Off balance sheet liabilities	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No maturity**	**Total**
Financial guarantees	9,574	-	-	-	-	-	9,574
Undrawn loan commitments	19,401	-	-	-	-	-	19,401
Undrawn overdrafts	23,671	-	-	-	-	-	23,671
Credit card commitments	28,487	-	-	-	-	-	28,487
Total	81,133	-	-	-	-	-	81,133
Total non-derivative financial liabilities and off balance sheet liabilities	497,392	61,361	79,031	89,780	82,819	-	810,383

Derivative financial liabilities	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No maturity**	**Total**
Gross settled derivatives							
Inflow	-	3,865	8,742	65,955	-	-	78,562
Outflow	-	(3,906)	(8,321)	(71,328)	-	-	(83,555)
Total		(41)	421	(5,373)	-	-	(4,993)
Net settled derivatives	-	(195)	-	-	-	-	(195)
Total	-	(236)	421	(5,373)	-	-	(5,188)

Financial assets	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No maturity**	**Total**
Cash and balances with Central bank	12,695	99,084	-	-	-	-	111,779
Bonds and debt instruments	5,503	35,250	67	26	31,805	2,535	75,186
Shares and equity instruments	46	-	9	344	-	8,986	9,385
Loans to credit institutions	29,420	14,497	161	-	-	-	44,078
Loans to customers	932	75,481	42,852	150,591	289,067	-	558,923
Other financial assets	7,102	1,541	102	1,658	-	3,169	13,572
Total financial assets	55,698	225,853	43,191	152,619	320,872	14,690	812,923

Derivative financial assets	**On demand**	**Up to 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**No maturity**	**Total**

Gross settled derivatives							
Inflow	-	4,793	3,732	10,508	2,523	-	21,556
Outflow	-	(4,605)	(3,584)	(10,265)	(2,813)	-	(21,267)
Total	-	188	148	243	(290)	-	289
Net settled derivatives	-	58	-	-	-	-	58
Total	-	246	148	243	(290)	-	347

As a part of managing liquidity risk, the Issuer holds a portfolio of liquid assets to meet unexpected outflows of funds or temporary shortages in access to new funding. These assets are subject to strict criteria with respect to credit quality, liquidation time and price volatility. The table below shows the composition and amount of the Issuer's back-up liquidity at 31 March 2014 and 31 December 2013.

Composition and amount of liquidity back-up	31.3.14	31.12.13
Cash and balances with Central Bank	136,735	111,779
Domestic bonds eligible as collateral against borrowing at the Central Bank	23,996	20,873
Foreign government bonds	36,176	34,618
Short-term placements with credit institutions	42,214	41,192
Composition and amount of liquidity back-up	239,121	208,462

Market Risk

Market risk is the current or prospective risk to the Issuer's earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, equity prices, commodity prices and foreign exchange rates.

Market Risk Management

The Issuer's market risk appetite is determined by the Board of Directors. The ALCO decides on limits for portfolios and products in accordance with the market risk policy approved by the Board of Directors. The Risk Management division is responsible for monitoring and reporting on the Issuer's overall market risk positions and compliance with internal limits. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Issuer separates exposures to market risk for its trading book and banking book. The Issuer's primary sources of market risk in the trading portfolio are shares, debt instruments and foreign currency positions. All financial assets and liabilities in the trading portfolio are recognised at fair value and all resulting changes are immediately reflected in the income statement. Market risk in the banking book is mainly due to mismatches in assets and liabilities with respect to currencies, interest reset dates and inflation indexation and from shares and equity instruments acquired through restructuring. These mismatches are reported to management and are subject to regulatory and internal limits.

Interest Rate Risk

Interest rate risk is the risk that the Issuer will experience deterioration in its financial position as interest rates change over time. The Issuer uses sensitivity measures such as Basis Point Value (BPV) to measure and manage risk arising from its fixed income exposures. The BPV measures the effect of a 0.01 per cent. upward parallel shift in the yield curve on the fair value of these exposures.

Interest Rate Risk in the Trading Portfolio

The fixed income trading unit invests mainly in government bonds and bonds issued by the Housing Financing Fund (**HFF**), which are guaranteed by the Icelandic government. These positions can include short positions. Icelandic government bonds are either indexed to the Icelandic Consumer Price Index (**CPI**) or non-indexed, with a term of up to ten years. HFF bonds are CPI-linked and have a term of up to 13 years. All bond trading positions, both intraday and end-of-day, are subject to BPV limits. In addition to BPV limits, short and long positions in each instrument are subject to separate limits. The Risk Management division monitors these limits and reports all breaches to the ALCO.

In the table below, the total market value of long and short positions may not be exactly the same as what is reported in note 6 to the Issuer's audited consolidated financial statements for the year ended 31 December 2013. The reason for this difference is that note 8 sums up the net positions in each security while the table below does not take into account the netting of long and short positions in specific securities between different portfolios, and hedging positions in connection with derivative contracts.

Trading bonds and debt instruments, long positions	31.3.14			31.12.13		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	4,288	7.39	(3.17)	3,282	7.41	(2.43)
Non-indexed	37,311	0.20	(0.76)	35,848	0.32	(1.13)
Total	41,599	0.94	(3.93)	39,130	0.91	(3.56)
Trading bonds and debt instruments, short positions	31.3.14			31.12.13		
	MV	Duration	BPV	MV	Duration	BPV
Indexed	-	-	-	291	6.39	0.19
Non-indexed	4,516	1.44	0.65	2,878	2.23	0.64
Total	4,516	1.44	0.65	3,169	2.61	0.83
Net position of trading bonds and debt instruments	37,083	0.88	(3.28)	35,961	0.76	(2.73)

The Issuer's liquidity management assumes that part of the liquidity portfolio in foreign currencies can be invested in highly liquid bills issued by foreign governments. The minimum rating criteria for such investments is Aa3 according to long-term issuer ratings of Moody's Investors Service. At 31 December 2013, the Issuer held a significant amount of foreign Aa1 and Aaa credit rated government bills for liquidity management purposes. These bills have a duration of no more than six months and the sensitivity measured in BPV was ISK (0.9) million at 31 December 2013 (2012: ISK (0.4) million).

Foreign government bills by country:	31.12.2013		31.12.2012	
	Market Value	BPV	Market Value	BPV
Denmark	1,063	(0.02)	-	-
France	1,585	(0.01)	5,094	(0.04)
Germany	4,755	(0.09)	2,547	(0.05)
Netherlands	2,377	(0.02)	7,641	(0.13)
Norway	3,760	(0.13)	1,149	(0.02)
Sweden	5,375	(0.13)	-	-
UK	1,902	(0.02)	-	-
USA	14,433	(0.44)	10,298	(0.17)
Total	35,250	(0.86)	26,729	(0.41)

Sensitivity Analysis for Interest Rate Risk in Trading Portfolios

For sensitivity analysis in the trading portfolio, the Issuer applies a 100 bps shift in ISK for non-indexed and indexed interest rates. Shifts in rates in other currencies are scaled down in accordance with lower volatility. The following table demonstrates the sensitivity of the Issuer's equity and income statement to a reasonable change in interest rates, with all other risk factors held constant.

Sensitivity analysis for trading bonds and debt instruments:

		31.12.2013		31.12.2012	
		Profit or (loss)			
Currency (ISK millions)	Parallel shift in yield curve (basis points)	Downward shift	Upward shift	Downward shift	Upward shift
ISK, indexed	100	243	(243)	120	(120)
ISK, non-indexed	100	28	(28)	(27)	27
CHF	40	-	-	-	-
EUR	20	2	(2)	4	(4)
GBP	40	1	(1)	-	-
JPY	20	-		-	-
USD	40	18	(18)	7	(7)
Other total	40	-	-	1	(1)
Total...................................		292	(292)	105	(105)

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book arises from the Issuer’s core banking activities. The Issuer’s assets and liabilities are of different maturities and are priced at different interest rates. Thus the main source of interest rate risk in the banking book is the risk of loss from fluctuations in future cash flows or fair value of financial instruments as interest rates change over time. The Issuer uses traditional measures for assessing the sensitivity of the Issuer’s financial assets, financial liabilities and earnings to changes in the underlying interest rates.

The Issues holds an Icelandic government bond designated at fair value amounting to ISK 30.8 billion at the end of 2013 (2012: ISK 30.9 billion). The bond pays a floating rate coupon and carries relatively low interest rate risk.

In the table below the total amount for loans to customers is shown before the collective impairment allowance is subtracted and is therefore not the same as the total amount shown in the Issuer’s financial statements. Loans with specific impairment have been placed in the category 0-3 months and their valuation is based on the underlying collateral, thus such loans are not directly affected by changes in market interest rates.

Non-trading portfolio interest rate repricing as of 31 March 2014:

Assets	**0-3 months**	**3-12 months**	**1-2 years**	**2-5 years**	**5-10 years**	**Over 10 years**	**Total**
Balances with Central Bank....................................	136,735	-	-	-	-	-	136,735
Bonds and debt instruments....................................	30,654	645	10	1,287	278	367	33,241
Loans to credit institutions......................................	47,732	163	-	-	-	-	47,895
Loans to customers	422,287	48,840	45,766	38,990	1,374	11,921	569,178
Total assets	637,408	49,648	45,776	40,277	1,652	12,288	787,049
Off balance sheet items...	19,197	40,105	942	4,501	-	-	64,745
Liabilities...							
Short positions	-	200	-	852	-	-	1,052
Deposits from Central Bank....................................	32	-	-	-	-	-	32
Deposits from credit institutions.............................	26,517	298	-	-	-	-	26,815
Deposits from customers	490,566	2,151	-	2,924	7,284	-	502,925
Debt issued and other borrowed funds.....................	25,247	4,302	3,187	52,650	9,649	-	95,035
Subordinated loans	21,437	-	-	-	-	-	21,437
Total liabilities	563,799	6,951	3,187	56,426	16,933	-	647,296

Off balance sheet items	25,787	28,312	4,156	6,895	498	498	66,146
Net interest gap on 31 March 2014	67,019	54,490	39,375	(18,543)	(15,779)	11,790	138,352

Non-trading portfolio interest rate repricing as of 31 December 2013:

Assets	**0-3 months**	**3-12 months**	**1-2 years**	**2-5 years**	**5-10 years**	**Over 10 years**	**Total**
Balances with Central Bank	111,779	-	-	-	-	-	111,779
Bonds and debt instruments	31,302	632	20	1,275	154	493	33,876
Loans to credit institutions	43,917	161	-	-	-	-	44,078
Loans to customers	397,719	46,565	57,552	38,803	1,586	12,516	554,741
Total assets	584,717	47,358	57,572	40,078	1,740	13,009	744,474
Off balance sheet items	19,191	30,980	1,001	4,733	-	-	55,905
Liabilities							
Short positions	2,439	399	-	832	-	-	3,670
Deposits from Central Bank	63	-	-	-	-	-	63
Deposits from credit institutions	29,225	401	-	-	-	-	29,626
Deposits from customers	476,312	2,944	-	2,885	7,190	-	489,331
Debt issued and other borrowed funds	20,518	4,369	2,450	45,263	7,208	9,386	89,194
Subordinated loans	21,890	-	-	-	-	-	21,890
Total liabilities	550,447	8,113	2,450	48,980	14,398	9,386	633,774
Off balance sheet items	20,046	23,638	5,338	8,195	-	-	57,217
Net interest gap on 31 December 2013	33,415	46,587	50,785	(12,364)	(12,658)	3,623	109,388

Sensitivity Analysis for Interest Rate Risk in the Banking Book

For the sensitivity analysis in the banking book, a 100 bps shift is applied for non-indexed ISK interest rates. Shifts in other currencies are chosen using the same scaling factors as in the trading portfolio. "CPI-linked" ISK rate shifts are also scaled down to reflect significantly stronger mean reversion than for non-indexed rates. The table below shows how applied shifts would affect the fair value of the Issuer's banking book.

Sensitivity analysis for non-trading bonds and debt instruments:

		31.12.2013		31.12.2012	
		Profit or (loss)			
Currency (ISK million)	Parallel shift in yield curve (basis points)	Downward shift	Upward shift	Downward shift	Upward shift
ISK, Indexed	40	113	(113)	228	(228)
ISK, non-indexed	100	206	(206)	301	(301)
CHF	40	(2)	2	(2)	2
EUR	20	(6)	6	(3)	3
GBP	40	1	(1)	1	(1)
JPY	20	1	(1)	4	(4)
USD	40	14	(14)	4	(4)
Other	40	(4)	4	(1)	1
Total		323	(323)	532	(532)

Currency Risk

Currency risk is the risk that earnings or capital may be negatively affected by the fluctuations of foreign exchange rates, due to transactions in foreign currencies, or a mismatch in the currency composition of assets or liabilities.

The analysis of the Issuer's foreign currency exposure presented in the tables below is based on the contractual currency of the underlying balance sheet items. Additionally, there are off-balance sheet items that carry currency risk and are included in the total currency imbalance. The off-balance sheet amounts below represent the notional amounts of derivatives and unsettled spot agreements. The tables below summarise the Issuer's exposure to currency risk at 31 March 2014 and 31 December 2013, based on contractual currencies, off-balance sheet items along with the currency adjustment, but excluding assets categorised as held-for-sale.

The previous adjustment of the currency imbalance for loans in foreign currency to customers with revenue and cash flows in ISK is no longer applicable. See note 4.c to the Issuer's audited consolidated financial statements for the year ended 31 December 2013.

Currency analysis 31 March 2014

Assets	**EUR**	**USD**	**GBP**	**CHF**	**JPY**	**Other**	**Total**
Cash and balances with Central Bank	348	207	91	24	13	237	920
Bonds and debt instruments	5,439	17,523	1,875	-	-	11,958	36,795
Shares and equity instruments	283	253	11	1	-	-	548
Loans to credit institutions..................................	10,529	22,795	1,808	286	1,649	3,952	41,019
Loans to customers	57,128	12,298	4,526	6,213	7,045	7,402	94,612
Other assets...	372	1,512	151	-	28	73	2,136
Total assets	74,099	54,588	8,462	6,524	8,735	23,622	176,030
Liabilities							
Deposits from credit institutions	113	51	2	-	13	-	179
Deposits from customers	40,451	24,876	5,104	1,641	1,210	9,483	82,765
Debt issued and other borrowed funds	9	-	-	-	-	14,006	14,015
Subordinated loans	21,463	-	-	-	-	-	21,463
Other liabilities	2,227	5,907	751	1	45	221	9,152
Total liabilities	64,263	30,834	5,857	1,642	1,268	23,710	127,574
On-balance sheet imbalance	9,836	23,754	2,605	4,882	7,467	(88)	48,456
Off-balance sheet items							
Off-balance sheet assets.......................................	12,398	14,131	647	-	677	10,991	38,844
Off-balance sheet liabilities	12,636	34,699	797	4,460	7,320	3,087	62,999
Net off-balance sheet items.................................	(238)	(20,568)	(150)	(4,460)	(6,643)	(7,904)	(24,155)
Net currency imbalance							
on 31 March 2014...	9,598	3,186	2,455	422	824	7,816	24,301

Currency analysis 31 December 2013:

Assets	**EUR**	**USD**	**GBP**	**CHF**	**JPY**	**Other**	**Total**
Cash and balances with Central Bank	326	194	108	29	10	252	919
Bonds and debt instruments	8,757	14,779	1,902	-	-	10,206	35,644
Shares and equity instruments	377	261	11	1	-	-	650
Loans to credit institutions	5,494	18,566	817	2,967	267	13,869	41,980
Loans to customers	56,060	10,813	4,661	6,486	6,834	4,665	89,519
Other assets	4,261	1,801	152	-	33	66	6,313

Total assets	75,275	46,414	7,651	9,483	7,144	29,058	175,025
Liabilities							
Deposits from credit institutions	189	504	-	-	13	-	706
Deposits from customers	38,627	28,978	5,153	1,419	876	9,483	84,536
Debt issued and other borrowed funds	-	-	-	-	-	8,937	8,937
Subordinated loans	21,890	-	-	-	-	-	21,890
Other liabilities	1,911	5,839	875	2	33	156	8,816
Total liabilities	62,617	35,321	6,028	1,421	922	18,576	124,885
On-balance sheet imbalance	12,658	11,093	1,623	8,062	6,222	10,482	50,140
Off-balance sheet items							
Off-balance sheet assets	12,838	17,024	533	-	519	613	31,527
Off-balance sheet liabilities	17,022	24,558	437	7,582	4,651	3,689	57,939
Net off-balance sheet items	(4,184)	(7,534)	96	(7,582)	(4,132)	(3,076)	(26,412)
Net currency imbalance on 31 December 2013	8,474	3,559	1,719	480	2,090	7,406	23,728

Sensitivity Analysis Towards Currency Risk

The table below shows how the currency imbalance is affected by either depreciation or appreciation of each currency, assuming other risk factors being held constant. The shift number is the 99th percentile of a 10-day return distribution for each currency for the previous 365 days. The adverse movement of each currency is applied for the impact of the shift and demonstrates how equity and the Issuer's income statement would be affected by the shifts.

Sensitivity to currency risk:

As of 31 December 2013:

Currency (shift)	Effect on Profit or Loss
EUR (6%)	(508)
USD (5%)	(178)
CHF (5%)	(24)
GBP(5%)	(86)
JPY (9%)	(188)
Other (6%)	(444)
Total	(1,428)

As of 31 December 2012:

Currency (shift)	Effect on Profit or Loss
EUR (4%)	(641)
USD (5%)	(169)
CHF (4%)	(2)
GBP (4%)	(54)
JPY (5%)	(66)
Other (4%)	(233)
Total	(1,165)

Shares and Equity Instruments

The Issuer's equity exposure in the trading book arises from flow trading, mainly in shares denominated in ISK. Limits on both aggregated market value and maximum exposure in single securities are aimed at reducing the equity risk and concentration risk in the Issuer's portfolio. Shares and equity instruments in the banking book are designated at fair value through profit or loss or are classified as held-for-sale.

Sensitivity Analysis for Equities

The following table demonstrates how reasonable shifts in the prices of the Issuer's trading and banking books would affect the Issuer's equity and net financial income. Shifts applied for the trading and banking books are 20 per cent. and 40 per cent. respectively.

Sensitivity analysis for equities:

		31.12.2013		31.12.2012	
		Profit or loss			
Portfolio (ISK millions)	Change in equity prices	Downward shift	Upward shift	Downward shift	Upward shift
Trading	20 per cent.	(233)	233	(333)	333
Non-trading	40 per cent.	(2,792)	2,792	(4,341)	4,341
Total		(3,025)	3,025	(4,674)	4,674

Derivatives

The Issuer uses derivatives to hedge currency exposure, interest rate risk in the banking book and inflation risk. The Issuer carries relatively low indirect exposure due to margin trading with clients and it holds collateral for possible losses. Other derivatives held by the Issuer for trading or for other purposes are insignificant.

Inflation Risk

The Issuer is exposed to inflation risk since the value of CPI-indexed assets exceeds CPI-indexed liabilities. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI index affect profit or loss. On 31 March 2014, the CPI gap amounted to ISK 4.6 billion (31 December 2013: ISK 6.4 billion). Thus, a 1 per cent. increase in the index would have a positive impact of ISK 46 million on the balance sheet and a 1 per cent. decrease would have a negative effect of ISK 46 million on the balance sheet, assuming other risk factors are held constant.

Capital Management

Risk Exposure and Capital Base

The Issuer's total official capital ratio, as of 31 March 2014, calculated according to the Act on Financial Undertakings, was 29.1 per cent. and the official Tier 1 ratio was 25.7 per cent. The official capital ratio is based on audited own fund items at 31 December 2013, since the accounts for 31 March 2014 are not audited.

As required in the Basel II rules, the Issuer's Board of Directors sets a minimum capital target for the Issuer. The Board has approved a minimum capital target for the Issuer of 18 per cent. of risk weighted assets. The target is based on the Issuer's internal capital adequacy assessment (**ICAAP**) and the views expressed by the regulator through the latest Supervisory Review and Evaluation Process (**SREP**) results. The capital target is intended to support the Issuer's business strategy and takes into account changes or uncertainties in the operating environment. Unlike the 8 per cent. regulatory minimum, the Issuer's capital target can change over time reflecting changes in the Issuer's risk profile, business strategy and external environment. Thus, falling below the capital target does not impose any direct regulatory actions but the Issuer's dividend payments and remuneration can be impacted.

The Issuer’s regulatory capital calculations for credit risk and market risk are based on the standardised approach, and the capital calculations for operational risk are based on the basic indicator approach.

The table below shows the capital base, risk weighted assets and capital ratios of the Issuer at 31 March 2014 and December 2013. In addition, the table shows the official capital ratios based on audited own fund items at 31 December 2013.

	31.3.14	**31.12.13**
Tier 1 capital		
Ordinary share capital	10,000	10,000
Share premium	55,000	55,000
Other reserves	2,327	2,471
Retained earnings	106,767	98,548
Non-controlling interests	1,279	1,299
Tax assets	(1,155)	(1,275)
Intangible assets	(292)	(299)
Other regulatory adjustments	(160)	(159)
Total Tier 1 capital	173,766	165,585
Tier 2 capital		
Other regulatory adjustments	(160)	(160)
Qualifying subordinated liabilities	21,437	21,890
Total regulatory capital	195,043	187,315
Risk weighted assets		
due to credit risk	533,186	551,938
due to market risk	32,278	28,849
Market risk, trading book	7,950	5,105
Currency risk foreign exchange	24,328	23,744
due to operational risk	78,970	78,970
Total risk weighted assets	644,434	659,757
Capital ratios		
Tier 1 ratio	27.0%	25.1%
Total capital ratio	30.3%	28.4%
Official Tier 1 ratio	25.7%	25.1%
Official capital ratio	29.1%	28.4%

Article 86 of the Act on Financial Undertakings details the measures taken in the case of insufficient funds of a financial undertaking. If the board or managing directors of a financial undertaking have reason to expect that its own funds will be less than the minimum required by law, they must immediately notify the FME. The FME may grant such financial undertaking a period of up to six months to increase its own funds to the minimum required by law. If the remedial actions taken are not satisfactory in the opinion of the FME or if the six month period expires, the operating licence of the financial undertaking will be revoked.

Operational Risk

The Issuer has adopted the definition of operational risk adopted by the Directive 2006/48/EC of the European Parliament and of the Council, which defines operational risk "as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". The Issuer's definition of operational risk includes legal risk, compliance risk and reputational risk. The Board of Directors has approved an Operational Risk Management Policy, applicable to the Issuer and its subsidiaries. The policy outlines a framework for operational risk management within the Issuer. The operational risk management framework is described in further detail in several subdocuments, such as the Business Continuity Management Framework, the Security Policy, and the Crisis Communication Policy, all of which have been approved by the Executive Board. According to the Operational Risk Management Policy, the Executive Board is responsible for the operational risk management framework, and the Risk Monitoring Unit within the Risk Management division is responsible for the implementation of the operational risk framework. The Issuer uses the Basic Indicator Approach of the CRD to calculate the capital requirements for Pillar 1 operational risks in accordance with Rules on the Capital Requirement and Risk Weighted Assets of Financial Undertakings No. 215/2007.

THE REPUBLIC OF ICELAND

Geography and Environment

Iceland is one of the Nordic countries, located in the North Atlantic next to Norway, Scotland and Greenland. It is the second largest island in Europe and the third largest in the Atlantic Ocean, with a land area of approximately 103,000 square kilometres and a 200-nautical-mile exclusive economic zone (**EEZ**) extending over 758,000 square kilometres in the surrounding waters. Iceland is warmed by the Gulf Stream and enjoys a warmer climate than its northerly location would indicate.

History

Iceland was settled in the 9th century. The majority of the settlers were of Norse origin and a minority 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 into 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. The official language is Icelandic, which belongs to the Nordic group of the Germanic languages.

Iceland is a member of the United Nations, the North Atlantic Treaty Organization, the International Monetary Fund (**IMF**), the World Bank and the OECD. It is also a party to a number of other multinational organisations, including the Nordic Council and the Council of Europe. Iceland joined EFTA in 1970 and is a member of the European Economic Area, which is a 28-nation free-trade zone of the EU and the EFTA countries. Iceland is also a contracting party to the General Agreement on Tariffs and Trade and ratified the agreement establishing the World Trade Organisation (**WTO**) in December 1994. In July 2009, Iceland submitted a formal application for accession to the EU. In July 2010, Iceland's accession negotiations with the EU were formally opened and are currently on hold. Iceland's major political parties have indicated that a decision on any future accession to the EU should not be subject to a popular referendum.

Economy

Background

The Icelandic economy is relatively small within the OECD, generating GDP of approximately U.S.$15.9 billion in 2013. Given the small size of Iceland’s population, which was approximately 325,671 on 1 January 2014, the per capita GDP, which was at approximately U.S.$48,721 in 2013 is very high by international standards. The Icelandic economy relies on foreign trade and services to maintain Iceland's high standard of living.

The Icelandic economy used to be mainly based on fishing and agriculture but has expanded in recent decades into the manufacturing and service industries. An economic upswing began in 2003 when construction commenced on a large foreign-owned aluminium smelter and an associated state-owned power plant. These investments were equal to more than one-third of Iceland’s 2003 GDP. In addition, Iceland experienced a credit boom as a result of favourable global financial conditions and sweeping changes in Iceland's financial system such as the privatisation of major banks in 2003, subsequent expansion abroad by such banks and changes in Iceland's mortgage market in the second half of 2004. These changes occurred during a period of high international liquidity and historically low interest rates, which further facilitated growth of domestic demand.

The króna generally appreciated from 2002 to early 2006 as Iceland was experiencing capital inflows associated with foreign investment in the aluminium smelter project and easy access to credit in Iceland. The Central Bank of Iceland increased policy rates from May 2004 onwards, making the króna an attractive investment to foreign investors. After a period of high foreign direct investment (**FDI**) in the last decade, FDI has decreased significantly in recent years due to the collapse of the three major commercial banks in Iceland in late 2008 and the implementation of regulatory capital controls.

Principal Sectors of the Economy

The main sectors of the Icelandic economy include: the marine sector, the industrial and energy sectors, the financial sector, the construction sector, the tourism sector, the agricultural sector, and the transport, storage and communication sectors. The marine sector, including fishing and fish processing, accounted for 10.0 per cent. of GDP in 2010 and, according to preliminary estimates, 10.6 per cent. of GDP in 2013. Iceland's Exclusive Economic Zone is endowed with rich fishing grounds. Throughout the twentieth century, the marine sector was of key importance to the Icelandic economy, driving much of its economic growth. Over the past 20 years, production of manufactured goods has grown rapidly and the marine sector's contribution to GDP has fallen.

The industrial and energy sectors accounted for 17.2 per cent. of GDP in 2010 and, according to preliminary estimates, 18.2 per cent. in 2013 . The largest part of the industrial sector is the manufacturing of aluminium, which is produced exclusively for export. The aluminium investment projects that helped initiate Iceland's economic upswing in 2003 have been completed. Further expansion of aluminium smelting capacity is expected to occur in the coming years but on a smaller scale than previous projects. The production of high technology and production lines for fishing and fish processing, produced largely for export, is also important and growing, though it is smaller in scale compared to aluminium production. There also is potential for an increased growth in the energy sector. Iceland is richly endowed with hydro and geothermal energy. Almost all of the electricity consumed in Iceland is produced from indigenous energy resources. Hot water from geothermal sources and natural steam is extensively used for residential heating. Only a part of Iceland's vast hydro and geothermal resources has been exploited thus far, and the potential for large scale development of a power-intensive industry is substantial. The attractiveness of Iceland's abundant energy resources is further enhanced by tariff-free access to the European market.

Iceland's financial sector grew considerably from 2000 to 2010, which was spurred by deregulation in the 1990s and the privatisation of Iceland's state-owned banks in 2003. By the end of 2007, the three major Icelandic commercial banks had opened branches abroad and acquired operations in several foreign countries. Iceland's banking system had assets of approximately 10 times its GDP in the third quarter of 2008. From October 2008 through March 2009, approximately 97 per cent. of the banking system (based on assets) had collapsed. In October 2008, Iceland's three major commercial banks failed and smaller financial institutions collapsed over the ensuing months. Iceland's financial system has undergone substantial changes since 2008. The newly restructured banking system is much smaller at approximately 1.8 times Iceland's GDP as of 31 December 2013. In addition, the restructured banking system is now more focused on the domestic market than it has been prior to the banking crisis. For more information regarding Iceland's financial sector, see "*The Financial Crisis*" below.

The financial crisis and the subsequent recession in Iceland also had a significant impact on the construction sector, which represented 9.2 per cent. of GDP in 2008 but only 5.0 per cent. of GDP in 2013 according to preliminary estimates. Tourism, on the other hand, has been among the fastest growing sectors in Iceland in recent years. Foreign exchange revenues generated by foreign tourists amounted to 19.6 per cent. of revenues from goods and services exports in 2009 but 26.8 per cent. in 2013. The tourist sector was in 2013 the biggest export sector in Iceland.

The agricultural sector accounted to 1.2 per cent. of GDP in 2013 according to preliminary figures. Approximately one-fifth of Iceland's land is arable land or pasture. Less than 5 per cent. of this area is cultivated and the remainder is used for grazing or left undeveloped. The transport, storage and communication sectors accounted for 9.3 per cent. of GDP in 2013.

The following table shows certain economic indicators relating to Iceland in the years 2007 to 2013:

	2013[1]	2012	2011	2010	2009	2008	2007
Volume changes from previous year, per cent.							
Real GDP	3.3	1.5	2.7	-4.1	-6.6	1.2	6.0
Real exports of goods and services	5.3	3.8	3.8	0.5	7.0	7.0	17.7
Real imports of goods and services..................	-0.1	4.7	6.7	4.5	-24	-18.4	-1.5
Percentage changes over previous year							
Consumer price index (year over year) change	3.9	5.2	4.0	5.4	12.0	12.7	5.0
Effective price of foreign currency	-1.4	2.4	0.3	-3.1	33.2	41.8	-1.6
Real exchange rate	3.9	0.8	1.0	6.4	-18.2	-21.2	4.2
Unemployment rate..	4.4	5.8	7.4	8.1	8.0	1.6	1.0
Percentage of GDP							
Current account balance...................................	3.9	0.8	-0.1	-2.1	-0.2	-18.3	-16.0
Treasury revenue balance.................................	-1.9	-3.5	-5.7	-9.4	-8.3	-12.9	3.9

Sources: National Economic Institute, Ministry of Finance, Central Bank of Iceland and Íslandsbanki

[1] The 2013 figures are only preliminary estimates.

The Financial Crisis

The turmoil in the global financial markets beginning in mid-2007 severely curtailed the Icelandic banks' access to foreign financing in the third quarter of 2007 and escalated the difficulties of Iceland's financial system and the overall economy over the course of 2008. Capital inflows stopped abruptly in March 2008 when the foreign exchange swap market crashed. The króna weakened, leading to a sharp fall in asset prices and domestic demand in the early part of 2008. In October 2008, the operations of Iceland's three largest banks, Glitnir Bank hf., Landsbanki Íslands hf. and Kaupthing Bank hf., collapsed. Pursuant to emergency legislation passed by Iceland's Parliament on 6 October 2008, the FSA took over each of the three banks and suspended payments to creditors.

As of 30 September 2008, the total liabilities of the three banks amounted to over 10 times Iceland's 2008 GDP. Aiming to prevent a general collapse of the Icelandic economy following the collapse of the three banks, the Icelandic government transferred certain assets and liabilities from Glitnir Bank hf., Landsbanki Íslands hf. and Kaupthing Bank hf. into three new banks, New Glitnir (now the Issuer), NBI (now Landsbankinn) and New Kaupthing (now Arion Bank), respectively. Subsequently, in April 2009, "winding up committees" were appointed to process creditor claims. In the second half of 2009, the Icelandic government invested approximately U.S.$1.1 billion in the equity of the three new banks and an additional U.S.$0.44 billion in subordinated debt of the three new banks. The creditors of Glitnir Bank hf. obtained 95 per cent. of the Issuer's shares. The creditors of Kaupthing Bank hf. obtained 87 per cent. of the shares in New Kaupthing. NBI issued a bond to Landsbanki Íslands hf. in the amount of U.S.$2.08 billion. NBI also issued equity securities to Landsbanki Íslands hf. equal to approximately 20 per cent. of Landsbankinn's share capital, while the Icelandic Government retained an 80 per cent. equity stake in Landsbankinn.

When the three largest commercial banks collapsed, the Icelandic economy was entering into a recession. The króna, which had started to depreciate in the early part of 2008, fluctuated significantly until the second half of 2009, when it stabilised and remained at a rate of approximately 50 per cent. of its 2007 level in trade-weighted terms. The sharp depreciation of the króna caused significant financial difficulties for Icelandic households and businesses, which were heavily indebted and had significant exposure to foreign currency. There was an enormous loss of private sector wealth, a steep drop in disposable income and a drastic reduction in the private sector's ability to borrow. Inflation reached an 18-year high of 14.5 per cent. in August 2008 and reached 18.6 per cent. in January 2009. Iceland also experienced a steep decline in domestic demand, asset prices and the real exchange rate, as well as rising costs associated with higher unemployment. The unemployment rate rose from approximately 1 per cent. in the first half of 2008 to 9.1 per cent. in April 2009.

At the end of October 2008, the Icelandic government reached an agreement with the International Monetary Fund on an economic stabilisation programme consisting of a two-year stand-by arrangement that was accompanied by loan commitments and standing facilities aggregating approximately U.S.$5billion, or approximately 37 per cent. of Iceland's 2010 GDP at year-end 2010 exchange rates. The stand-by arrangement was completed in August 2011 and approximately 56 per cent. of the accompanying loans have been repaid.

Economic indicators are showing signs that the Icelandic economy is firmly on a recovery path. Consumption and real wages have risen since 2010. The króna has appreciated and inflation has fallen to 2.3 per cent. as of April 2014. Unemployment is down to 5.3 per cent. as of 2013 from 7.6 per cent. in 2010. Economic growth has returned, with GDP growth measuring 3.3 per cent. in 2013 and 1.5 per cent. in 2012.

FINANCIAL MARKETS IN ICELAND

The Financial Supervisory Authority

The FSA supervises 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 FSA is charged with ensuring that the activities of these entities are conducted in accordance with the laws and regulations of Iceland.

Per the FSA's 2012 Annual Report, below is a summary of the credit market, securities market, pension market and the UCITS and insurance markets as of 30 June 2012.

Credit market

At year-end 2012, four commercial banks, nine savings banks and six credit institutions were operating in Iceland, in addition to the state-owned Housing Financing Fund (HFF), or a total of twenty credit institutions. The commercial banks have operated under the shelter of capital controls since the fall of 2008. The banks' operations were quite successful in 2012, and their combined after-tax profit amounted to almost ISK 66 billion, compared to ISK 30 billion the previous year. At year-end 2012, their capital ratios were high, at around on average 25 per cent., and their Tier 1 ratios on average at around 22.2 per cent. Their combined equity base amounted to ISK 553 billion and combined total assets amounted to ISK 2,878 billion, with little change from the previous year. The size of the banking system was equivalent to around 170 per cent. of GDP. The banks' liquidity positions were good, with around 17 per cent. of their total assets designated as liquid funds.

Despite their strong equity and liquidity, there are certain aspects which give rise to uncertainty and could have a negative impact on the banks' performance in coming quarters. Chief among them are uncertainty concerning the quality of loan portfolios; legal uncertainty concerning loans linked to foreign currencies, which admittedly is decreasing, as pointed out below; long-term funding in foreign currencies; unrest on foreign markets; and the uncertainty arising from the proposed removal of capital controls.

Securities market

While the equity market continued to expand in 2012, the bond market turnover dropped. The advent of new investment options boosted equity market turnover as the number of listed companies rose somewhat last year. However, investment options are more limited while capital controls are in effect, causing a risk of asset bubbles forming.

Equity turnover rose by 29.3 per cent. in 2012, increasing from ISK 68.4 billion in 2011 to almost ISK 88.5 billion in 2012, and has continued to increase in 2013 and into 2014. The increased turnover is due in part to the listing of new companies on the market, as shares of Hagar hf. were admitted to trading in 2011 and shares of Reginn hf., Eimskip hf. and Fjarskipti hf. were admitted to trading in 2012. Despite the continuing increase over previous years, equity turnover is still rather low in an historical context and low liquidity has more often than not caused sharp fluctuations in equity prices.

Unlike the equity market, where activity has been increasing, turnover in the bond market decreased by 10.7 per cent. in 2012 compared to the previous year. During the first half of 2012, average monthly turnover was close to the highest seen since 2008, at almost ISK 242 billion. In the latter half of 2012, however, monthly turnover dropped by almost 40 per cent. to ISK 146 billion, resulting in a monthly average of just under ISK 194 billion for the year. As in previous years, turnover was highest in non-indexed Treasury notes, which comprised over 60 per cent. of total turnover in listed market bonds. The total market value of bonds listed on NASDAQ OMX Iceland (the **NASDAQ OMX**) at year-end 2012 was ISK 1,866 billion, following an increase of ISK 39 billion during the year. Of this amount, around 14 per cent. of listed bonds by value were issued by private entities while 86 per cent. were bonds issued by public companies.

Pension market

At year-end 2012, there were thirty two pension funds operating a total of eighty two mutual and private pension fund divisions. Of these thirty two, one fund no longer accepts contributions, reducing the number of fully operative funds to thirty one. Twelve funds enjoy an employer guarantee, while twenty have no guarantees. At year-end, there were eight custodians of private pension plans other than pension funds, operating thirty five divisions. According to estimates, the net assets of Icelandic pension funds and personal pension savings held by custodians grew substantially over the past year, by almost 12 per cent., bringing their total assets to over ISK 2,500 billion at year-end 2012, compared to ISK 2,230 as of year-end 2011.

UCITS and insurance markets

There were ten management companies regulated by FME at the end of 2012, an increase of one company over the previous year. Fund management companies are financial undertakings whose principal activity is to manage UCITS and other funds for collective investment. The companies operate a total of fifty six UCITS funds and fund divisions and twenty eight investment funds and fund divisions. At year-end 2012, total assets of UCITS and investment funds amounted to ISK 328 billion. Of this, assets of UCITS were just over ISK 255 billion and assets of investment funds just over ISK 71 billion. At year-end 2011, institutional investor funds came under the supervision of FME. Institutional investor funds are funds for collective investment which are only open to institutional investors. At year-end 2012, forty seven institutional investor funds were operated by ten management companies. Their total assets amounted to ISK 288 billion and net assets of ISK 120 billion.

At year-end 2012, thirteen insurance companies were licenced to operate by FME. Of these, five companies operated in the life insurance market, five companies operated in the non-life insurance market, two companies only settled older reinsurance obligations, one company had no activities in Iceland and one company operated in accordance with special legislation. At year-end 2012, the total assets of all insurance companies in Iceland amounted to ISK 155 billion, an increase of over ISK 9 billion from the previous year. The companies' bond assets continue to increase and currently comprise half of their assets.

The Central Bank

The Central Bank of Iceland is responsible for implementing monetary policy consistent with the goal of maintaining price stability. The Central Bank maintains external reserves and promotes an efficient and safe financial system. It focuses on assessing risks among systemically important financial institutions and problems in payment and securities settlement systems. Its tasks include maintaining and promoting payment systems domestically and with foreign countries. The Central Bank is also responsible for the issue of notes and coin, exchange rate matters and other duties, as specified in the Central Bank Act.

The Central Bank was reorganised in February 2009 in accordance with amendments to the Central Bank Act. The Amendments changed the management of the Central Bank, including establishment of the Monetary Policy Committee (the **MPC**), which is responsible for making decisions on the application of monetary policy instruments, and reduced the number of Central Bank governors from three to one.

The Central Bank and the FSA have a Cooperation Agreement, which aims to clarify the responsibility of each party and the division of tasks between them. The Central Bank sets rules for credit institutions' liquidity ratios and for their foreign exchange balance. Other prudential regulations on financial markets are either provided for by law or adopted by the FSA. The Central Bank also oversees payment systems, but not the infrastructure or organisation of individual participants. It is the FSA's responsibility to supervise individual participants' implementation of the rules applicable to the payment systems.

Monetary Policy

The main objective of the Central Bank's monetary policy is price stability. Following the banking and currency crises in 2008, and in accordance with the joint economic policy agreed upon by the Icelandic authorities and the IMF in November 2008, the main focus of Iceland's monetary policy has been to stabilise the króna, without committing to defend a specific value of the currency. To achieve this goal, the Central Bank raised interest rates and introduced capital controls in December 2008. On 28 November 2008, the Central Bank adopted new Rules on Foreign Exchange which imposed comprehensive capital controls, restricting the flow of capital to and from Iceland. The rules were reissued on 15 December 2008, and in March 2009, the Foreign Exchange Act was amended to tighten the rules. Effective from 27 September 2011, the rules have been incorporated into the Act on Foreign Exchange No. 87/1992, as amended. Certain companies have been granted full or partial exemptions from the capital controls. Supervised financial institutions are generally permitted to engage in spot, forward and swap transactions in foreign currency and to engage in cross-border borrowing and lending. Non-residents were also permitted to transfer foreign currency derived from interest and dividends on investments in Iceland. The capital controls enabled the interbank foreign exchange market to reopen on 4 December 2008, and the Central Bank discontinued foreign currency auctions. Currently, there are three market participants: Arion Bank, NBI hf. and the Issuer. Following the implementation of capital controls, an offshore exchange rate market developed alongside the official onshore market, with a significantly lower exchange rate than the rate in the onshore market.

With declining inflation and progress in the restructuring of domestic balance sheets, the emphasis of monetary policy has gradually shifted towards future inflation and output prospects, although exchange rate stability continues to play an important role in monetary policy. The Central Bank also began lifting capital controls. In October 2009, restrictions on capital inflows were abolished. In March 2011, plans to remove restrictions on outflows in sequenced steps were made public. Iceland has set three conditions for lifting of capital controls: macroeconomic stability, an adequate level of foreign reserves and a sound financial system. On 9 March 2013, the Act on Foreign Exchange was amended by removing the original time limit of 31 December 2013. The capital controls are now in place indefinitely. Subsequently more authority has been granted to the Central Bank of Iceland permitting the Central Bank of Iceland to issue rules in relation to the Central Bank of Iceland's strategy for the removal of capital controls. By doing so, it is now in the hands of the Central Bank of Iceland to evaluate the stability of the Icelandic economy and gradually ease the capital controls without having to amend the law each time.

Iceland Stock Exchange

Iceland currently has one authorised stock exchange where the public listing of securities and securities trading take place: the NASDAQ OMX. NASDAQ OMX is a part of NASDAQ OMX Group Inc. and is licensed to operate a regulated over-the-counter market. In 2006, the Iceland Stock Exchange, founded in 1985, merged into OMX. In 2007, it merged into NASDAQ OMX Group, Inc., which provides trading, exchange technology, and public company services on six continents. Electronic issuance of securities and registration of title to electronic securities can only be carried out by a licensed securities depository. The Icelandic Securities Depository is a licensed registry, depository and clearing house for securities in dematerialised (electronic) form. Settlement of bonds takes place on a T+1 basis (one day after the trade date), while equity transactions are settled on a T+3 basis (three days after the trade date) in line with NASDAQ OMX Nordic Member Rules.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the **Clearing Systems***) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer and any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

In light of the existing withholding tax regime in Iceland, the clearing of the Notes through Euroclear and/or Clearstream, Luxembourg will be subject to confirmation that the relevant registration requirements with the Icelandic authorities have been completed.

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants (**Participants**) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (**DTCC**). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**).

Under the rules, regulations and procedures creating and affecting DTC and its operations (the **Rules**), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system (**DTC Notes**) as described below and receives and transmits distributions of principal and interest on DTC Notes. The Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes (**Owners**) have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to DTC Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the due date for payment in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the due date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under “*Subscription and Sale and Transfer and Selling Restrictions*”.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian (**Custodian**) with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

General

Prospective purchasers of Notes are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including, but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption.

Iceland Taxation

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. They relate only to the position of the holders of the Notes and/or Coupons. They may not apply to certain classes of person such as dealers. This is not tax advice but a mere general overview of Icelandic rules. Prospective holders of the Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

In light of the existing withholding tax regime in Iceland, the clearing of the Notes through Euroclear and/or Clearstream, Luxembourg will be subject to confirmation that the relevant registration requirements with the Icelandic authorities have been completed.

Icelandic residents

Icelandic residents are subject to tax on any interest income derived by them from the Notes, individuals and companies at the rate of 20 per cent. and taxable partnerships at the rate of 36 per cent. The Issuer is liable to withhold tax on interest payments to Icelandic residents at the rate of 20 per cent. However, while interest payments on the Notes remain exempt from tax in relation to non-Icelandic residents, as a result of the registration of the Notes with the Directorate of Internal Revenue (as described under "*Non-Icelandic residents*" below), the Directorate of Internal Revenue has confirmed that the Issuer does not need to withhold tax on any interest payments to Noteholders unless it is aware of any such Noteholders being Icelandic residents.

Capital gains on the sale of the Notes are subject to the same tax as interest income of Icelandic residents.

Non-Icelandic residents

Non-Icelandic residents are not subject to tax on any interest income derived by them from the Notes provided the Notes are registered with a securities depository within the Organisation for Economic Co-operation and Development, the European Economic Area or a member of the European Free Trade Association or the Faroe Islands, and the Issuer will register any Notes issued under the Programme with the Directorate of Internal Revenue in Iceland to exempt the Notes from such taxation, all in accordance with point 8 of the first Paragraph of Article 3 of Act no 90/2003 on Income Tax. The Issuer will provide a certificate of such tax exemption for each issue of Notes.

In the event that the Issuer is required to withhold tax then the provisions of Condition 8 will apply and the Issuer will be required to pay additional amounts to cover the amounts so withheld.

Capital gains on the sale of the Notes are classified as interest and thus are not subject to tax in Iceland.

EU Savings Directive

Under Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The Directive does not apply in Iceland.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common financial transaction tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the participating Member States).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued on 6 May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with implementation occurring by 1 January 2016. An FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional Member States may decide to participate.

Prospective holders of Notes are strongly advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act (**FATCA**) will impose a 30 per cent. United States withholding tax on certain United States source payments, including interest (and original issue discount), dividends (and dividend equivalents), or other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce United States source interest or dividends (**Withholdable Payments**), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the United States Treasury to collect and provide to the United States Treasury substantial information regarding United States account holders, including certain account holders that are foreign entities with United States owners. A Note may constitute an account for these purposes.

In addition, under FATCA, "passthru payments" made by a foreign financial institution to "recalcitrant holders" or non-compliant foreign financial institutions are subject to a 30 per cent. United States withholding tax. A "recalcitrant holder" generally is a holder of an account with a foreign financial institution that fails to comply with reasonable requests for information that will help enable the relevant foreign financial institution to comply with its reporting requirements. Pursuant to United States Treasury regulations, a passthru payment is any Withholdable Payment and any "foreign passthru payment", which has yet to be defined. Under the regulations, the 30 per cent. United States withholding tax on "recalcitrant holders" or non-compliant foreign financial institutions may be imposed on non-United States source payments made by the Issuer with respect to the Notes after 31 December 2016.

These withholding and reporting requirements will generally apply to payments made after 30 June 2014 and if the Issuer determines withholding is appropriate with respect to the Notes, the Issuer will withhold tax at the applicable statutory rate without being required to pay any additional amounts with respect to amounts so withheld. However, the withholding tax will not be imposed on payments pursuant to obligations giving rise to withholdable payments solely because payments are treated as foreign passthru payments if the obligation is executed on or before the date of that is six months after the date on which final regulations defining the term foreign passthru payment are filed with the United States Federal Register. Holders are urged to consult with their own tax advisors regarding the possible implications of this recently enacted legislation on their investment in the Notes.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement (such programme agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 20 June 2013, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under UK laws and regulations stabilising activities may only be carried on by the Stabilising Manager(s) named in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement (or persons acting on behalf of any Stabilising Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(a) that either: (i) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (ii) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter or (iii) it is outside the United States and is not a U.S. person;

(b) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(c) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so only (i) to the Issuer or any affiliate thereof, (ii) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (iii) inside the United States to an Institutional Accredited Investor that, prior to such transfer, executes and delivers to the Issuer a letter in which it agrees to purchase the Notes for its own account and not with a view to the distribution thereof, (iv) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (v) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (vi) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. state securities laws;

(d) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (c) above, if then applicable;

(e) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes, that Notes offered to Institutional Accredited Investors will be in the form of Definitive IAI Registered Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(f) that the Notes in registered form, other than the Regulation S Global Notes, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS OR (2) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "INSTITUTIONAL ACCREDITED INVESTOR"); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND ONLY (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" THAT, PRIOR TO SUCH TRANSFER, EXECUTES AND DELIVERS TO THE ISSUER A LETTER IN WHICH IT AGREES TO PURCHASE THE NOTES FOR ITS OWN ACCOUNT AND NOT WITH A VIEW TO THE DISTRIBUTION THEREOF, (4) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (5) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144A FOR RESALES OF THE SECURITY.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(g) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (i)(A) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (B) to a QIB in compliance with Rule 144A and (ii) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART."; and

(h) that the Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form, see "*Form of the Notes*".

The IAI Investment Letter will state, among other things, the following:

(a) that the Institutional Accredited Investor has received a copy of this Base Prospectus and such other information as it deems necessary in order to make its investment decision;

(b) that the Institutional Accredited Investor understands that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. state securities laws and that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in this Base Prospectus and the Notes and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

(c) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(d) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(e) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor) as to each of which it exercises sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(f) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.$500,000 (or the approximate equivalent in another Specified Currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.$100,000 (or its foreign currency equivalent) principal amount or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$100,000 (or its foreign currency equivalent) or, in the case of sales to Institutional Accredited Investors, U.S.$500,000 (or its foreign currency equivalent) principal amount of Registered Notes.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by United States Treasury regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and United States Treasury regulations thereunder. The applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (**Regulation S Notes**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the

United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$100,000 (or the approximate equivalent thereof in any other currency). To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, the Issuer has undertaken in the Deed Poll to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms or (in the case of Exempt Notes) Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Iceland

The investment described in this Base Prospectus has not been and will not be registered for public distribution in Iceland with the Financial Supervisory Authority pursuant to the Icelandic Act on Securities Transactions No. 108/2007 (as amended) (the **Icelandic Securities Act**).

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to acknowledge and agree, that this Base Prospectus may be distributed only to, and may be directed only at, persons who are (i) qualified investors under the private placement exemption of Article 50 (1) Item 1 a) as defined in Article 43 Item 9 of the Icelandic Securities Act or (ii) other persons to whom this Base Prospectus may be communicated lawfully in accordance with the Icelandic Securities Act (all such persons together being referred to as the **Relevant Persons**). This Base Prospectus must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Base Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Base Prospectus or any of its contents. This Base Prospectus must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other persons.

Act on Foreign Exchange

There are currently foreign currency restrictions in place in Iceland which place a restriction on potential purchasers of the Notes in Iceland. The Act on Foreign Exchange No. 87/1992 (the **Act on Foreign Exchange**) places significant restrictions on the activities of Icelandic resident investors, including a prohibition from investing in securities, unit shares of UCITS and/or investment funds, money market instruments or other transferable financial instruments denominated in currencies other than Icelandic króna (ISK), and borrowing and lending between residents and non-residents.

According to Article 13.e of the Act on Foreign Exchange, investors residing in Iceland are prohibited from investing in financial instruments (including the Notes) issued in a currency other than ISK. Icelandic investors are therefore generally restricted from purchasing the Notes, except for (i) investors who have purchased such financial instruments prior to 28 November 2008 who are permitted to reinvest in the same type of foreign instrument within six months from receiving the sales proceeds or (ii) certain investors who have been granted general exemptions from Article 13.e of the Act on Foreign Exchange by the Central Bank of Iceland and can therefore purchase the Notes.

It should be noted that whether or not an Icelandic resident is exempt from the Act on Foreign Exchange is entirely the investor's responsibility and the Issuer is not obliged to verify whether the investor has such exemption, unless the Issuer acts as an intermediary in the transaction. Should an investor be found to have breached the Act on Foreign Exchange by purchasing the Notes, the Issuer will not bear any liability to the investor whatsoever for any losses, direct or indirect, that the investor may incur in relation thereto.

The People's Republic of China

The Notes may not be offered or sold directly or indirectly in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the **PRC**) or to residents of the PRC unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

Hong Kong

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

No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong (Cap.571) and any rules made under that Ordinance.

Singapore

This Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under

Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor as defined in Section 4A of the Securities and Futures Act) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor;

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

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

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

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

Switzerland

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into, or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652(a) or article 1156 of the Swiss Code of Obligations, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

General

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

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

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 25 October 2011 and 21 May 2014.

Listing of Notes

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus. Application has been made to the Irish Stock Exchange for Notes issued under the Programme to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID.

However, Notes may be issued pursuant to the Programme which will not be admitted to listing on the Official List and admitted to trading and/or quotation by the regulated market of the Irish Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

Irish Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Programme and is not itself seeking admission of Notes issued under the Programme to the Official List or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

Documents Available

For the life of this Base Prospectus, hard copies of the following documents will, when published, be available for inspection at the registered office of the Issuer and at the specified office of the Principal Paying Agent for the time being in London:

(a) the constitutional documents (with an English translation thereof) of the Issuer;

(b) the audited consolidated financial statements of the Issuer as of and for the years ended 31 December 2013, 2012 and 2011 (with an English translation thereof), in each case together with the audit reports prepared in connection therewith. The Issuer currently prepares audited consolidated financial statements on an annual basis;

(c) the unaudited interim consolidated financial statements of the Issuer as of and for the three months ended 31 March 2014 (with an English translation thereof). The Issuer currently prepares unaudited interim consolidated financial statements on a quarterly basis;

(d) the most recently published audited annual consolidated financial statements of the Issuer and the most recently published unaudited interim consolidated financial statements (if any) of the Issuer (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith;

(e) the Agency Agreement, the Deed of Covenant, the Deed Poll and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;

(f) a copy of this Base Prospectus; and

(g) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms and Pricing Supplements (save that a Pricing Supplement will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated therein by reference.

In addition, copies of this Base Prospectus, any supplement to this Base Prospectus and Final Terms relating to Notes listed on the Irish Stock Exchange will be published on the website of the Central Bank of Ireland at http://www.centralbank.ie/regulation/securities-markets/prospectus/Pages/approvedprospectus.aspx and on the website of the Irish Stock Exchange at www.ise.ie. Copies of Final Terms relating to Notes which are admitted to trading on any other regulated market in the European Economic Area, will be published in accordance with the rules and regulations of the relevant listing authority or stock exchange and otherwise in accordance with Article 14 of the Prospectus Directive.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer or the Group since 31 March 2014 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2013.

Litigation

Two court cases have been filed against the Bank and Landsbankinn, challenging the legality of fixing the principal of a mortgage to the consumer price index (**CPI**). Such indexation has been the industry standard for at least 30 years. However, the method of calculating the index has changed over the years, with the most recent change introduced in 1995.

The Bank's case is based on the indexation being in violation of the EU Directive 93/13/EU on unfair terms in consumer loan contracts. The directive does not prohibit the use of price indexation, mainly to the effect that the consumer is adequately informed about the method by which prices vary. Thus, the case does not challenge the indexation as such, but only the context in which it is deployed. It will not affect corporate customers. Being a directive that does not require full harmonisation, the directive was not adopted by Iceland in its entirety. Instead, the existing contract law was amended by adding 4 articles. In this context, the Supreme Court accepted the motion introduced by the plaintiff on seeking the opinion of the EFTA court on the implications of the differences between the directive and the local law. The opinion is expected late in the first quarter of next year. Icelandic courts are not obliged to accept an opinion of the EFTA court.

The possible effect on the Bank has not been estimated, but clearly, any downgrading of the indexation would affect the Bank and other home mortgage lenders in Iceland.

The Landsbanki case is based on the argument that CPI indexation makes a mortgage a complex financial instrument as defined in the Icelandic Securities Act and therefore unsuitable for retail customers. However, the Supreme Court has recently sustained a motion previously mentioned on seeking the opinion of the EFTA court on several issues relating to the implementation of both the directive on consumer loans (90/88/EBE) and on unfair terms in consumer loan contracts. The court also commented on the MiFID Directive argument stating that the loan instrument could not be categorised as a derivative. Thus the courts have more or less dismissed the original argument, making the case very similar to the one the Bank is defending.

Except as otherwise disclosed above and in footnote 4 to the Audited Financial Statements for the year ended 31 December 2013, neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

The auditors of the Issuer are Deloitte ehf., State Authorised Public Accountants, of Smáratorg 3, 201 Kópavogur, Iceland, who have audited the consolidated financial statements as of and for the years ended 31 December 2013, 2012 and 2011, without qualification, which were prepared in accordance with IFRS as adopted by the European Union for each of the three financial years ended 31 December 2013, 2012 and 2011. The auditors are members of The Institute of State Authorised Public Accountants and are independent within the meaning of Independent State Authorised Public Accountant.

Dealers transacting with the Issuer

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Dealers and/or their affiliates have, directly or indirectly, performed investment and commercial banking or financial advisory services for the Issuer, for which they have received customary fees and commissions, and they expect to provide these services to the Issuer and its affiliates in the future, for which they also expect to receive customary fees and commissions.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Yield

In relation to any Tranche of Fixed Rate Notes which are not Exempt Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

Websites

In this Base Prospectus, reference to websites or uniform resource locators (URLs) are inactive textual references. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Base Prospectus.

Original language references

The language of this Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

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Printed by Allen & Overy LLP
ICM:19362053.13