Base Prospectus

Íslandsbanki hf.

(*incorporated with limited liability in Iceland*)

U.S.$2,500,000,000
Global Medium Term Note Programme

Under the U.S.$2,500,000,000 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**) or in uncertificated and dematerialised form (**VPS Notes**) and cleared through the Verdipapirsentralen ASA, the Norwegian central securities depositary (**VPS**). As more fully described herein, Notes may be issued (i) on an unsubordinated basis (**Unsubordinated Notes**) or (ii) on a subordinated basis (**Subordinated Notes**), in each case, as provided in the Terms and Conditions of the Notes herein.

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$2,500,000,000 (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, Unsubordinated Noteholders (and, therefore, Subordinated Notes) 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 3.1 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 2014/65/EU (as amended, the **Markets in Financial Instruments Directive** or **MiFID II**) 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 plc trading as Euronext Dublin (**Euronext Dublin**) for Notes issued under the Programme to be admitted to the official list of Euronext Dublin (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 BBB+ (long term debt) and A-2 (short term debt) from Standard & Poor's Credit Market Services Europe Limited (**S&P**) as at the date of this Base Prospectus. The Issuer also has senior unsecured debt ratings of BBB (long term debt) and F3 (short term debt) from Fitch Ratings Limited (**Fitch**) as at the date of this Base Prospectus. S&P and Fitch are established in the European Union and are registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such S&P and Fitch are 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 rated by S&P, with Unsubordinated Notes maturing in one year or more assigned a rating of BBB+, and Unsubordinated Notes maturing in less than one year assigned a rating of A-2. The Programme is also rated by Fitch, with Unsubordinated Notes maturing in one year or more assigned a rating of BBB, and Unsubordinated Notes maturing in less than one year assigned a rating of F3. 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 or Pricing Supplement, as the case may be, 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 **BofA Merrill Lynch**
Citigroup **Deutsche Bank**
Goldman Sachs International **J.P. Morgan**
Morgan Stanley **Nomura**

UBS Investment Bank

The date of this Base Prospectus is 30 April 2018.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. For the purposes of this Base Prospectus, Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

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 Conditions 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 133 to 136 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 128 to 132 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 Euronext Dublin, 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 Euronext Dublin 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 Euronext Dublin 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, Iceland and Norway), 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 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.

IMPORTANT – EUROPEAN ECONOMIC AREA RETAIL INVESTORS

If the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to European Economic Area Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to any retail investor in the European Economic Area. For these purposes, a retail investor means a person who is one (or more) of (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the PRIIPs Regulation) for offering or selling the Notes or otherwise making them available to retail investors in the European Economic Area has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the European Economic Area may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET

The applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a distributor) should take into consideration the target market assessment; however a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the MiFID Product Governance Rules), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

BENCHMARKS REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the Benchmarks Regulation). If any such reference rate does constitute such a benchmark, the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (ESMA) pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmarks Regulation. Transititional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement to reflect any change in the registration status of the administrator.

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 Department regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986, as amended (the Code) and the United States Treasury Department 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*".

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 2017, 2016 and 2015 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 2017, 2016 and 2015 (together, the Annual Financial Statements), which have been 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).

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.

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, stabilisation may not necessarily occur. 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 cease 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.

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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.

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, Article 102 of the Act on Financial Undertaking now states that 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.

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 uncertainty around Brexit

The United Kingdom's decision following a national referendum to leave the EU has already had a significant impact on pounds sterling, which depreciated by 22.7 per cent. against the króna from 31 May 2017 to 31 December 2017. The process of exiting the EU will take several years, and the ultimate impact on the United Kingdom's economy and the value of pounds sterling is subject to significant uncertainty. The United Kingdom is Iceland's second-largest trading partner, receiving 11.3 per cent. of total exports from, and supplying 6 per cent. of total imports to, Iceland in 2016. As a result, the Icelandic economy remains considerably exposed to the ultimate effects of the United Kingdom's exit from the EU.

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.

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

At year end 2017, the Issuer's loan portfolio was exposed to concentration in certain industry sectors, namely households, real estate, commerce and services, the seafood industry and, through various industry sectors, the tourism 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. Additional information regarding the Issuer's liquidity risk management can be found in section 6 of the Issuer's Pillar 3 Report 2017, which section is incorporated by reference into this Base Prospectus.

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 has a high proportion of inflation-linked mortgage loans and there is a risk that legislation might be imposed which varies the terms of these loans in a manner that is adverse to the Issuer

A high proportion of the Issuer's mortgage loans are inflation-linked. Under these loans, the monthly repayment increases if and to the extent that inflation in Iceland increases. Following the financial crisis in 2008, inflation in Iceland increased significantly. This resulted in higher payments falling due under inflation-linked loans at the same time as borrowers faced lower wages and less purchasing power. There was significant debate in Iceland regarding these loans in the period preceding the parliamentary elections in April 2013. The Icelandic government announced at the end of November 2013 an action plan aimed at reducing the country's housing debt. On the basis of the action plan, the Icelandic Parliament passed Act No. 35/2014 and Act No. 40/2014. The objective of Act No. 35/2014 was to write down the principal of indexed residential mortgages. Act No. 40/2014, which amended the Pension Act No. 129/1997, authorised households with residential mortgages, in the period between 1 July 2014 and 30 June 2017, to use payments which would otherwise go to a private pension fund to reduce the principal amount of their mortgages. This option is open to all residential mortgage holders regardless of the form of their mortgage. This action plan has been financed by an increase in the Bank Levy (see "*Changes in tax laws or in their interpretation could harm the Issuer's business*") that has increased the Issuer's financial burden and decreased its profitability. There is a risk that additional legislation may be adopted or other government action taken to reduce the payment burden under inflation-linked mortgages. Should this occur, it would have a materially negative impact on the Issuer's loan portfolio, financial condition and results of operations.

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, investor protection, 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. There can be no assurance that the Icelandic government will not enact new regulations.

Changes in tax laws or in their interpretation could harm the Issuer's business

The Issuer's results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, changes in corporate tax rates and the refusal of tax authorities to issue or extend advanced tax rulings.

In December 2010, the Icelandic Parliament passed the Act on Special Tax on Financial Institutions, No. 155/2010 under which certain types of financial institution, including the Issuer, are required to pay an annual levy of the carrying amount of their liabilities as determined for tax purposes. This levy was originally 0.041 per cent. but, in December 2011, a transitional provision was introduced under which financial institutions had to pay an additional 0.0875 per cent. of their tax base as assessed for the years 2012 and 2013. In 2013, the levy was increased and set at 0.376 per cent. of the total debt of the Issuer excluding tax liabilities in excess of ISK 50 billion at the end of the year. This levy has remained unchanged for the years 2014, 2015, 2016, 2017 and, to date, 2018. Non-financial subsidiaries are exempt from this tax. There can be no assurance that the levy will not be further increased. Any such increase could have a material adverse effect on the financial condition of the Issuer.

In June 2009, the Icelandic Parliament adopted an amendment to the Income Tax Act No. 90/2003 (the **ITA**) as a result of which payments of Icelandic sourced interest by an Icelandic debtor, such as the Issuer, to a foreign creditor, including holders of Notes who are not Icelandic, are taxable in Iceland and can be subject to withholding tax at the rate of 10.0 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Directorate of Inland Revenue in Iceland that an exemption applies, such as the existence of a relevant double taxation treaty, and in such case the provisions of the double tax treaty will apply. Bonds issued by energy companies and certain financial institutions, including bonds issued by the Issuer, are also subject to exemption. The exemption, subject to certain other requirements, applies to bonds that are held through a clearing system, such as Euroclear and Clearstream, Luxembourg, within a member state of the Organisation for Economic Co-operation and Development (**OECD**), the European Economic Area (**EEA**), a founding member state of European Free Trade Association (**EFTA)** or the Faroe Islands.

In December 2011, the Icelandic Parliament passed the Act on Tax on Financial Activities, No. 165/2011, under which certain types of financial institutions, including the Issuer, were required to pay a special additional tax levied on all remuneration paid to employees, with effect from 1 January 2012. The levy is currently set at 5.5 per cent. of such remuneration. Additionally, Act No. 165/2011 amended Article 71 of the ITA, regarding income tax of legal entities, and imposed a special additional income tax on legal entities liable for taxation according to Article 2 of Act No. 165/2011, which includes the Issuer. The levy is set at 6 per cent. on income over ISK 1 billion, disregarding joint taxation and transferable losses.

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

The Issuer's capital management framework is based on CRD IV, which is an EU legislative package consisting of 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 575/2016/EU (**CRR**). CRD IV and CRR were implemented into Icelandic legislation for the most part in several phases in 2017, except for the last phase. At this time it is not known when the last phase will be finalised. The implementation of CRD IV and the CRR into Icelandic legislation 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 Issuer's and/or 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 2 July 2014, Directive 2014/59/EU 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**) entered into force. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing relevant entity so as to ensure the continuity of the relevant entity's critical financial and economic functions, while minimising the impact of a relevant entity's failure on the economy and financial system.

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

The BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) a relevant entity is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such relevant entity 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 relevant entity 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 relevant entity to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control), which may limit the capacity of the relevant entity to meet its repayment obligations; (iii) asset separation – which enables resolution authorities to transfer any 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 relevant entity 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 cancellation, transfer or dilution.

When applying the general bail-in tool, the resolution authority must first reduce or cancel common equity tier one, thereafter reduce, cancel, convert additional tier one instruments and then tier two instruments. Other unsubordinated debt may also be reduced, cancelled or converted in accordance with the hierarchy of claims in normal insolvency proceedings. If this total reduction is less than the amount needed, the resolution authority will reduce or convert to the extent required the principal amount or outstanding amount payable in respect of unsecured creditors in accordance with the hierarchy of claims in normal insolvency proceedings. The BRRD excludes certain liabilities from the application of the general bail-in tool and provides also that the resolution authorities may exclude or partially exclude certain further liabilities from the application of the general bail-in tool. Accordingly, *pari passu* liabilities may be treated unequally and, for example, holders of Notes of a Series may be subject to the application of resolution tools (such as the write-down or conversion upon an application of the general bail-in tool) while other Series of Notes (or other *pari passu* ranking liabilities) are partially or fully excluded from the application of such resolution tools (such as the application of the general bail-in tool). As a result, the claims of other holders of junior or *pari passu* liabilities may be excluded from the application of the general bail-in tool and therefore the holders of such claims may receive a treatment which is more favourable than that received by Noteholders.

Furthermore, the resolution authorities will have the power to cancel debt instruments, and the power to amend or alter the maturity of debt instruments and other eligible liabilities or amend the amount of interest payable under such instruments and other eligible liabilities, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

The BRRD also provides for a Member State as a last resort, after having assessed and utilised 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.

A relevant entity 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).

In addition to the resolution tools (such as the general bail-in tool), the BRRD provides for resolution authorities to have the further power to permanently write down or convert into equity, capital instruments (such as the Subordinated Notes) at the point of non-viability and before, or at least together with, the application of any other resolution action (**non-viability loss absorption**). Any shares issued to holders of the Subordinated Notes upon any such conversion into equity may also be subject to any application of the general bail-in tool or other powers under the BRRD.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant authority determines that the relevant entity meets the conditions for resolution (but no resolution action has yet been taken) or (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or group will no longer be viable unless the relevant capital instruments (such as the Subordinated Notes) are written down or converted or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the economy of an EEA State (as defined below) and to preserve financial stability.

If the BRRD is implemented in Iceland in line with the EU legislation, holders of Notes may be subject to any application of the resolution tools (such as the general bail-in tool) or (in the case of Subordinated Notes) on any application of the non-viability loss absorption measure, which may result in such holders losing some or all of their investment in the Notes, or their rights in respect of the Notes and/or the value of their investment may otherwise be materially adversely affected. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of holders of Notes, the price of value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under the relevant Notes.

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. Iceland, together with Liechtenstein and Norway (the **EEA States**), is a party to the EEA Agreement by which the EEA States participate in the internal market of the EU. The BRRD is marked EEA relevant in the Official Journal of the EU and thus should be incorporated into the EEA Agreement. The directive will be implemented in two parts. The first part, mainly regarding the recovery plan, is expected to be implemented in the second or third quarter of 2018, and the second part, regarding the general bail-in tool, is expected to be implemented some time in 2019. Although the Minimum Requirement for own funds and Eligible Liabilities (**MREL**) is expected to be implemented in Iceland in 2019, the amount of MREL and the type of eligible instruments are not known by the Issuer at this time. Therefore, it is difficult for the Issuer to estimate the potential impact of the implementation of the MREL requirement.

Iceland's national implementation of EEA rules may be inadequate in certain circumstances

Iceland is obligated to implement certain EU instruments with EEA relevance, including legislation relating to financial markets, as a member state of the EEA. Where implementation of such instruments into Icelandic law is inadequate, i.e. Iceland has failed to adapt national law to conform to EEA rules, citizens may be unable to rely on them and the Icelandic courts barred from applying them (unless Icelandic legislation may be interpreted to conform with the relevant EEA rules). As a result, Noteholders may not, in all circumstances, enjoy the same legal protection they would expect as holders of securities issued by issuers in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation.

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 is exposed to competition, principally from other large Icelandic banks, and expects that this competition will increase as Iceland's economy recovers

The Issuer currently faces competition from the two other large commercial banks in Iceland, Landsbankinn and Arion Bank. The Issuer also faces competition domestically from the Housing Financing Fund, a provider of financing for residential housing in Iceland as well as pension funds. As Iceland's economy recovers and demand for new lending and other banking products increases, the Issuer expects to face increased competition from both the other large Icelandic banks and smaller specialised institutions as well as, potentially, foreign banks seeking to establish operations in Iceland.

The Issuer expects to compete on the basis of a number of factors, including transaction execution, its products and services, its ability to innovate, reputation and price. If the Issuer is unable to compete effectively in the future in any market in which it has a significant presence, this could adversely affect its business, results of operations and prospects.

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.

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 represented by global notes 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 judgment from 2011 regarding a debt issuance programme similar to this Programme, the Supreme Court held that the holder of the Global Note can file a claim against an estate, not beneficial owners of interests in the Global Note themselves. As at the date hereof, investors should be aware that they may not be able to file a claim against the Issuer directly, should the Issuer become insolvent or become the subject of winding-up proceedings unless their interests in a Global Note have been exchanged for definitive Notes in accordance with the Terms and Conditions of the Notes. This means that Noteholders may lose all rights attaching to their interests in a Global Note 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.

The Icelandic government may sell all or a portion of its ownership stake in the Issuer

The Icelandic government, through Icelandic State Financial Investments (**ISFI**), owns 100 per cent. of the Issuer's share capital. The Issuer is not directly or indirectly owned or controlled by parties other than the

Icelandic government, through ISFI. The Icelandic government has issued public statements declaring that it does not plan to be a long-term owner of the Issuer. However, the Icelandic government has not yet initiated a sales process or taken any other action regarding its ownership stake in the Issuer. A sale of all or a portion of the Icelandic government's ownership stake in the Issuer may have an adverse effect on the Issuer's results.

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

At any time upon the occurrence of a Tax Event pursuant to Condition 7.2, or a Capital Event pursuant to Condition 7.3 or on an Optional Redemption Date pursuant to Condition 7.4, the Notes may be redeemed (if applicable) at the option of the Issuer at their principal amount, as more particularly described in the Conditions. Such 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, or during any period when Noteholders perceive that the Issuer may elect to redeem 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 elect to exercise its option 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 Notes included a feature to convert the interest basis 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. Such a feature to convert the interest rate may affect the

secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, 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. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

The regulation and reform of "benchmarks" may adversely affect the value of Notes linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks" (such as, in the case of Floating Rate Notes, a Reference Rate, or, in the case of Reset Notes, a Mid-Swap Floating Leg Benchmark Rate), are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark". The Benchmarks Regulation was published in the Official Journal of the European Union on 29 June 2016 and has applied since 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to or referencing a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the national or international reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks": (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a "benchmark".

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a "benchmark".

Future discontinuance of certain benchmark rates (for example, LIBOR or EURIBOR) may adversely affect the value of Floating Rate Notes and/or Reset Notes which are linked to or which reference any such benchmark rate

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021, and that the market should begin planning a transition to alternative reference rates that are based on actual transactions (such as the Sterling Over Night Index Average (**SONIA**)). The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going

forwards, or whether LIBOR will be administered and compiled in the same manner as present. This may cause LIBOR to perform differently than it did in the past and may have other consequences that cannot be predicted.

Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Reset Notes and Floating Rate Notes which are linked to or which reference such benchmark rate will be determined for the relevant period by the fallback provisions applicable to such Notes. The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable.

If the circumstances described in the preceding paragraph occur and (i) in the case of Floating Notes, Reference Rate Replacement is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being applicable and 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 or (ii) in the case of Reset Notes, Mid-Swap Floating Leg Benchmark Rate Replacement is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being applicable (any such Notes, **Relevant Notes**), such fallback arrangements will include the possibility that:

(i) the relevant rate of interest (or, as applicable, component thereof) could be set or, as the case may be, determined by reference to a successor rate or an alternative rate (as applicable) determined by an Independent Advisor; and

(ii) such successor rate or alternative rate (as applicable) may be adjusted (if required) by the relevant Independent Adviser (in the case of Relevant Notes which are Floating Rate Notes) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark or (in the case of Relevant Notes which are Reset Notes) in order to take account of any adjustment factor to make such rates comparable to rates quoted on the basis of the relevant Mid-Swap Floating Leg Benchmark Rate,

in any such case, acting in good faith and in a commercially reasonable manner as described more fully in the Terms and Conditions of the Relevant Notes.

In addition, in the case of Relevant Notes which are Floating Rate Notes, the relevant Independent Adviser may also determine (acting in good faith and in a commercially reasonable manner) that other amendments to the Terms and Conditions of the Notes are necessary in order to follow market practice in relation to the relevant successor rate or alternative rate (as applicable) and to ensure the proper operation of the relevant successor rate or alternative rate (as applicable).

No consent of the Noteholders shall be required in connection with effecting any relevant successor rate or alternative rate (as applicable) or any other related adjustments and/or amendments described above.

If the Independent Adviser appointed by the Issuer fails to make the necessary determination, the ultimate fallback of interest for a particular Interest Period or Reset Period (as applicable) may result in the rate of interest for the last preceding Interest Period or Reset Period (as applicable) being used. This may result in the effective application of a fixed rate for Floating Rate Notes or Reset Notes (as applicable) based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or Reset Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the

Floating Rate Notes or Reset Notes. Investors should note that, in the case of Relevant Notes, the relevant Independent Adviser will have discretion to adjust the relevant successor rate or alternative rate (as applicable) in the circumstances described above. Any such adjustment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each Noteholder, any such adjustment will be favourable to each Noteholder.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Notes or Reset Notes.

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.

The Issuer's obligations under Subordinated Notes are subordinated. An investor in Subordinated Notes assumes an enhanced risk of loss in the event of the Issuer's insolvency

The Issuer's obligations under Subordinated Notes will be unsecured and subordinated.

On a liquidation, dissolution or winding-up of, or analogous proceedings over the Issuer by way of exercise of public authority (referred to herein as a **winding-up of the Issuer**), all claims in respect of the Subordinated Notes will rank *pari passu* without any preference among themselves, at least *pari passu* with present or future claims in respect of Parity Securities (as defined in Condition 3.2), in priority to any present or future claims in respect of Junior Securities (as defined in Condition 3.2) and junior to any present or future claims in respect of Senior Creditors (as defined in Condition 3.2). If, on a winding-up of the Issuer, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of the Senior Creditors in full, the Noteholders will lose their entire investment in the Subordinated Notes. If there are sufficient assets to enable the Issuer to pay the claims of Senior Creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Subordinated Notes and all other claims of Parity Securities, Noteholders will lose some (which may be substantially all) of their investment in the Subordinated Notes.

There is no restriction on the amount of securities or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Subordinated Notes. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Noteholders during a winding-up of the Issuer and may limit the Issuer's ability to meet its obligations under the Subordinated Notes.

Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a significant risk that an investor in such Notes will lose all or some of his or her investment should a winding-up of the Issuer occur.

There are limited enforcement events in relation to Subordinated Notes

Each Series of Subordinated Notes will contain limited enforcement events relating to:

(a) non-payment by the Issuer of any amounts due under the relevant Series of Subordinated Notes. In such circumstances, as described in more detail in Condition 10.2 (Enforcement Events), a Noteholder may institute proceedings in Iceland in order to recover the amounts due from the Issuer to such Noteholder; and

(b) the liquidation or bankruptcy of the Issuer. In such circumstances, as described in more detail in Condition 10.2, the relevant Series of Subordinated Notes will become due and payable at their outstanding principal amount, together with accrued interest thereon.

A Noteholder may not itself file for the liquidation or bankruptcy of the Issuer. As such, the remedies available to holders of Subordinated Notes are more limited than those typically available to holders of senior ranking securities (such as the Unsubordinated Notes), which may make it more difficult for Subordinated Noteholders to take enforcement action against the Issuer.

Subordinated Notes: Call options are subject to the prior consent of the FME

Subordinated Notes may also contain provisions allowing the Issuer to call them after a minimum period of, for example, five years. To exercise such a call option, the Issuer must obtain prior written consent of the Financial Supervisory Authority of Iceland (*Fjármálaeftirlitið*) (the **FME**).

Holders of Subordinated Notes have no rights to call for the redemption of Subordinated Notes and should not invest in such Notes in the expectation that such a call will be exercised by the Issuer. The FME must agree to permit such a call, based upon its evaluation of the regulatory capital position of the Issuer and certain other facts at the relevant time. There can be no assurance that the FME will permit such a call. Holders of Subordinated Notes should be aware that they may be required to bear the financial risks of an investment in Subordinated Notes for a period of time in excess of the minimum period. See also "*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*" above.

In certain circumstances, the Issuer can substitute or vary the terms of Subordinated Notes

Where the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement specify that Condition 7.10 applies, if at any time a Capital Event or a Tax Event occurs, the Issuer may, subject to obtaining the prior written consent of the FME, either substitute all, but not some only, of the relevant Subordinated Notes for, or vary the terms of the relevant Subordinated Notes, as the case may be, so that they remain or, as appropriate, become, Qualifying Securities (as defined in Condition 7.10) as further provided in Condition 7.10. The terms and conditions of such substituted or varied Subordinated Notes may have terms and conditions that contain one or more provisions that are substantially different from the terms and conditions of the original Subordinated Notes, provided that the relevant Subordinated Notes remain or, as appropriate, become, Qualifying Securities in accordance with the Terms and Conditions of the Notes. While the Issuer cannot make changes to the terms of Subordinated Notes that, in its reasonable opinion, are materially less favourable to the holders of the relevant Subordinated Notes as a class, no assurance can be given as to whether any of these changes will negatively affect any particular holder. In addition, the tax and stamp duty consequences of holding such substituted or varied Subordinated Notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding the Subordinated Notes prior to such substitution or variation.

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.

In the case of Notes other than VPS Notes, 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.

In the case of VPS Notes, the VPS Account Manager, the Principal Paying Agent (insofar as the relevant modification relates to the Agency Agreement) and the Issuer may agree, without the consent of any of the Noteholders, to any modification of the VPS Notes, the VPS Account Manager Agreement (as defined under "*Terms and Conditions of the Notes*") or the Agency Agreement (insofar as the relevant modification to the Agency Agreement relates to the VPS Notes) on the same basis.

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 or principal than expected and could significantly adversely affect their return on the Notes

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 OECD state, EU state, an 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 or, as the case may be, Norwegian law or administrative practice

Except for (i) the provisions of Condition 3.2 and Condition 3.3; and (ii) the provisions relating to registration of the VPS Notes in VPS and Condition 15.2, the Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the relevant Notes. Condition 3.2 and Condition 3.3 shall, in each case, be governed by, and construed in accordance with, Icelandic law. The registration of VPS Notes in VPS and Condition 15.2 shall be governed by, and construed in accordance with, Norwegian law. No assurance can be given as to the impact of any possible judicial decision or change to English, Icelandic or Norwegian law or administrative practice, as the case may be, 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, Icelandic or Norwegian law, as the case may be, 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, Norwegian law or Icelandic law, as the case may be, to govern the Terms and Conditions of the Notes (or part thereof)

Whilst the choice of English law, Norwegian law or Icelandic law, as the case may be, as the governing law of parts of the Terms and Conditions of the Notes described above will generally be upheld as a valid choice by many courts, there will be circumstances in which the relevant 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 or, as the case may be, Norwegian law to govern parts of 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, Norwegian law or Icelandic law, as the case may be, 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 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.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and 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 would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, 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) or issued and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination 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

Save in the case of VPS Notes, 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, reorganisation or winding-up, 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 or Reset Notes may be adversely affected by movements in market interest rates

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

In addition, a holder of Reset Notes is also exposed to the risk of fluctuating interest rate levels and uncertain interest income.

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 addition, rating agencies may assign unsolicited ratings to the Notes. In such circumstances there can be no assurance that the unsolicited rating(s) will not be lower than the comparable solicited ratings assigned to the Notes, which could adversely affect the market value and liquidity of the Notes.

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 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 2015 (including the auditors' report thereon) (the **2015 Financial Statements**) which can be viewed online at https://www.islandsbanki.is/library/Skrar/IR/Afkoma/ISB_Annual_Consolidated_Financial_Statements_2015.pdf ;

(ii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2016 (including the auditors' report thereon) (the **2016 Financial Statements**) which can be viewed online at https://www.islandsbanki.is/library/Skrar/IR/Afkoma/ISB_Consolidated_Financial_Statements_2016.pdf;

(iii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2017 (including the auditors' report thereon) (the **2017 Financial Statements**) which can be viewed online at https://www.islandsbanki.is/library/Skrar/IR/arsskyrsla-2017/Íslandsbanki%20hf.%20Consolidated%20Financial%20Statements%202017.pdf;

(iv) section 6 "Liquidity Risk" of the Issuer's Pillar 3 Report: Risk and Capital Management 2017 which can be viewed online at https://www.islandsbanki.is/library/Skrar/IR/arsskyrsla-2017/IslandsbankiPillar3Report2017.pdf ;

(v) the section "Terms and Conditions of the Notes" (pages 55 to 90 inclusive) set out in the base prospectus dated 8 May 2015 relating to the Programme (available on the website of Euronext Dublin at http://www.ise.ie/debt_documents/Base%20Prospectus_579626f1-1386-4f77-8778-89510fda0b57.PDF);

(vi) the section "Terms and Conditions of the Notes" (pages 56 to 91 inclusive) set out in the base prospectus dated 13 May 2016 relating to the Programme (available on the website of Euronext Dublin at http://www.ise.ie/debt_documents/Base%20Prospectus_320b10b6-8245-4355-931d-59054508a626.PDF); and

(vii) the section "Terms and Conditions of the Notes" (pages 61 to 104 inclusive) set out in the base prospectus dated 21 April 2017 relating to the Programme (available on the website of Euronext Dublin at http://www.ise.ie/debt_documents/F%20Prospectus_eb98ea21-f651-4a5c-8553-35249aad2e75.PDF).

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 of the Programme 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.
Issuer Legal Entity Identifier (LEI):	549300PZMFIQR79Q0T97
Description:	Global Medium Term Note Programme
Arranger:	Merrill Lynch International
Dealers:	Barclays Bank PLC Citigroup Global Markets Limited Deutsche Bank AG, London Branch Goldman Sachs International J.P. Morgan Securities plc Merrill Lynch International Morgan Stanley & Co. International plc Nomura International plc UBS Limited and any other Dealers appointed in accordance with the Programme Agreement.
Programme Size:	Up to U.S.$2,500,000,000 (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
VPS Account Manager:	DNB Bank ASA
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 (i) bearer form, (ii) registered form or (iii) uncertificated and dematerialised book entry form (**VPS Notes**), with the legal title thereto being evidenced by book entries in the records of VPS, in each case as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes or VPS Notes. Bearer Notes will not be exchangeable for Registered Notes or VPS Notes. VPS Notes will not be exchangeable for Bearer Notes or Registered Notes.
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) subject to the successor or alternative reference rate provisions in Condition 5.2(g), 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.
Reset Notes:	Reset Notes have reset provisions pursuant to which the relevant Reset Notes will, in respect of an initial period, bear interest at an initial fixed rate of interest specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. Thereafter, the fixed rate of interest will be reset on one or more date(s) by reference to a mid-market swap rate for the relevant Specified Currency, and for a period equal to the Reset Period, in each case as may be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. The margin (if any) in relation to Reset Notes will be agreed between the Issuer and the relevant Dealer for each Series of Reset Notes and will be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. Interest on Reset 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.
Change of Interest Basis:	Notes may be converted from one Interest Basis to another if so provided in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement.
Redemption:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date. 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 (in the case of Unsubordinated Notes) following an Event of Default) or that such Notes will be redeemable at the option of the Issuer (including, in the case of Subordinated Notes, upon the occurrence of a Capital Event) 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 (in the case of Exempt Notes only) such other terms as may in each case 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.

No early redemption of Subordinated Notes may take place without the prior written consent of the FME (if and to the extent such consent is required).

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.

Negative Pledge: The terms of the Notes will not contain a negative pledge provision.

Events of Default and Enforcement Events: The terms of the Unsubordinated 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.

The terms of the Subordinated Notes will contain enforcement events relating only to non-payment (allowing a Noteholder to institute proceedings in Iceland in order to recover the amounts due from the Issuer to such Noteholder) and the liquidation or bankruptcy of the Issuer, provided that a Noteholder may not itself file for the liquidation or bankruptcy of the Issuer.

Status of the Unsubordinated 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 obligations which are expressed to rank junior to the Notes, 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.

Status of the Subordinated Notes: The Subordinated Notes will constitute subordinated and unsecured obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves.

In the event of a liquidation, dissolution or winding-up of, or analogous proceedings over the Issuer by way of exercise of public authority, claims of the Noteholders against the Issuer in respect of, or arising under, the Notes (including any amounts attributable to the Notes and any damages awarded for breach of any obligations thereunder) shall rank:

(i) *pari passu* without preference among themselves;

(ii) *pari passu* with present or future claims in respect of Parity Securities;

(iii) in priority to any present or future claims in respect of Junior Securities; and

(iv) junior to any present or future claims in respect of Senior Creditors.

Subordinated Notes – Substitution or Variation: Where the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement specify that Condition 7.10 applies, if at any time a Tax Event or a Capital Event occurs, the Issuer may, subject to the provisions of 7.11 (if, and to the extent so required), either substitute all, but not some only, of the Subordinated Notes for, or vary their terms so that they remain or, as appropriate, become, Qualifying Securities (as defined in Condition 7.10), as further provided in Condition 7.10.

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 Euronext Dublin 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, except for (i) the provisions of Condition 3.2 and Condition 3.3 which shall, in each case, be governed by, and construed in accordance with, Icelandic law and (ii) the registration of VPS Notes in VPS and Condition 15.2, which shall, in each case, be governed by, and construed in accordance with, Norwegian law. VPS Notes must comply with the regulations of VPS, and the holders of VPS Notes will be entitled to the rights and are subject to the obligations and liabilities which arise under the Norwegian regulations and legislation.
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, Iceland and Norway), 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 (i) bearer form, with or without interest coupons attached, (ii) registered form, without interest coupons attached or (iii) uncertificated and dematerialised form and cleared through the VPS. Bearer Notes and VPS 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 SA (**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 Department 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) in the case of Unsubordinated Notes, an Event of Default (as defined in Condition 10.1) has occurred and is continuing and, in the case of Subordinated Notes, an Enforcement Event (as defined in Condition 10.2) 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 determines that it 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 OF 1986, AS AMENDED."

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".***

VPS Notes

Each Tranche of VPS Notes will be issued in uncertificated and dematerialised book entry form. Legal title to VPS Notes will be evidenced by book entries in the records of VPS. Issues of VPS Notes are subject to the VPS Account Manager Agreement (as defined under "*Terms and Conditions of the Notes*"). On the issue of VPS Notes, the Issuer will send a copy of the applicable Final Terms or (in the case of Exempt Notes) the Pricing Supplement, to the Principal Paying Agent and the VPS Account Manager. Following notification to VPS of the terms relating to the VPS Notes by (or on behalf of) the Issuer and of the subscribers and their VPS account details by the relevant Dealer, the VPS Account Manager, acting on behalf of the Issuer, will give instructions to VPS to credit each subscribing account holder with VPS with a nominal amount of VPS Notes equal to the nominal amount thereof for which it has subscribed and paid.

Settlement of sale and purchase transactions in respect of VPS Notes in VPS will take place in accordance with market practice at the time of the transaction. Transfers of interests in the relevant VPS Notes will take place in accordance with the rules and procedures for the time being of VPS.

VPS Notes will not be exchangeable for any physical note or document of title other than statements of account made by VPS.

General

Pursuant to the Agency Agreement, in the case of Notes other than VPS Notes, 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 and/or VPS 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, the Principal Paying Agent and (in the case of VPS Notes) the VPS Account Manager.

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 30 April 2018 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

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][*Include unless the Final Terms specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable"*]

[[1]**MiFID II product governance / Professional investors and eligible counterparties only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [MiFID II/Directive 2014/65/EU (as amended, **MiFID II**)]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Details of any negative target market to be included if applicable*]. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[[2]**MiFID II product governance / Retail investors, professional investors and ECPs** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, professional clients and retail clients, each as defined in [MiFID II/Directive 2014/65/EU (as amended, **MiFID II**)]: *EITHER*[3] [and (ii) all channels for distribution of the Notes are appropriate, including investment advice, portfolio management, non-advised sales and pure execution services] *OR* [4][(ii) all channels for distribution to eligible counterparties and professional clients are appropriate, (iii) the following channels for distribution of the Notes to retail clients are appropriate – investment advice[,/ and] portfolio management[,/ and][non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable]]. [*Consider any negative target market*] [Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/'s] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable][5].]]

[1] Legend to be included on front of the Final Terms if following the ICMA 1 "all bonds to all professionals" target market approach.
[2] Legend to be included on the front of the Final Terms if following the ICMA 2 approach.
[3] Include for bonds that are not ESMA complex.
[4] Include for certain ESMA complex bonds. This list may need to be amended, for example, if advised sales are deemed necessary. If there are advised sales, a determination of suitability will be necessary. In addition, if the Notes constitute "complex" products, pure execution services are not permitted to retail without the need to make the determination of appropriateness required under Article 25(3) of MiFID II.
[5] If the Notes constitute "complex" products, pure execution services are not permitted to retail without the need to make the determination of appropriateness required under Article 25(3) of MiFID II. If there are advised sales, a determination of suitability will be necessary.

[*Date*]

ÍSLANDSBANKI HF.

(*incorporated with limited liability in Iceland*)

Legal entity identifier (LEI): 549300PZMFIQR79Q0T97

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$2,500,000,000
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 30 April 2018 (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) (for the purposes of these Final Terms, the **Prospectus Directive**)][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 Euronext Dublin at www.ise.ie]] and copies may be obtained during normal business hours from the registered office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland and from the offices of the Principal Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England.

[*The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the base prospectus dated [*original date*] which are incorporated by reference in the Base Prospectus dated 30 April 2018 (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein 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) (for the purposes of these Final Terms, the **Prospectus Directive**)][the Prospectus Directive]. This document must be read in conjunction with 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 the Prospectus Directive. 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 Euronext Dublin at www.ise.ie]] and copies may be obtained during normal business hours from the registered office of the Issuer at Hagasmári 3, 201 Kópavogur, 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 22 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.")* *(N.B. In the case of VPS Notes, only one denomination is permitted)*
	(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 or reset 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] [Reset Notes] [Zero Coupon] (see paragraph [14][15][16][17] 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:		[For the period from (and including) the Interest Commencement Date, up to (but excluding) [*date*], paragraph [14/15/16/17] applies, and for the period from (and including) [*date*], up to (and including) the Maturity Date, paragraph [14/15/16/17] applies]/[Not Applicable]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [Not Applicable] [(see paragraph [18][19]below)]
13.	(a)	Status of the Notes:	[Unsubordinated/Subordinated]
	(*If Subordinated Notes include:*)		
		(i) Redemption upon occurrence of Capital Event:	[Applicable – Condition 7.3 applies/Not Applicable]
		(ii) Substitution or variation:	[Applicable – Condition 7.10 applies/Not Applicable]
	(b)	Set-off:	[Applicable - Condition 3.3 applies/Not Applicable]
	(c)	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]
	(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 or, as the case may be, the VPS Calculation 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: [ ]
- Reference Rate Replacement: [Applicable/Not Applicable]

(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. Reset Note Provisions: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(a) Initial Rate of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date

(b) First Reset Margin: [+/-][ ] per cent. per annum

(c) Subsequent Reset Margin: [[+/-][ ] per cent. per annum]/[Not Applicable]

(d) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date

(e)	Fixed Coupon Amount up to (but excluding) the First Reset Date:	[[ ] per Calculation Amount]/[Not Applicable]
(Applicable to Notes in definitive form)		
(f)	Broken Amount(s) up to (but excluding) the First Reset Date:	[[ ] per Calculation Amount payable on the Interest Payment Date falling on [ ]]/[Not Applicable]
(*Applicable to Notes in definitive form*)		
(g)	First Reset Date:	[ ]
(h)	Second Reset Date:	[[ ]/[Not Applicable]
(i)	Subsequent Reset Date(s):	[[ ] [and [ ]]/[Not Applicable]
(j)	Relevant Screen Page:	[ ]
(k)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
(l)	Mid-Swap Rate Conversion:	[Applicable/Not Applicable]
(m)	Original Mid-Swap Rate Basis:	[Annual/Semi-annual/Quarterly/Monthly]
(n)	Mid-Swap Floating Leg Maturity:	[ ]
(o)	Mid-Swap Floating Leg Benchmark Rate Replacement:	[Applicable/Not Applicable]
(p)	Initial Mid-Swap Rate Final Fallback:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraph of this paragraph*)
	-- Initial Mid-Swap Rate:	[ ] per cent.
(q)	Reset Period Maturity Initial Mid-Swap Rate Final Fallback:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraph of this paragraph*)
	- Reset Period Maturity Initial Mid-Swap Rate:	[ ] per cent.
(r)	Last Observable Mid-Swap Rate Final Fallback:	[Applicable/Not Applicable]
(s)	Reset Determination Date(s):	[ ]

(*Specify in relation to each Reset Date*)

(t) Relevant Time: [ ]

(u) Day Count Fraction: [30/360]/[Actual/Actual (ICMA)]

(v) 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.*)

(w) VPS Calculation Agent: [ ]/[Not Applicable]

17. 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

18. 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)

19. 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*)

20. Final Redemption Amount: [ ] per Calculation Amount

21. Early Redemption Amount payable on redemption for taxation reasons, upon the occurrence of a Capital Event or on event of default: [ ] per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. 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]]

(*N.B. The exchange of Temporary Bearer Global Note for Definitive Notes option is not permitted in relation to any issue of Notes where the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000."*)

[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*) [VPS Notes]
	(b) New Global Note:	[Yes] [No] [Not Applicable] (*In the case of an issue of VPS Notes, this will be not applicable*)
23.	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*)
24.	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 Euronext Dublin]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [the Main Securities Market of Euronext Dublin]/[ ] 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 and Reset Notes only*)

Indication of yield: [ ]

5. BENCHMARKS REGULATION *(Floating Rate Notes and Reset Notes calculated by reference to benchmarks only)*

[Amounts payable under the Notes will be calculated by reference to [*specify benchmark (as this term is defined in the Benchmarks Regulation*)] which is provided by [*legal name of the benchmark administrator*]. As at the date of these Final Terms, [*legal name of the benchmark administrator*] [appears/does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) 2016/1011 (the **Benchmarks Regulation**).

[As far as the Issuer is aware, [*specify benchmark (as this term is defined in the Benchmarks Regulation*)] [does not fall within the scope of the Benchmarks Regulation by virtue of Article 2 of that regulation/the transitional provisions in Article 51 of the Benchmarks Regulation apply] such that [*legal name of the benchmark administrator*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence).]]

6. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	CUSIP:	[ ]
(iv)	CINS:	[ ]
(v)	CFI:	[Not Applicable/[ ]]
(vi)	FISN:	[Not Applicable/[ ]] (*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*
(vii)	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)*][Verdipapirsentralen ASA (**VPS**), VPS identification number: [ ]]
(viii)	Delivery:	Delivery [against/free of] payment
(ix)	Names and addresses of additional Paying Agent(s) and/or Transfer Agent(s) (if any) or alternative VPS Account Manager (if applicable):	[ ]
(x)	VPS Calculation Agent:	[Not Applicable/*give name*] (*N.B. VPS Notes only*)
(xi)	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.]

[Not Applicable]

(*In the case of an issue of VPS Notes, this will be Not Applicable*)

7. 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]
(vii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]

8. 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

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.][*Include unless the Pricing Supplement specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable"*]

[**MiFID II product governance / target market** – [*appropriate target market legend to be included*]]

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*)

Legal entity identifier (LEI): 549300PZMFIQR79Q0T97

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$2,500,000,000
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 30 April 2018 (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 Euronext Dublin at www.ise.ie] and copies may be obtained during normal business hours from the registered office of the Issuer at Hagasmári 3, 201 Kópavogur, 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 [dated [*original date*] [and the supplement dated [*date*]] which are incorporated by reference 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 22 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.")* *(N.B. In the case of VPS Notes, only one denomination is permitted)*
	(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 or reset rate - Specify date/ Floating Rate - Interest Payment Date falling in or nearest to the [specify month and year*]]
9.	Interest Basis:	[[ ] per cent. Fixed Rate] [[ ] month [LIBOR/EURIBOR/NIBOR/STIBOR/ REIBOR] +/- [ ] per cent. Floating Rate] [Reset Notes] [Zero Coupon] [*specify other*] (see paragraph [14][15][16][17] 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:	[For the period from (and including) the Interest Commencement Date, up to (but excluding) [*date*], paragraph [14/15/16/17] applies, and for the period from (and including) [*date*], up to (and including) the Maturity Date, paragraph [14/15/16/17] applies]/[Not Applicable]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [Not Applicable] [(see paragraph [18][19]below)]
13.	(a) Status of the Notes:	[Unsubordinated/Subordinated]
	(*If Subordinated Notes include:*	
	(i) Redemption upon occurrence of a Capital Event:	[Applicable – Condition 7.3 applies/Not Applicable]
	(ii) Substitution or variation:	[Applicable – Condition 7.10 applies/Not Applicable]
	(b) Set-off:	[Applicable – Condition 3.3. applies/Not Applicable]
	(c) 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*]
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 or, as the case may be, the VPS Calculation 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: [ ]

- Reference Rate Replacement: [Applicable/Not Applicable]

(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)]
[*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.	Reset Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	First Reset Margin:	[+/-][ ] per cent. per annum
	(c)	Subsequent Reset Margin:	[[+/-][ ] per cent. per annum]/[Not Applicable]
	(d)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date
	(e)	Fixed Coupon Amount up to (but excluding) the First Reset Date: ((*Applicable to Notes in definitive form*)	[[ ] per Calculation Amount]/[Not Applicable
	(f)	Broken Amount(s) up to (but excluding) the First Reset Date: *((Applicable to Notes in definitive form*)	[[ ] per Calculation Amount payable on the Interest Payment Date falling on [ ]]/[Not Applicable]
	(g)	First Reset Date:	[ ]
	(h)	Second Reset Date:	[[ ]/[Not Applicable]
	(i)	Subsequent Reset Date(s):	[[ ] [and [ ]]/[Not Applicable]
	(j)	Relevant Screen Page:	[ ]
	(k)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(l)	Mid-Swap Rate Conversion:	[Applicable/Not Applicable]
	(m)	Original Mid-Swap Rate Basis:	[Annual/Semi-annual/Quarterly/Monthly]
	(n)	Mid-Swap Floating Leg Maturity:	[ ]
	(o)	Mid-Swap Floating Leg Benchmark Rate Replacement:	[Applicable/Not Applicable]
	(p)	Initial Mid-Swap Rate Final	[Applicable/Not Applicable]

	Fallback:	(*If not applicable, delete the remaining sub-paragraph of this paragraph*)
	-- Initial Mid-Swap Rate:	[ ] per cent.
(q)	Reset Period Maturity Initial Mid-Swap Rate Final Fallback:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragrpah of this paragraph*)
	- Reset Period Maturity Initial Mid-Swap Rate:	[ ] per cent.
(r)	Last Observable Mid-Swap Rate Final Fallback:	[Applicable/Not Applicable]
(s)	Reset Determination Date(s):	[ ] (*Specify in relation to each Reset Date*)
(t)	Relevant Time:	[ ]
(u)	Day Count Fraction:	[30/360]/[Actual/Actual (ICMA)]
(v)	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 new issue date or maturity date in the case of a long or short first or last coupon.*)
(w)	VPS Calculation Agent:	[ ]/[Not Applicable]
(x)	Any other terms relating to the method of calculating interest on Reset Notes, if different from those set out in the Conditions:	[ ]
17.	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

18.	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/*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*)
19.	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*)

20.	Final Redemption Amount:	[[ ] per Calculation Amount/*specify other*/see Appendix]
21.	Early Redemption Amount payable on redemption for taxation reasons, upon the occurrence of a Capital Event or on event of default:	[[ ] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. 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]]

(*N.B. The exchange of Temporary Bearer Global Note for Definitive Notes option is not permitted in relation to any issue of Notes where the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000."*)

[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*)

[VPS Notes]

(b) New Global Note: [Yes] [No] [Not Applicable]

(*In the case of an issue of VPS Notes this will be Not Applicable*)

23.	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*)
24.	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]
25.	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. BENCHMARKS REGULATION (*Floating Rate Notes and Reset Notes calculated by reference to a benchmark only*)

[Amounts payable under the Notes will be calculated by reference to [*specify benchmark (as this term is defined in the Benchmarks Regulation*)] which is provided by [*legal name of the benchmark administrator*]. As at the date of this Pricing Supplement, [*legal name of the benchmark administrator*] [appears/does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) 2016/1011 (the **Benchmarks Regulation**).

[As far as the Issuer is aware, [*specify benchmark (as this term is defined in the Benchmarks Regulation*)] [does not fall within the scope of the Benchmarks Regulation by virtue of Article 2 of that regulation/the transitional provisions in Article 51 of the Benchmarks Regulation apply] such that [*legal name of the benchmark administrator*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence).]]

3. OPERATIONAL INFORMATION

(i)	ISIN:	[ ]
(ii)	Common Code:	[ ]
(iii)	CUSIP:	[ ]
(iv)	CINS:	[ ]
(v)	CFI:	[Not Applicable/[ ]]
(vi)	FISN:	[Not Applicable/[ ]] (*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*
(vii)	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)*][Verdipapirsentralen ASA (**VPS**), VPS identification number: [ ]]
(viii)	Delivery:	Delivery [against/free of] payment
(ix)	Names and addresses of	[ ]

	additional Paying Agent(s) and/or Transfer Agent(s) (if any) or alternative VPS Account Manager (if applicable):	
(x)	VPS Calculation Agent:	[Not Applicable/*give name*] (*N.B. VPS Notes only*)
(xi)	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.] [Not Applicable] (*In the case of an issue of VPS Notes, this will be Not Applicable*)

4. 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]
(vii)	Prohibition of Sales to EEA Retail Investors:	[Applicable/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 following are also the Terms and Conditions of the Notes which will be applicable to each VPS Note. VPS Notes will not be evidenced by any physical note or document of title other than statements of account made by VPS. 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 and, if applicable, the VPS Account Manager Agreement (each 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;

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

(e) any Notes issued in uncertificated and dematerialised book entry form (**VPS Notes**) and cleared through Verdipapirsentralen ASA, the Norwegian central securities depositary (**VPS**).

In the case of Notes other than VPS Notes, 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 30 April 2018 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), 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).

In the case of VPS Notes, the Notes have the benefit of a VPS Account Manager Agreement (such VPS Account Manager Agreement as amended and/or supplemented and/or restated from time to time, the **VPS Account Manager Agreement**) dated 8 May 2015 and made between the Issuer and DNB Bank ASA (the **VPS Account Manager**, which expression shall include any successor account manager in relation to VPS Notes cleared through VPS) and the Agency Agreement to the extent specified therein.

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 herein to Coupons,

Talons or related expressions shall not apply to VPS Notes. In the case of Definitive Bearer Notes only, any reference herein to Notes shall, unless the context otherwise requires, be deemed to include a reference to Coupons.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes, (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 or in relation to any VPS Notes, 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.

In the case of Notes other than VPS Notes, the Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant (the **Deed of Covenant**) dated 30 April 2018 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, the VPS Account Manager 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**) and (in the case of the VPS Account Manager Agreement only) at the specified office of the VPS Account Manager.

References herein to **Exempt Notes** are to Notes for which no prospectus is required to be published under Directive 2003/71/EC (as amended including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area (for the purposes of these Terms and Conditions of the Notes, 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, endorsed on or otherwise deemed to apply to 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**) attached to, endorsed on or otherwise deemed to apply to this Note 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 Euronext Dublin, 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 Euronext Dublin 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 VPS Account Manager 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 and, in the case of VPS Notes, the VPS Account Manager 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

1.1 Form and denomination

The Notes are either (i) in bearer form, (ii) 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 or (iii) VPS Notes, in each case in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes or VPS Notes. Registered Notes may not be exchanged for Bearer Notes or VPS Notes. VPS Notes may not be exchanged for Bearer Notes or Registered Notes.

The Notes may be Fixed Rate Notes, Floating Rate Notes, Reset 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.

The Notes may be Unsubordinated Notes or Subordinated Notes, depending upon the Status 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.

VPS Notes will not be evidenced by any physical note or any other document of title other than statements of accounts made by VPS.

1.2 Title to Notes other than VPS Notes

This Condition 1.2 only applies to Notes other than VPS Notes.

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 S.A. (**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.

1.3 Title to VPS Notes

This Condition 1.3 only applies to VPS Notes.

The holder of a VPS Note will be the person evidenced (including any nominee) as such by a book entry in the records of VPS. The person so evidenced as a holder of VPS Notes shall be treated as the holder of such Notes for all purposes and the expressions **Noteholder**, **holder of Notes** and **holder of VPS Notes** and related expressions shall be construed accordingly.

Title to the VPS Notes will pass by registration in the register between the direct or indirect accountholders at VPS, in accordance with the rules and procedures of VPS.

VPS Notes will be transferable only in accordance with the rules and procedures for the time being of VPS. References to VPS shall, wherever 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 be otherwise approved by the Issuer, the Principal Paying Agent and the VPS Account Manager.

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 these Conditions, 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

3.1 Status of the Unsubordinated Notes

This Condition 3.1 applies only to Unsubordinated Notes and references to "Notes" in this Condition shall be construed accordingly.

The Notes 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 obligations which rank or are expressed to rank junior to the Notes, if any) of the Issuer, from time to time outstanding.

3.2 Status of the Subordinated Notes

This Condition 3.2 applies only to Subordinated Notes and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

(a) The Notes constitute subordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves. The Notes are subordinated as described in Condition 3.2(b).

(b) In the event of a liquidation, dissolution or winding-up of, or analogous proceedings over the Issuer by way of exercise of public authority, claims of the Noteholders against the Issuer in respect of, or arising under, the Notes (including any amounts attributable to the Notes and any damages awarded for breach of any obligations thereunder) shall rank:

(i) *pari passu* without preference among themselves;

(ii) *pari passu* with present or future claims in respect of Parity Securities;

(iii) in priority to any present or future claims in respect of Junior Securities; and

(iv) junior to any present or future claims in respect of Senior Creditors.

(c) In the Conditions, the following expressions shall have the following meanings:

FME means the Financial Supervisory Authority of Iceland (*Fjármálaeftirlitið*) or such other agency of Iceland which assumes or performs the functions which are performed by such authority;

Junior Securities means all classes of share capital of the Issuer and any present or future obligations of the Issuer which rank, or are expressed to rank, junior to the Subordinated Notes;

Parity Securities means any present or future instruments issued by the Issuer which were eligible to be recognised as Tier 2 Capital at issue by the FME, any guarantee, indemnity or other contractual support arrangement entered into by the Issuer in respect of securities (regardless of name or designation) issued by a Subsidiary of the Issuer which were eligible to be recognised as Tier 2 Capital at issue and any instruments issued, and subordinated guarantees, indemnities or other contractual support arrangements entered into by the Issuer which rank, or are expressed to rank, *pari passu* therewith, but, in each case, excluding Junior Securities;

Senior Creditors means (a) the depositors of the Issuer; (b) other unsubordinated creditors of the Issuer; and (c) subordinated creditors of the Issuer in respect of any present or future obligation of the Issuer which by its terms is, or is expressed to be, subordinated in the event

of liquidation, dissolution, winding-up of, or analogous proceedings over the Issuer, by way of exercise of public authority, to the claims of depositors and all other unsubordinated creditors of the Issuer, but which rank or are expressed to rank senior to Parity Securities and Junior Securities; and

Tier 2 Capital means Tier 2 capital as described in Article 84(c) of the Act on Financial Undertakings and secondary legislation adopted on the basis of that act, as amended or replaced.

3.3 Set-Off

If Condition 3.3 is specified as being applicable in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, subject to applicable law, claims in respect of any Notes held by a Noteholder may not be set-off, or be the subject of a counterclaim, by the relevant Noteholder against or in respect of any of its obligations to the Issuer or any other person and each Noteholder waives, and shall be treated for all purposes as if it had waived, any right that it might otherwise have to set-off, or to raise by way of counterclaim, any of its claims in respect of any Notes, against or in respect of any of its obligations to the Issuer or any other person. If, notwithstanding the preceding sentence, any Noteholder receives or recovers any sum or the benefit of any sum in respect of any Note by virtue of such set-off or counterclaim, it shall hold the same on trust for the Issuer and shall pay the amount thereof to the Issuer or, in the event of the winding-up of the Issuer, to the liquidator of the Issuer, to be held on trust for the Senior Creditors.

4. COVENANT RELATING TO 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 or which are VPS Notes, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note or which are VPS Notes; 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 the 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 the Conditions, **Business Day** means a day which 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 London and any Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement;

(b) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and

(c) 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.

(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 (in the case of VPS Notes, the VPS Calculation Agent shall be the Calculation Agent for the purposes of this Condition 5.2(b)(i) 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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, (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation Agent, shall request each of the Reference Banks to provide (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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) (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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).

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.

For the purposes of the 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 (in the case of Notes other than VPS Notes) the Issuer in consultation with the Principal Paying Agent or (in the case of VPS Notes) the Issuer in consultation with the VPS Calculation 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, subject as provided in Condition 5.2(g).

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 (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) 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 (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) 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 or which are VPS Notes, the aggregate outstanding nominal amount of the Notes represented by such Global Note or which are VPS Notes; 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" or "Actual/365" 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:

$\mathbf{Y_1}$ 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 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:

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

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

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:

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

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;

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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or (in the case of VPS Notes) the VPS Calculation 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 (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) 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, (in the case of VPS Notes) the VPS Account Manager 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) **Reference Rate Replacement**

If:

(a) Reference Rate Replacement is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being applicable and 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(s) of Interest is/are to be determined; and

(b) notwithstanding the provisions of Condition 5.2(b)(ii), the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) (in each case, in consultation with the Issuer) determines that the Reference Rate has ceased to be published on the Relevant Screen Page as a result of the Reference Rate ceasing to be calculated or administered when any Rate of Interest (or component thereof) remains to be determined by reference to the Reference Rate,

then the following provisions shall apply:

(i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser to determine:

(A) a Successor Reference Rate; or

(B) if such Independent Adviser fails so to determine a Successor Reference Rate, an Alternative Reference Rate,

and, in each case, an Adjustment Spread (if any) (in any such case, acting in good faith and in a commercially reasonable manner) no later than five Business Days prior to the Interest Determination Date relating to the next Interest Period (the **IA Determination Cut-off Date**), for the purposes of determining the Rate of Interest applicable to the Notes for such next Interest Period and for all other future Interest Periods (subject to the subsequent operation of this Condition 5.2(g) during any other future Interest Period(s));

(ii) if a Successor Reference Rate or, failing which, an Alternative Reference Rate (as applicable) is determined by the relevant Independent Adviser in accordance with this Condition 5.2(g):

(A) such Successor Reference Rate or Alternative Reference Rate (as applicable) shall be the Reference Rate for all future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 5.2(g));

(B) if the relevant Independent Adviser:

(x) determines that an Adjustment Spread is required to be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Reference Rate or Alternative Reference Rate (as applicable) for all future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 5.2(g)); or

(y) is unable to determine the quantum of, or a formula or methodology for determining, an Adjustment Spread, then such Successor Reference Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread for all future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 5.2(g)); and

(C) the relevant Independent Adviser (acting in good faith and in a commercially reasonable manner) may in its discretion specify:

(x) other changes to these Conditions which the relevant Independent Adviser determines are reasonably necessary in order to follow market practice in relation to such Successor Reference Rate or Alternative Reference Rate (as applicable), including, but not limited to, (1) the Additional Business Centre(s), Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Reference Banks, Relevant Financial Centre, Relevant Screen Page and/or Relevant Time applicable to the Notes and (2) the method for determining the fallback to the Rate of Interest in relation to the Notes if such Successor Reference Rate or Alternative Reference Rate (as applicable) is not available; and

(y) any other changes which the relevant Independent Adviser determines are reasonably necessary to ensure the proper operation and comparability to the Reference Rate of such Successor Reference Rate or Alternative Reference Rate (as applicable),

which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 5.2(g)); and

(D) promptly following the determination of (x) any Successor Reference Rate or Alternative Reference Rate (as applicable) and (y) if applicable, any Adjustment Spread, the Issuer shall give notice thereof and of any changes (and the effective date thereof) pursuant to Condition 5.2(g)(ii)(C) to the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes), the VPS Account Manager (in the case of VPS Notes) and each stock exchange or other relevant authority on which the 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.

No consent of the Noteholders shall be required in connection with effecting the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) described in this Condition 5.2(g) or such other relevant changes pursuant to Condition 5.2(g)(ii)(C), including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Agency Agreement and/or (if applicable) the VPS Account Manager Agreement (if required).

For the avoidance of doubt, if a Successor Reference Rate or an Alternative Reference Rate is not determined pursuant to the operation of this Condition 5.2(g) prior to the relevant IA Determination Cut-off Date, then the Rate of Interest for the next Interest Period shall be determined by reference to the fallback provisions of Condition 5.2(b)(ii).

In the case of Subordinated Notes only, notwithstanding any other provision of this Condition 5.2(g), no Successor Reference Rate or Alternative Reference Rate (as applicable) will be adopted, and no other amendments to the terms of the Notes will be made pursuant to this Condition 5.2(g) if, and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Notes as Tier 2 Capital of the Issuer.

For the purposes of the Conditions:

Adjustment Spread means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the relevant Independent Adviser determines is required to be applied to a Successor Reference Rate or an Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Noteholders as a result of the replacement of the Reference Rate with such Successor Reference Rate or Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

(i) in the case of a Successor Reference Rate, is formally recommended in relation to the replacement of the Reference Rate with such Successor Reference Rate by any Relevant Nominating Body; or

(ii) in the case of a Successor Reference Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the relevant Independent Adviser determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by such Successor Reference Rate or Alternative Reference Rate (as applicable); or

(iii) if neither (i) nor (ii) above applies, the relevant Independent Adviser in its discretion determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

Alternative Reference Rate means the rate that the relevant Independent Adviser determines has replaced the Reference Rate in customary market usage in the international debt capital markets for the purposes of determining floating rates of interest in respect of notes denominated in the Specified Currency and of a comparable duration to the relevant Interest Periods, or, if such Independent Adviser determines that there is no such rate, such other rate as such Independent Adviser determines in its discretion is most comparable to the Reference Rate;

Independent Adviser means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Issuer at its own expense;

Relevant Nominating Body means, in respect of a Reference Rate:

(i) the central bank for the currency to which such Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of such Reference Rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which such Reference Rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the

administrator of such Reference Rate, (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof;

Successor Reference Rate means the rate that the relevant Independent Adviser determines is a successor to or replacement of the Reference Rate, which successor or replacement is formally recommended by any Relevant Nominating Body.

5.3 Interest on Reset Notes

(a) **Rate of Interest**

Each Reset Note bears interest:

(a) from (and including) the Interest Commencement Date to (but excluding) the First Reset Date (the **Initial Period**), at the Initial Rate of Interest;

(b) for the First Reset Period, at the First Reset Rate of Interest; and

(c) for each Subsequent Reset Period thereafter (if any) to (but excluding) the Maturity Date, at the relevant Subsequent Reset Rate of Interest.

Interest will be payable, in each case, in arrear on the Interest Payment Date(s) in each year specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement 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 each Interest Period falling in the Initial Period will amount to the Fixed Coupon Amount. Payments of interest on the first 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(s) so specified.

The Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) will, at or as soon as practicable after each time at which a Rate of Interest in respect of a Reset Period is to be determined, determine the relevant Rate of Interest for such Reset Period.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) will calculate the amount of interest (the Reset Notes Interest Amount) payable on the Reset Notes for any period by applying the relevant Rate of Interest to:

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

(ii) in the case of Reset 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 Reset Note in definitive form is a multiple of the Calculation Amount, the Reset Notes 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.

(b) **Fallbacks**

If on any Reset Determination Date, the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page as at the Relevant Time on such Reset Determination Date, the Rate of Interest applicable to the Notes in respect of each Interest Period falling in the relevant Reset Period will be determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) on the following basis:

(a) the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) shall request each of the Reset Reference Banks to provide the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) as the case may be, with its Mid-Market Swap Rate Quotation as at approximately the Relevant Time on the Reset Determination Date in question;

(b) if at least three of the Reset Reference Banks provide the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) with the Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and (B) the Relevant Reset Margin, all as determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes);

(c) if only two relevant quotations are provided, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the arithmetic mean (rounded as aforesaid) of the relevant quotations provided and (B) the Relevant Reset Margin, all as determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes);

(d) if only one relevant quotation is provided, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the relevant quotation provided and (B) the Relevant Reset Margin, all as determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes);

(e) if none of the Reset Reference Banks provides the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 5.3, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) will be equal to the sum of (A) the Mid-Swap Rate determined on the last preceding Reset Determination Date and (B) the Relevant Reset Margin or, in the case of the first Reset Determination Date, the First Reset Rate of Interest will be equal to the sum of:

(i) if Initial Mid-Swap Rate Final Fallback is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being applicable, (A) the Initial Mid-Swap Rate and (B) the Relevant Reset Margin;

(ii) if Reset Maturity Initial Mid-Swap Rate Final Fallback is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being

applicable, (A) the Reset Period Maturity Initial Mid-Swap Rate and (B) the Relevant Reset Margin; or

(iii) if Last Observable Mid-Swap Rate Final Fallback is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being applicable, (A) the last observable rate for swaps in the Specified Currency with a term equal to the relevant Reset Period which appears on the Relevant Screen Page and (B) the Relevant Reset Margin,

all as determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes).

(c) **Alternative Mid-Swap Floating Leg Benchmark Rate**

If:

(a) Mid-Swap Floating Leg Benchmark Rate Replacement is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being applicable; and

(b) the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) determines that the Mid-Swap Floating Leg Benchmark Rate has ceased to be calculated or administered,

the Issuer shall use reasonable endeavours to appoint an Independent Adviser to determine an Alternative Mid-Swap Floating Leg Benchmark Rate (as defined below) and such other adjustments (if any) as referred to in this Condition 5.3(c).

If the relevant Independent Adviser (acting in good faith and in a commercially reasonable manner) determines no later than five Business Days prior to the Reset Determination Date relating to the next Reset Period (the **IA Mid-Swap Determination Cut-off Date**) that another rate (the **Alternative Mid-Swap Floating Leg Benchmark Rate**) has replaced the Mid-Swap Floating Leg Benchmark Rate in customary market usage for setting rates comparable to the Mid-Market Swap Rate then the Mid-Market Swap Rate for all future Reset Periods (subject to the subsequent operation of this Condition 5.3(c)) shall be the mean of bid and offered rates determined as provided above but as if references therein to the Mid-Swap Floating Leg Benchmark Rate were references to the Alternative Mid-Swap Floating Leg Benchmark Rate and with such adjustments (if any) as may (in the determination of such Independent Adviser acting in good faith and in a commercially reasonable manner) be necessary to take account of any adjustment factor to make such rates comparable to rates quoted on the basis of the Mid-Swap Floating Leg Benchmark Rate.

Promptly following the determination of any Alternative Mid-Swap Floating Leg Benchmark Rate as described in this Condition 5.3(c), the Issuer shall give notice thereof and of any adjustments (and the effective date thereof) pursuant to this Condition 5.3(c) to the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes), the VPS Account Manager (in the case of VPS Notes) and each stock exchange or other relevant authority on which the relevant Reset 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.

No consent of the Noteholders shall be required in connection with effecting the relevant Alternative Mid-Swap Floating Leg Benchmark Rate as described in this Condition 5.3(c) or such other relevant adjustments pursuant to this Condition 5.3(c), including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Agency Agreement and/or (if applicable) the VPS Account Manager Agreement (if required).

For the avoidance of doubt, if an Alternative Mid-Swap Floating Leg Benchmark Rate is not determined pursuant to the operation of this Condition 5.3(c) prior to the relevant IA Mid-Swap Determination Cut-off Date, then the Rate of Interest for such next Reset Period shall be determined by reference to the fallback provisions of Condition 5.3(b).

Notwithstanding any other provision of this Condition 5.3(c) no Alternative Mid-Swap Floating Leg Benchmark Rate will be adopted and no other amendment to the terms of Subordinated Notes will be made pursuant to this Condition 5.3(c), if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the Subordinated Notes as Tier 2 Capital of the Issuer.

(d) **Mid-Swap Rate Conversion**

This Condition 5.3(d) is only applicable if Mid-Swap Rate Conversion is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement as being applicable. If Mid-Swap Rate Conversion is so specified as being applicable, the First Reset Rate of Interest and, if applicable, each Subsequent Reset Rate of Interest will be converted by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) from the Original Mid-Swap Rate Basis specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement to a basis which matches the per annum frequency of Interest Payment Dates in respect of the Notes (such calculation to be determined by the Issuer in conjunction with a leading financial institution selected by it).

(e) **Notification of Rate of Interest and Interest Amounts**

In respect of a Reset Period, the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) will cause the relevant Rate of Interest in respect of such Reset Period and each Reset Notes Interest Amount for each Interest Period falling in such Reset Period to be notified to the Issuer (in the case of VPS Notes) the VPS Account Manager and any stock exchange or other relevant authority on which the relevant Reset 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 (as defined in Condition 5.2(f)) thereafter. Each Reset Notes Interest Amount 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 on which the relevant Reset 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 the Conditions:

Day Count Fraction has the meaning given in Condition 5.2(d);

First Reset Margin has the meaning given in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement;

First Reset Period means the period from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the Maturity Date;

First Reset Rate of Interest means, in respect of the First Reset Period and subject to Condition 5.3(b) and 5.3(c), the rate of interest determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Reset Margin;

Interest Period has the meaning given in Condition 5.2(a);

Mid-Market Swap Rate means for any Reset Period the arithmetic mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Original Mid-Swap Rate Basis (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or VPS Calculation Agent (in the case of VPS Notes)) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Floating Leg Maturity (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes));

Mid-Market Swap Rate Quotation means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

Mid-Swap Floating Leg Benchmark Rate means LIBOR (if the Specified Currency is U.S. dollars or Pounds Sterling), EURIBOR (if the Specified Currency is euro); NIBOR (if the Specified Currency is Norwegian Kroner); STIBOR (if the Specified Currency is Swedish Krona); REIBOR (if the Specified Currency is króna) or (in the case of any other Specified Currency) the benchmark rate most closely connected with such Specified Currency and selected by the Issuer in its discretion after consultation with the Principal Paying Agent (in the case of Notes other than VPS Notes) or the Issuer in its discretion after consultation with the VPS Calculation Agent (in the case of VPS Notes) in each case, subject as provided in Condition 5.3(c);

Mid-Swap Rate means, in relation to a Reset Determination Date and subject to Condition 5.3(b), either:

(a) if Single Mid-Swap Rate is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appears on the Relevant Screen Page; or

(b) if Mean Mid-Swap Rate is specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date,

which appear on the Relevant Screen Page,

in either case, as at approximately the Relevant Time on such Reset Determination Date, all as determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or VPS Calculation Agent (in the case of VPS Notes);

Original Mid-Swap Rate Basis has the meaning given in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. In the case of Notes other than Exempt Notes, the Original Mid-Swap Rate Basis shall be annual, semi-annual, quarterly or monthly;

Rate of Interest means the Initial Rate of Interest, the First Reset Rate of Interest or the relevant Subsequent Reset Rate of Interest, as applicable;

Relevant Reset Margin means, in respect of a Reset Period, whichever of the First Reset Margin or the Subsequent Reset Margin is applicable for the purpose of determining the Rate of Interest in respect of such Reset Period;

Reset Date means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

Reset Period means the First Reset Period or a Subsequent Reset Period, as the case may be;

Reset Period Maturity Initial Mid-Swap Rate has the meaning given in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement;

Reset Reference Banks means, in the case of a determination by LIBOR, the principal London office of four major banks in the London inter-bank market or other market most closely connected with the Mid-Swap Rate; in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market or other market most closely connected with the Mid-Swap Rate; and, in the case of a determination of a Reset 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 or other market most closely connected with the relevant Mid-Swap Rate, in each case, as selected by the Issuer in consultation with the Principal Paying Agent (in the case of Notes other than VPS Notes) or the Issuer in consultation with the VPS Calculation Agent (in the case of VPS Notes);

Subsequent Reset Margin has the meaning given in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement;

Subsequent Reset Period means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date or the Maturity Date, as the case may be; and

Subsequent Reset Rate of Interest means, in respect of any Subsequent Reset Period and subject to Condition 5.3(b) and Condition 5.3(c), the rate of interest determined by the Principal Paying Agent (in the case of Notes other than VPS Notes) or the VPS Calculation Agent (in the case of VPS Notes) on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Reset Margin.

5.4 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 Condition 5.2 and 5.3 by (in the case of Notes other than VPS Notes) the Principal Paying Agent, (in the case of VPS Notes) the VPS Calculation Agent or (as provided in Condition 5.2(g) and 5.3(c)) an Independent Adviser, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Principal Paying Agent, the VPS Account Manager, the VPS Calculation Agent, the other Agents (each if applicable) 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, the VPS Calculation Agent or such Independent Adviser (each if applicable) in connection

with the exercise or non exercise by it of its powers, duties and discretions pursuant to such provisions.

5.5 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, the VPS Account Manager 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, as amended (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, Reset 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 in relation to Notes other than VPS Notes

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 VPS Notes

Payments of principal and interest in respect of VPS Notes shall be made by, or on behalf of, the Issuer to the holders shown in the records of VPS in accordance with, and subject to the rules and regulations from time to time governing, VPS.

6.7 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 (other than TARGET2 System) specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement; or

(iii) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, a day on which the TARGET2 System is open;

(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.

6.8 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 7.6(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

Subject, in the case of Subordinated Notes, to the provisions of Condition 7.11, 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 the case of VPS Notes) the VPS Account Manager and, in accordance with Condition 14, the Noteholders, if 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 (i) (in the case of Unsubordinated Notes) the date on which agreement is reached to issue the first Tranche of the Notes or (ii) (in the case of Subordinated Notes) the Issue Date of the last Tranche of the Notes:

(a) on the occasion of the next payment due under the Notes, the Issuer:

(i) has or will become obliged to pay additional amounts as provided or referred to in Condition 8; or

(ii) in the case of Subordinated Notes only, would not be entitled to claim a full tax deduction in a Tax Jurisdiction in respect of such payment; and

(b) (in the case of paragraph (a)(i) above) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

(each a **Tax Event**) provided that (in the case of paragraph (a)(i) above) 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 and (in the case of VPS Notes) the VPS Account Manager 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 a Tax Event has occurred.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.6 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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 upon a Capital Event – Subordinated Notes

This Condition 7.3 applies only to Subordinated Notes in relation to which this Condition 7.3 is specified as being applicable in the applicable Final Terms or (in the case of Exempt Notes) the Pricing Supplement, and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

Subject to the provisions of Condition 7.11, 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 the case of VPS Notes) the VPS Account Manager, and, in accordance with Condition 14, the Noteholders, if a Capital Event occurs.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent and (in the case of VPS Notes) the VPS Account Manager, 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.

Notes redeemed pursuant to this Condition 7.3 will be redeemed at their Early Redemption Amount referred to in Condition 7.6 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

In the Conditions, the following expressions shall have the following meaning:

Applicable Banking Regulations means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Iceland and applicable to the Issuer and/or the Group including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FME (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group); and

Capital Event means the determination by the Issuer, after consultation with the FME, that, as a result of a change in Icelandic law or Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date of the last Tranche

of the Notes, the Notes are excluded in whole or in part from the Tier 2 Capital of the Issuer and/or the Group, other than where such exclusion is only as a result of any applicable limitation on such capital;

Group means the Issuer and its Subsidiaries taken as a whole; and

Subsidiaries 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.

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

Subject, in the case of Subordinated Notes, to the provisions of Condition 7.11, 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 (i) the Principal Paying Agent or (in the case of VPS Notes) the VPS Account Manager and (ii) in the case of a redemption of Registered Notes, the Registrar or, in the case of a redemption of VPS Notes, the VPS Account Manager;

(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:

(i) individually by lot, in the case of Redeemed Notes represented by definitive Notes;

(ii) 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; or

(iii) in accordance with the standard procedures of VPS, in the case of Redeemed Notes which are VPS Notes,

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 7.4 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 undertakes that any redemption of the Notes pursuant to this Condition 7.4 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.

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

This Condition 7.5. applies only to Unsubordinated Notes and references to "Notes" and "Noteholders" in this Condition 7.5 shall be construed accordingly.

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 7.5 in any multiple of their lowest Specified Denomination.

In the case of Notes other than VPS Notes, 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.

In the case of VPS Notes, to exercise the right to require redemption or purchase of this Note, the holder of this Note must, within the notice period, give notice to the VPS Account Manager of such exercise in accordance with the standard procedures of VPS from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg, VPS and DTC given by a holder of any Note pursuant to this Condition 7.5 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 7.5 and instead to declare such Note forthwith due and payable pursuant to Condition 10.

7.6 Early Redemption Amounts

For the purpose of Condition 7.2, Condition 7.3 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 = $RP \times (1 + AY)^y$

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).

7.7 Purchases

Subject, in the case of Subordinated Notes, to the provisions of Condition 7.11, the Issuer or any Subsidiary of the Issuer may 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. Such Notes may be held, reissued, resold or, at the option of the Issuer, in the case of Notes other than VPS Notes, surrendered to any Paying Agent and/or the Registrar for cancellation or, in the case of VPS Notes, cancelled by deletion from the records of VPS.

7.8 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 7.7 above (together with all unmatured Coupons and Talons cancelled therewith), in the case of Notes other than VPS Notes, shall be forwarded to the Principal Paying Agent or, in the case of VPS Notes, shall be deleted from the records of VPS and, in any case, cannot be reissued or resold.

7.9 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, 7.4 or 7.5 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 7.6(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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or the Registrar or (in the case of VPS Notes) the VPS Account Manager and notice to that effect has been given to the Noteholders in accordance with Condition 14.

7.10 Substitution or Variation – Subordinated Notes

This Condition 7.10 applies only to Subordinated Notes and "Notes" and "Noteholders" in this Condition shall be construed accordingly.

If Condition 7.10 is specified as being applicable in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement, and at any time a Capital Event or a Tax Event occurs, subject to the provisions of Condition 7.11, the Issuer may, having given not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Principal Paying Agent and (in the case of VPS Notes) the VPS Account Manager and, in accordance with Condition 14, the Noteholders, either substitute all, but not some only, of the Notes for, or vary the terms of the Notes so that they remain, or, as appropriate, become, Qualifying Securities, provided that such substitution or variation does not itself give rise to any right of the Issuer to redeem the substituted or varied securities that are inconsistent with the redemption provisions of the Notes.

Prior to the publication of any notice of substitution or variation pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent and (in the case of VPS Notes) the VPS Account Manager, a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such substitution or variation and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to substitute or, as the case may be, vary the terms of the Notes, have occurred.

In the Conditions, the following expressions shall have the following meanings:

Qualifying Securities means securities issued directly or indirectly by the Issuer that:

(a) have terms not materially less favourable to the Noteholders as a class than the terms of the Notes (as reasonably determined by the Issuer) and, subject thereto, they shall (i) have a ranking at least equal to that of the Notes prior to the relevant substitution or variation, as the case may be; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes prior to the relevant substitution or variation, as the case may be; (iii) have the same redemption rights as the Notes prior to the relevant substitution or variation, as the case may be; (iv) comply with the then current requirements of the FME in relation to Tier 2 Capital; (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date, and (vi) where Notes which have been

substituted or varied had a published rating from a Rating Agency immediately prior to such substitution or variation, each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published rating to the relevant Qualifying Securities; and

(b) are listed on a recognised stock exchange, if the Notes were listed immediately prior to such substitution or variation, as selected by the Issuer; and

Rating Agency means Standard & Poor's Credit Market Services Europe Limited or Fitch Ratings Limited or their respective successors.

7.11 Consent of the FME

In the case of Subordinated Notes, no early redemption in any circumstances, purchase under Condition 7.7 or substitution or variation under Condition 7.10, shall take place without the prior written consent of the FME (if, and to the extent then required, by the FME). In addition, in respect of any redemption of Subordinated Notes pursuant to Condition 7.2, 7.3 or 7.4 only, and except to the extent the FME no longer requires, the Issuer may only redeem such Notes before five years after the Issue Date of the last Tranche of the Notes if the Issuer demonstrates to the satisfaction of the FME that the circumstance that entitles it to exercise such right of redemption was not reasonably foreseeable as at the Issue Date of the last Tranche of the Notes. For the avoidance of doubt, redemption of Subordinated Notes under Condition 7.1 shall not require the consent of the FME.

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 (including any withholding or deduction required pursuant to an agreement described in Section 1471(b) of 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). In such event, the Issuer will pay such additional amounts (**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 6.7); or

(d) 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 Code (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 (in the case of Notes other than VPS Notes) the Principal Paying Agent or the Registrar or (in the case of VPS Notes) the VPS Account Manager, 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).

In the case of Subordinated Notes only and notwithstanding the foregoing, the payment of Additional Amounts by the Issuer will be limited to payments of interest only.

9. PRESCRIPTION

The Notes (in whatever 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 AND ENFORCEMENT EVENTS

10.1 Events of Default relating to Unsubordinated Notes

This Condition 10.1 shall apply only to Unsubordinated Notes and references to "Notes" and "Noteholders" in this Condition 10.1 shall be construed accordingly.

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 7.6), 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 the 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 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.

10.2 Enforcement Events – Subordinated Notes

This Condition 10.2 applies only to Subordinated Notes and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

The following events or circumstances (each an **Enforcement Event**) shall constitute enforcement events in relation to the Notes:

(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, any Noteholder may, at its own discretion and without further notice, institute proceedings in Iceland in order to recover the amounts due from the Issuer to such Noteholder, provided that a Noteholder may not at any time file for liquidation or bankruptcy of the Issuer. Any Noteholder may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Notes, provided that the Issuer shall not by virtue of the institution of any proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it; and

(b) if an order is made or an effective resolution is passed for the liquidation or bankruptcy of the Issuer, then the Notes shall become due and payable at their outstanding principal amount together with interest (if any) accrued to such date.

11. REPLACEMENT OF NOTES, COUPONS AND TALONS

This Condition 11 only applies to Notes other than VPS Notes.

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 the initial VPS Account Manager and their initial specified offices are set out below. If any additional Paying Agents or Transfer Agents or any alternative VPS Account Manager is appointed in connection with any Series, the names of such 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 the VPS Account Manager and/or appoint additional or other Agents and/or additional or other agents in respect of VPS Notes 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 jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated; and

(e) in the case of VPS Notes, there will always be a VPS Account Manager authorised to act as an account holding institution with VPS.

In addition, in the case of Notes other than VPS Notes, 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 and/or the VPS Account Manager Agreement, the Agents and the VPS Account Manager 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

This Condition 13 only applies to Notes other than VPS Notes.

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

14.1 Notes other than VPS Notes

This Condition 14.1 only applies to Notes other than VPS Notes.

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.

14.2 VPS Notes

This Condition 14.2 only applies to VPS Notes.

All notices regarding the VPS Notes will be deemed to be validly given if published in accordance with the procedures of VPS.

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 VPS 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 to the holders of the VPS Notes on the date it is published in accordance with the procedures of VPS.

Notices to be given by any holder of VPS Notes may be given by such holder through VPS in such manner as the VPS Account Manager and VPS may approve for this purpose.

15. MEETINGS OF NOTEHOLDERS AND MODIFICATION

15.1 Notes other than VPS Notes

This Condition 15.1 only applies to Notes other than VPS Notes.

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in Schedule 5, Part 1 of the Agency Agreement) 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.

15.2 VPS Notes

This Condition 15.2 only applies to VPS Notes.

Meetings of Noteholders (a **Noteholders' Meeting**) may be convened by the Issuer and shall be convened by the Issuer if required in writing by Noteholders holding not less than 5 per cent. in

nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing a resolution is one or more persons holding a certificate or certificates (dated no earlier than 14 days prior to the meeting) from either the VPS or the VPS Account Manager stating that each such Noteholder is entered into the records of the VPS as a Noteholder, and such Noteholder or Noteholders collectively hold or represent not less than 50 per cent. in nominal amount of the Notes for the time being outstanding and provide an undertaking that no transfers or dealings have taken place or will take place in the relevant Notes until the conclusion of the meeting, or at any adjourned meeting one or more such 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 as set out in Schedule 5, Part 2, subclause 3.5 of the Agency Agreement (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), the quorum shall be one or more such persons holding or representing not less than two-thirds in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented. A resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting.

For the purposes of a meeting of the Noteholders, the person named in the certificate from the VPS or the VPS Account Manager described above shall be treated as the holder of the Notes specified in such certificate provided that he has given an undertaking not to transfer the Notes so specified (prior to the close of the meeting).

The provisions for the convening and holding of such Noteholders' Meetings are set out in the Agency Agreement.

The VPS Account Manager, the Principal Paying Agent (insofar as the relevant modification relates to the Agency Agreement) and the Issuer may agree without the consent of any of the Noteholders, to any modification of the VPS Notes, the VPS Account Manager Agreement or the Agency Agreement (insofar as the relevant modification to the Agency Agreement relates to the VPS Notes) 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 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. ACKNOWLEDGEMENT OF STATUTORY LOSS ABSORPTION POWERS

Notwithstanding and to the exclusion of any other term of the Notes, or any other agreements, arrangements or understanding between any of the parties thereto or between the Issuer and any

Noteholder (which, for the purposes of this Condition 18, includes each holder of a beneficial interest in the Notes), each Noteholder by its purchase of the Notes will be deemed to acknowledge, accept, and agree, that any liability arising under the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

(a) the effect of the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:

(i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;

(ii) the conversion of all, or a portion, of the Relevant Amounts in respect of the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Noteholder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes;

(iii) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; and

(iv) the amendment or alteration of the maturity date of the Notes or the amendment of the amount of interest payable on the Notes, or the date on which interest become payable, including by suspending payment for a temporary period; and

(b) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority.

In the Conditions the following expressions shall have the following meaning:

Relevant Amounts means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and additional amounts due on the Notes pursuant to Condition 8. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any applicable Statutory Loss Absorption Powers by the Relevant Resolution Authority;

Relevant Resolution Authority means the resolution authority with the ability to exercise any Statutory Loss Absorption Powers in relation to the Issuer; and

Statutory Loss Absorption Powers mean any write-down, conversion, transfer, modification, suspension or similar or related powers existing from time to time under, and exercised in compliance with (i) any statutory regime implemented or directly effective in Iceland which provides any Relevant Resolution Authority with the powers to implement loss absorption measures in respect of capital instruments (such as the Notes), including, but not limited to any regime which is implemented pursuant to, or which otherwise contains provisions analogous to, Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time and (ii) the instruments, rules and standards created under any such regime, pursuant to which any obligation of the Issuer can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period).

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 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, except for (i) the provisions of Condition 3.2 and Condition 3.3 which shall, in each case, be governed by, and construed in accordance with, Icelandic law and (ii) the registration of VPS Notes in VPS and Condition 15.2, which shall, in each case, be governed by, and construed in accordance with, Norwegian law. The VPS Account Manager Agreement is governed by, and shall be construed in accordance with, Norwegian law.

19.2 Submission to jurisdiction

(a) Subject to Condition 19.2(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 19.2, 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 19.2(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.

19.3 Appointment of Process Agent

The Issuer appoints LOGOS Legal Services Ltd. at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB, United Kingdom 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.

19.4 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.

19.5 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 Hagasmári 3, 201 Kópavogur, 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 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 of the Issuer (the **Board of Directors**) was appointed on 25 January 2010. The 95 per cent. stake was owned by ISB Holding ehf., a holding company wholly owned by GLB Holding ehf, which is a subsidiary of Glitnir. In January 2016, Glitnir signed an agreement to deliver the 95 per cent. stake to the Icelandic Government as part of the estate's stability contribution. The change became effective upon being approved by the Competition Authority on 11 March 2016.

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.

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 in 2017, the Issuer had 32 per cent. of the market share in consumer banking, 36 per cent. of the market share in small to medium-sized enterprise banking and 32 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 14 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 in these fields.

The Issuer's business lines are as follows:

Personal Banking - Provides customers with comprehensive banking services through digital channels and a modern nationwide branch network.

Business Banking – Responsible for service to small and medium-sized enterprises (**SMEs**) in the Issuer's branches, as well as Ergo, the Issuer's asset based financing unit.

Corporate & Investment Banking – Provides comprehensive financial services to investors and large companies, including lending, securities and currency brokerage, corporate advisory services, private banking services, and sales of hedging instruments.

Personal Banking

Personal banking offers a full range of financial services for individuals and households, with a particular focus on digital and self-service solutions. This includes savings, lending, insurance products, and different payment options via the Issuer's various distribution channels, including the mobile app, online banking, branches, the call centre, e-mail and the online chat function.

Business Banking

Business Banking provides wide-ranging financial services to SMEs through Iceland's most efficient branch network, while also operating a separate brand, Ergo, in the asset financing sector. Business Banking serves the growing SME group in Iceland and has built up strong local relationships and expertise. Business Banking works according to a decentralised structure where each branch is responsible for and shares its experience and expertise with its immediate community.

Corporate & Investment Banking

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors and affluent individuals. The Issuer's experienced employees provide customised products and services to customers, including lending and advisory services, risk management products, brokerage, and private banking services. The Issuer takes great pride in its sector focus, building and maintaining relationships with key customer groups within Iceland. Outside Iceland, the Issuer focuses in

particular on the North Atlantic fishing industry, drawing on its expertise in the domestic market and global contacts.

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

The Risk Management 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 are in line with the Issuer's risk policy as defined by the Board of Directors.

IT & Operations

The IT & Operations division is responsible for operational services, branch services, back office functions, legal collection, the Issuer's IT platform, and systems and software development.

Compliance

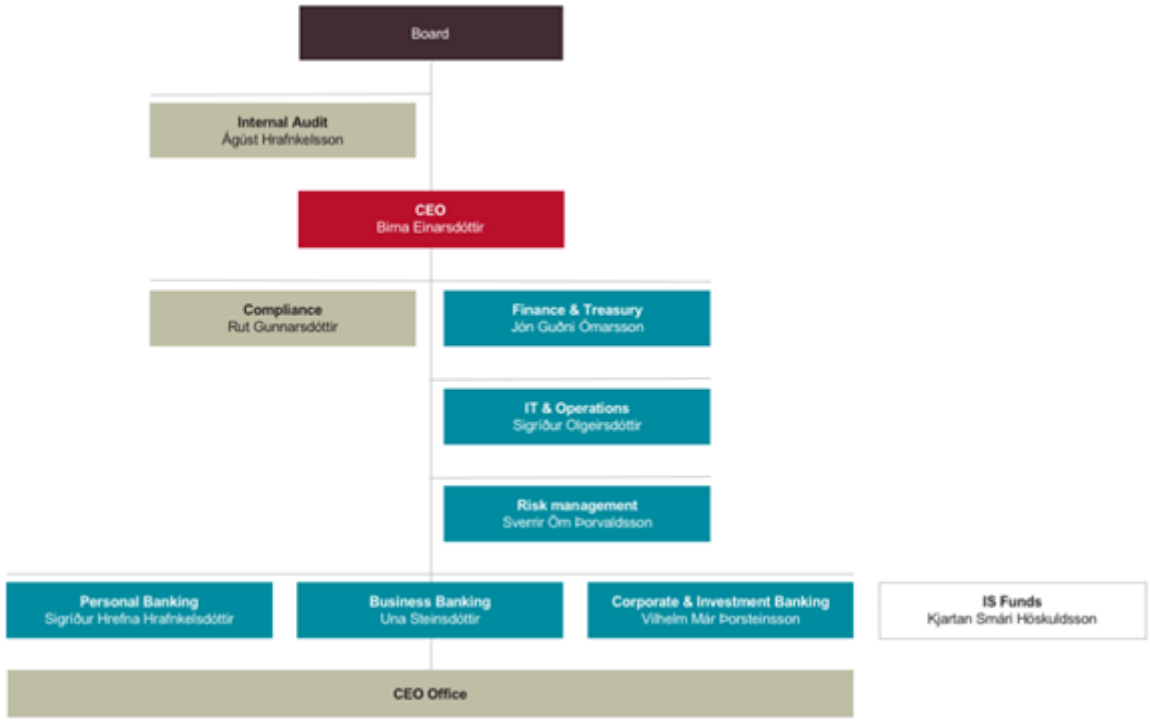
The Compliance division has an independent position within the Issuer's organisational structure. The Compliance division's function is to assist in managing compliance risk on a consolidated basis. Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss, or damage to 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

The Icelandic government, through Icelandic State Financial Investments (**ISFI**), owns 100 per cent. of the Issuer's share capital. The following chart illustrates the Issuer's organisational structure:



The table below lists the Issuer's significant subsidiaries and the nature of their business as of 31 December 2017:

Subsidiary	**Ownership**	**Company Description**
Borgun hf.	63.5%	Payment processing company
Íslandssjódir hf.	100%	Fund management company
IS Thróunarsjódurinn Langbrók	100%	Professional investment fund
Hringur Eignarhaldsfélag ehf.	100%	Holding company
Allianz Ísland hf.	100%	Sales agent for insurance
18 other subsidiaries (SME)		

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

Board of Directors

The Issuer's Board of Directors consists of seven directors. Two alternate members are also appointed. 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., Hagasmári 3, 201 Kópavogur, Iceland.

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

Name	**Title**
Mr. Fridrik Sophusson	Chairman
Ms. Anna Þórðardóttir	Member of the Board of Directors
Ms. Auður Finnbogadóttir	Member of the Board of Directors
Mr. Árni Stefánsson	Member of the Board of Directors
Mr. Hallgrímur Snorrason	Member of the Board of Directors
Ms. Heiðrún Jónsdóttir	Member of the Board of Directors
Ms. Helga Valfells	Member of the Board of Directors

Mr. Fridrik Sophusson (Chairman)

Fridrik Sophusson has nearly forty years of experience in fiscal policy making, management and public service in Iceland. He has also served as a board member in several companies and institutions. He was Managing Director of the Icelandic Management Association from 1972-1978, when he was elected to Parliament. During his tenure as a member of Parliament, he held the position of Minister of Industry and Energy from 1987 to 1988 and Minister of Finance from 1991 to 1998. He was appointed the Chief Executive Officer of Landsvirkjun, the National Power Company of Iceland, in 1999 and has held that position for almost 11 years.

Mr. Sophusson holds a Cand. Jur. degree in Law from the University of Iceland.

Ms. Anna Þórðardóttir (Member of the Board of Directors)

Anna Þórðardóttir has been a board member of a number of companies. She served as a member of the board of KPMG ehf. and the institute of State Authorized Public Accountants in Iceland. She is currently a member of the board of Framtíðarsetur Íslands ehf. She was an employee of KMPG from 1988 to 2015 and a partner from 2009 to 2015, and was responsible for the audit of the following companies: Reitir, Hagar, 365, Baugur Group, Vodafone, Landfestar, Landey, 10-11 and Félagsbústaðir.

Ms. Þórðardóttir graduated with a cand. merc degree in financial studies from Handelhøjskolen in Århus, Denmark. She is a chartered accountant and holds a B.S. degree in business from the University of Iceland.

Ms. Auður Finnbogadóttir (Member of the Board of Directors)

Auður Finnbogadóttir has extensive experience in the field of financial markets. She was the managing director of Lífsverk pension fund, the pension fund for employees for the municipality of Kópavogur, A verðbréf hf. and MP banki hf. She has held the position of chairman of the board of the Competition Authority in Iceland and been a member of the board of the Icelandic Pension Funds Association, Icelandair Group hf., Landsnet and Nýi Kaupþing banki hf.

Ms. Finnbogadóttir holds a B.Sc. in business majoring in international business from the University of Colorado and an MBA from Reykjavík University.

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

Árni Stefánsson has extensive management experience in heavy industries in Iceland. He is currently a managing director with Rio Tinto Alcan. He has been a member of the board of Norðurál in Grundartangi, a director with Landsnet and a director with Landsvirkjun.

Mr. Stefánsson holds an M.Sc. degree and B.Sc. degree in electrical engineering from Alborg University in Denmark.

Mr. Hallgrímur Snorrason (Member of the Board of Directors)

Hallgrímur Snorrason is an independent consultant in public economic reporting. He was the director of Statistics Iceland and vice-president of the National Economic Institute of Iceland. He has been a member of the board of several companies, including Útvegsbanki Íslands hf., Skýrr hf., Auður Capital and Virðing hf. He also has been a chairman of a number of governmental committees, both domestic and in relation to Nordic cooperation, the EFTA, the EC and the OECD.

Mr. Snorrason holds an M.Sc. degree in economics from Lund University in Sweden and a B.Sc. from the University of Edinburgh.

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

Heiðrún Jónsdóttir is an attorney at law with Fjeldsted and Blöndal legal services. She was a managing director at Eimskipafélag Íslands hf., Lex Legal Services and KEA. She has been a member of the boards of a number of companies since 1988, including Norðlenska, Íslensk Verðbréf, Oliuverslun Íslands hf., Síminn hf., Reiknistofa Bankanna, the Icelandic Pension Funds Association, Silicor Materials Iceland ehf. and Gildi Pension Fund.

Ms. Jónsdóttir holds a Cand. Jur degree from the University of Iceland and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

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

Helga Valfells is active in the Icelandic start-up community. Most recently she was the Managing Director of NSA Ventures. Ms. Valfells holds a Bachelors degree in Economics and English literature from Harvard University and a Master of Business Administration degree from London Business School.

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

Name	**Title**
Ms. Herdís Gunnarsdóttir	Alternate Member of the Board of Directors
Mr. Pálmi Kristinsson	Alternate Member of the Board of Directors

Ms. Herdís Gunnarsdóttir (Alternate Member of the Board of Directors)

Herdís Gunnarsdóttir holds an MBA from the University of Iceland and an MSc and BSc in nursing from the University of Iceland. Ms. Gunnarsdóttir is currently the Chief Executive Officer of the Health Care Institution of South Iceland.

Mr. Pálmi Kristinsson (Alternate Member of the Board of Directors)

Pálmi Kristinsson holds a BSc degree in construction engineering from the University of Iceland and an MSc degree in engineering from Danmarks Tekniske Højskole. Mr. Kristinsson is currently a private consultant.

Senior Management

The business address of each member of the executive board committee is Íslandsbanki hf., Hagasmári 3, 201 Kópavogur, Iceland.

The executive board committee consists of the following seven 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 Chief Executive Officer of the Issuer in October of 2008.

Ms. Einarsdóttir 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 Bachelor of Science in Business Administration from the University of Iceland and a Master of Business Administration degree 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 Bachelor of Science degree in Industrial and Mechanical Engineering from the University of Iceland and a Master's degree in Quantitative and Computational Finance (QCF) from the Georgia Institute of Technology. He is a Chartered Financial Analyst (CFA) and a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

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 Bachelor of Science degree in Mathematics from the University of Iceland and a Master's degree in Financial Mathematics from Stanford University. He is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs and is a Financial Risk Manager (FRM) certified by the Global Association of Risk Professionals (GARP).

Ms. Sigríður Hrefna Hrafnkelsdóttir, Managing Director Personal Banking

Sigríður Hrefna Hrafnkesdóttir was appointed Managing Director of Personal Banking in May 2017. Ms. Hrafnkelsdóttir worked as managing director of retail for Olíusverzlun Íslands from 2014. Before that she worked for Arion Bank, Sparisjóðabanki Íslands, Atlas Ejendomme A/S and LEX Law Offices.

Ms. Hrafnkesdóttir holds a Cand. Jur. Degree from the University of Iceland, is a district court attorney and holds an MBA degree from Copenhagen Business School.

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 a Master of Business Administration degree in International Management from Reykjavík University.

Ms. Una Steinsdóttir, Managing Director Business 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 and has completed an AMP management programme from IESE, Barcelona.

Mr. Vilhelm Már Thorsteinsson, Managing Director Corporate and Investment Banking

Vilhelm Már Thorsteinsson joined Glitnir in 1999. He has held various positions in the Capital Markets and Leverage Finance divisions and within the Chief Executive Officer'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 Bachelor of Science degree in Business Administration from Reykjavík University, a Master of Business Administration degree from Pace University in New York and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

Potential Conflict of Interest

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

SHAREHOLDERS

The Icelandic government, through ISFI, owns 100 per cent. of the Issuer's share capital (10,000,000,000 shares). The Issuer is not directly or indirectly owned or controlled by parties other than the Icelandic government, through ISFI.

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.

Independent Auditors

The consolidated financial statements as of and for the years ended 31 December 2015, 2016 and 2017, incorporated by reference in this Base Prospectus, were audited by Ernst & Young ehf.

Explanatory Notes

Detailed information regarding the consolidated financial statements is accessible in the explanatory notes in the relevant financial statements incorporated by reference in this Base Prospectus.

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. The selected historical consolidated financial

information for each of the financial years ended 31 December 2015, 2016 and 2017 has been derived from the Annual Financial Statements, incorporated by reference in this Base Prospectus.

Consolidated Statement of Financial Position

	31.12.2017	31.12.2016	31.12.2015
Assets			
Cash and balances with Central Bank	189,045	275,453	216,760
Bonds and debt instruments	27,090	31,256	78,606
Shares and equity instruments	10,177	10,626	18,320
Derivatives	2,896	1,953	1,981
Loans to credit institutions	26,617	17,645	35,534
Loans to customers	755,175	687,840	665,711
Investments in associates	704	450	716
Property and equipment	7,128	6,211	7,344
Intangible assets	4,231	2,672	1,331
Other assets	9,993	7,064	6,674
Non-current assets and disposal groups held for sale	2,766	6,384	12,792
Total Assets	1,035,822	1,047,554	1,045,769
Liabilities			
Deposits from Central Bank and credit institutions	11,189	4,922	25,631
Deposits from customers	567,029	594,187	593,245
Derivative instruments and short positions	5,492	4,798	6,981
Debt issued and other borrowed funds	217,748	212,468	150,308
Subordinated loans	9,505	-	19,517
Tax liabilities	7,787	8,473	8,358
Other liabilities	35,947	43,456	36,677
Non-current liabilities and disposal groups held for sale	80	325	2,825
Total Liabilities	854,777	868,629	843,542
Equity			
Share capital	10,000	10,000	10,000
Share premium	55,000	55,000	55,000
Reserves	6,179	4,139	6,002
Retained earnings	107,387	105,563	127,288
Total equity attributable to the equity holders of Íslandsbank	178,566	174,702	198,290
Non-controlling interests	2,479	4,223	3,937
Total Equity	181,045	178,925	202,227
Total Liabilities and Equity	1,035,822	1,047,554	1,045,769

Consolidated Income Statement

	2017	2016	2015
Interest income	56,767	60,503	53,414
Interest expense	(26,768)	(28,701)	(25,404)
Net interest income	29,999	31,802	28,010
Fee and commission income	20,855	21,818	20,737
Fee and commission expense	(7,105)	(8,095)	(7,567)
Net fee and commission income	13,750	13,723	13,170
Net financial (expense) income	(715)	6,096	3,881
Net foreign exchange gain	527	443	(1,490)
Other operating income	628	652	1,102
Other net operating income	440	7,191	3,493
Total operating income	44,189	52,716	44,673
Salaries and related expenses	(15,233)	(14,789)	(13,891)
Other operating expenses	(11,735)	(12,332)	(9,869)
Contribution to the Depositors' and Investors' Guarantee Fund	(1,083)	(1,063)	(1,067)
Bank tax	(2,892)	(2,843)	(2,878)
Total operating expenses	(30,943)	(31,027)	(27,705)
Profit before net loan impairment	13,246	21,689	16,968
Net loan impairment	1,556	735	8,135
Profit before tax	14,802	22,424	25,103
Income tax expense	(4,151)	(5,205)	(5,851)
Profit for the year from continuing operations	10,651	17,219	19,252
Profit from discontinued operations, net of income tax	2,575	2,939	1,326
Profit for the year	13,226	20,158	20,578
Profit attributable to:			
Equity holders of Íslandsbanki hf.	13,577	16,947	20,000
Non-controlling interests	(351)	3,211	578
Profit for the year	13,226	20,158	20,578
Earnings per share from continuing operations:			
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	1.10	1.40	1.87

RISK MANAGEMENT

The Issuer is exposed to various risks. The management of these risks is an integral part of the Issuer's operations. The ultimate responsibility for ensuring an adequate risk management framework lies with the Issuer's Board of Directors. The Issuer's Board of Directors defines and communicates the acceptable level of risk through the Issuer's risk management policies. The Issuer's risk management framework and policies are discussed under Notes 48-73 in the 2017 Financial Statements, which are incorporated by reference in this Base Prospectus.

THE REPUBLIC OF ICELAND

Geography and Environment

Iceland is a Nordic country, 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.

Economy

Following the rapid upswing in the Icelandic economy beginning in the middle of the last decade, the economy experienced a banking and currency crisis in the second half of 2008. The gross domestic product (**GDP**) contracted considerably during the next two years, the value of assets deteriorated, real wages declined and unemployment rose. However, the Icelandic economy has now been growing since 2011, and currently has a GDP per capita among the highest in the world.

The Icelandic economy has a history of considerable volatility. The source of such volatility has historically been the fisheries industry, which is the main goods export sector. The business cycle, therefore, has been linked to fish catch volumes and fluctuations in the prices of marine products on foreign markets. The development of power-intensive, which plays a considerable role in export activities, has also been the cause of some volatility. The business cycle of the last decade was partly driven by investments in this sector. However, these fluctuations can, to a greater extent, be attributed to systemic changes in the domestic financial market, which in a short period of time evolved from a capital controlled financial market with fixed exchange rates to an open financial market with a floating exchange rate and large international privately-run financial institutions. The currency and banking crisis was therefore preceded by the classical antecedents to a crisis of such kind and was sparked by the international financial crisis that prevailed at the time.

The IMF approached the Icelandic government at the end of 2008 with the promise of a credit facility in exchange for a letter of intent from the Icelandic government agreeing to changes in the Icelandic economy in three main areas: fiscal policy, the activities of financial institutions and stability of the foreign exchange market. Despite some initial delays, the Stand-by Agreement with the IMF came to an end on 26 August

2011. The Icelandic Parliament imposed capital controls in 2011 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 króna exchange rate. On 14 March 2017, Rules no. 200/2017 on Currency Exchange took effect, granting a general exemption from the restriction set forth in the Act on Foreign Exchange and effectively lifting the capital controls that had previously been in place. The new rules are expected to remain in effect while the Icelandic Parliament prepares a legislative bill to formally amend the Act on Foreign Exchange, thereby lifting the capital controls by law. Certain limitations on derivative transactions involving króna will continue to remain in effect, and speculative trades involving króna will continue to remain prohibited.

The Icelandic economy has enjoyed a period of continuous, robust growth since 2011. Consumption, investment and exports are all growing at a brisk pace and there is a turnaround in the development of real wages and real residential house prices, which have risen considerably in this period. Inflation has fallen and has remained below the Central Bank of Iceland's inflation target since Q1 2014 despite considerable domestic cost increases, aided by an appreciating currency. In response, the Central Bank of Iceland has decreased its interest policy rate by 1.5 percentage points since mid-2016. Unemployment has also decreased to the natural rate of unemployment.

Despite on-going growth, the total debt ratios of households, corporates and the public sector have all declined substantially since the start of the decade. Furthermore, Iceland's external debt position has improved vastly, with external assets currently exceeding external liabilities after decades of substantial net negative international investment position. The main reason for this economic development is an exceptionally rapid growth in Iceland's tourist sector, which has become the country's largest export sector. Moreover, business investment is rising again, particularly in export sectors such as tourism and energy. Economic forecasts expect more moderate, but still healthy economic growth in 2018 and 2019.

FINANCIAL MARKETS IN ICELAND

The Financial Supervisory Authority (FSA)

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 2017 Annual Report, below is a summary of the credit market, securities market, pension market and the UCITS and insurance markets as of year-end 2016.

Credit market

At year-end 2016, four commercial banks, four savings banks and five credit institutions operated in Iceland, in addition to the state-owned HFF, making a total of 14 credit institutions. The profit of the three largest commercial banks amounted to almost ISK 59 billion compared with more than ISK 106 billion in 2015. The banks' return on equity after tax was 8.9 in 2016 compared with 16.6 per cent. in 2015. The three large commercial banks all considerably exceeded the supervisors' liquidity rules. The capital adequacy ratio of the three largest commercial banks was 27.7 per cent. at year-end 2016 as compared to 28.2 per cent. at year-end 2014. The capital base is mainly composed of CET1, or approximately 98 per cent. The equity position of the three largest commercial banks (the Issuer, Landsbankinn and Arion Bank) is healthy and these banks are outperforming their counterparts internationally.

Securities market

The upswing in the securities market was a little slower in 2016 than in previous years. One new company was admitted to the all-share index of Nasdaq Iceland hf. and equity turnover increased significantly with returns being negative in the same period. Bond market turnover decreased year-on-year and was at year end 2016 similar to 2015 levels.

Equity turnover in 2016 amounted to more than ISK 550 billion, which is an increase of 4 per cent. compared to 2015. Total market capitalisation of companies in the all-share index decreased by 5.8 per cent. and was ISK 969 billion at year-end 2016.

The total value of listed bonds on Nasdaq Iceland hf. amounted to ISK 2,136 billion at year-end 2016, compared with ISK 2,119 billion at year-end 2015. Bond turnover was ISK 5,005 billion in 2016, compared to ISK 5,350 billion in 2015. At year-end 2016, 70 per cent. of the market value of listed bonds was issued by public entities and 30 per cent. was issued by private entities, compared to 74 per cent. and 26 per cent. respectively, at year-end 2015.Pension market

At year-end 2016, 25 operational pension funds were accepting pension savings in their mutual insurance divisions and 13 of the funds accepted optional savings for private pensions.

At year-end 2016, the total assets of Icelandic pension funds amounted to ISK 3,671 billion, a 6 per cent. increase over the previous year. Total pension savings in mutual and private pensions at year-end 2016 amounted to almost 152 per cent. of the estimated GDP.

UCITS and insurance markets

There were ten fund management companies regulated by FME at the end of 2016. The principal activities of fund management companies involve managing UCITS, investment funds, and institutional investor funds.

The number of operational UCITS and feeder UCITS was 45 at year-end 2016. The number of investment funds increased by eight during 2016 and there were 61 investment funds and investment compartments operating during the year. At year-end 2016, the total assets of UCITS and investment funds amounted to ISK 516 billion, of which UCITS assets totalled ISK 154 billion.

The number of regulated institutional investor funds increased by 17 funds during 2016. 102 institutional investor funds were operated by 15 entities at year-end 2016, with total assets of ISK 444 billion and net assets of ISK 189 billion.

At year-end 2016, twelve insurance companies had FME's authorisation to operate in the non-life insurance market and five operate in the life insurance market. In addition, two companies are reinsurance companies in run-off state and Iceland's Natural Catastrophe Insurance operate in accordance with special legislation. In the beginning of 2017 two companies merged, leaving eleven companies in operation. At year-end 2016, the total assets of all insurance companies in Iceland amounted to approximately ISK 139 billion.

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, 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 Act on Foreign Exchange was amended to tighten the rules. Effective from 27 September 2011, the rules have been incorporated into the Act on Foreign Exchange. Certain companies were granted full or partial exemptions from the capital controls. Supervised financial institutions were 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. With statutory amendments passed on 21 October 2016, important steps were taken towards easing restrictions on capital transactions. Further reforms were implemented on 1 January 2017. On 14 March 2017, Rules no. 200/2017 on Currency Exchange took effect, granting a general exemption from the restriction set forth in the Act on Foreign Exchange and effectively lifting the capital controls that had previously been in place. The new rules are expected to remain in effect while the Icelandic Parliament prepares a legislative bill to formally amend the Act on Foreign Exchange, thereby lifting the capital controls by law. Certain limitations on derivative transactions involving króna will continue to remain in effect, and speculative trades involving króna will continue to remain prohibited.

Nasdaq Iceland hf.

Iceland currently has one authorised stock exchange where the public listing of securities and securities trading take place: Nasdaq Iceland hf. Nasdaq Iceland hf. is part of the Nasdaq Group and is licensed to operate a regulated market as well as a multilateral trading facility (**MTF**), the First North Iceland market. Nasdaq Iceland hf. also provides listing alternatives for small-cap to large-cap companies; and the main market and the First North market for small and medium-sized companies with growth potential. Both issuer rules and trading rules are largely harmonised with the sister exchanges run by Nasdaq Group in the Nordic countries (Stockholm, Helsinki and Copenhagen).

Nasdaq Iceland hf. was founded in 1985 and is based in Reykjavik, Iceland. Nasdaq Iceland hf. operates as a subsidiary of Eignarhaldsfelagid Verdbrefathing hf. Nasdaq Iceland hf. is a part of Nasdaq Inc. and is licensed to operate a regulated over-the-counter market. Nasdaq Iceland hf. was formerly known as NASDAQ OMX Iceland hf. and changed its names to Nasdaq Iceland hf. in December 2015.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below does not apply to VPS Notes and 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 Iceland and 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. 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 as regards non-residents, 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 22 per cent. and taxable partnerships at the rate of 37.6 per cent. The Issuer is liable to withhold tax on interest payments to Icelandic residents at the rate of 22 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 Icelandic 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 has registered any Notes issued under the Programme with the Directorate of Internal Revenue in Iceland and received confirmation of exemption for 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 should thus not be subject to tax in Iceland, provided that the aforementioned confirmation of exemption has been granted in respect of the Notes.

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**). However, Estonia has since stated that it will not participate.

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.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU 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**) imposes 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, after 31 December 2018, 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 Department to collect and provide to the United States Treasury Department certain information regarding United States account holders, including certain account holders that are foreign entities with United States owners or otherwise complies with FATCA. A Note may constitute a "financial account" for these purposes and thus, be subject to information reporting requirements pursuant to FATCA.

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 Department regulations, a passthru payment is any Withholdable Payment and any "foreign passthru payment", which has yet to be defined. Under the regulations and other guidance, 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 the later of (i) 31 December 2018, and (ii) the date on which final regulations defining the term foreign pass thru payment are published in the United Stated 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. 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 FATCA on their investment in the Notes.

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 30 April 2018, 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 Code and United States Treasury Department 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.

Prohibition of sales to EEA Retail Investors

Unless the Final Terms or (in the case of Exempt Notes) Pricing Supplement in respect of any Notes specified "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms or (in the case of Exempt Notes) Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression **retail investor** means a person who is one (or more) of the following:

  (A) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (B) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (C) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression an **offer** includes 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.

If the Final Terms or (in the case of Exempt Notes) Pricing Supplement, specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable" 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 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.

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.

Norway

Notes denominated in Norwegian kroner may not be offered or sold within Norway or outside Norway to Norwegian citizens abroad, without the Notes prior thereto having been registered in the Norwegian Central Securities Depositary.

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.

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 (as defined in Section 4A of the Securities and Futures Act) pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person (as defined in Section 275(2) of the Securities and Futures Act) pursuant to 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; or

(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 2005 of Singapore.

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, 21 May 2014, 13 July 2016, 8 November 2017 and 21 March 2018.

Listing of Notes

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus. Application has been made to Euronext Dublin 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 Euronext Dublin 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 2017, 2016 and 2015 (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 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;

(d) the Agency Agreement, the VPS Account Manager 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;

(e) a copy of this Base Prospectus; and

(f) 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 Euronext Dublin 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 Euronext Dublin 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 (other than VPS 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. The appropriate securities code for each Tranche of VPS Notes will be specified in the applicable Final Terms or (in the case of Exempt Notes) Pricing Supplement. In the case of VPS Notes, VPS is the entity in charge of keeping the records. 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 SA, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America. The address of VPS is Biskop Gunnerus' Gate 14a, N-0051 Oslo, Norway.

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 December 2017 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2017.

Litigation

Variable rate loans

In September 2014, the Icelandic Consumer Agency (the **Consumer Agency**) published its decision on a matter regarding a consumer mortgage contract with interest reset terms granted by the Issuer in 2005. The Consumer Agency found the terms offered by the Issuer and its predecessors regarding the method and conditions of resetting interest rates did not fulfil the requirements of the law on consumer loans.

The Issuer referred the matter to the courts. The Supreme Court ruled in favour of the Consumer Agency. The Issuer has recognised a provision of ISK 800 million against the loss due to this ruling. A thorough screening of the contracts in question is well under way and repayments to affected customers were scheduled in early 2018. A significant number of the loan contracts have been refinanced or paid early when

the assets in question have been sold. Furthermore, the Issuer postponed resetting the interest rate on the majority of all similar contracts subsequent to the initial ruling of the Consumer Agency.

Foreign currency-linked loan contracts

A majority of the few remaining court cases concern foreign currency-linked loan contracts containing minor deviations in terms from those previously found to be legal contracts. The District Courts have ruled in favour of the Issuer in majority of these cases. The Supreme Court is expected to rule on the remaining cases by the end of 2018. However, as some of the cases involve similar contracts, several could result in out of court settlement. Due to the statute of limitations, all remaining disputes relating to foreign currency-linked loan contracts must be filed in court before 16 June 2018. The Issuer belives that the remaining rulings will not have a significant effect on the settlement of other contracts.

The effect of these court rulings and the subsequent recalculation of loan contracts is reflected in the value of loans in the Issuer's Condensed Consolidated Audited Financial Statements as at 31 December 2017, where the Issuer has recognised a total provision against possible losses of ISK 1,011 million.

Borgun hf.

In late 2014, Landsbankinn hf. (**Landsbankinn**) sold its 31.2 per cent. stake in Borgun hf. (**Borgun**), a payment acquirer and issuing processor and a subsidiary of the Issuer. Since early 2016 Landsbankinn has been criticised (among others by the Icelandic National Audit Office) for not having foreseen in the process of the sale that Borgun was entitled to proceeds from the Visa Inc. takeover of Visa Europe Ltd. Landsbankinn's response to the criticism was that Borgun's management had not released information on all factors that could affect the value of Borgun during the sale process. Landsbankinn filed a lawsuit on 12 January 2017, claiming damages for having been deprived of the true value of Borgun's stake in Visa Europe Ltd. Landsbankinn asked the Supreme Court to affirm the joint liabilitiy of Borgun, BPS ehf., Eignarhaldsfélagið Borgun slf. and Mr. Haukur Oddsson, former CEO of Borgun. The defendants have denied liability. Landsbankinn's estimate of the lost profit is approximately ISK 1,930 million. The Issuer has not recognised a provision against a possible loss in relation to this matter.

Kortaþjónustan hf.

Kortaþjónustan hf. (**Kortaþjónustan**), a payment acquirer, filed a suit agains the Issuer, Arion banki hf., Landsbankinn, Borgun and Valitor hf. in June 2013. Kortaþjónustan asked for damages in the amount of ISK 1,191 million, plus interest, mainly due to alleged infringements of Icelandic competition law. The Supreme Court found in favour of the Issuer. Kortaþjónustan refilled the case in October 2017 claiming ISK 923 million in damages. The Issuer has not recognised a provision against a possible loss in relation to this matter.

Settlement of the 2011 Byr acquisition

The Issuer acquired Byr hf. (**Byr**), a former savings bank, in 2011 from the Byr Winding-up Committee (the **Byr Committee**) and the Icelandic Ministry of Finance and Economic Affairs (the **Ministry**). According to standard practice, the Issuer retained the right to re-evaluate the fair value of the net assets acquired and to demand a refund if the fair value of the net assets was not in line with what was presented in Byr's financial statements. Based on this, the Issuer filed a claim amounting to ISK 6,943 million plus interest with the Byr Committee in June 2013. The claim was filed as a priority claim, according to Article 110 of the Act on Bankruptcy no. 21/1991. The Byr Committee rejected the claim in a letter dated 30 September 2013. At a creditors' meeting in December 2013, it was decided that the Byr Committee would refer the dispute to the District Court of Reykjavík. A formal claim amounting to ISK 911 million plus interest was filed with the Ministry on 24 September 2014. Both claims have now been filed with the District Court of Reykjavík. Furthermore, at the request of the Issuer, the District Court has appointed two independent professionals to perform a formal evaluation of the Issuer's claim on the Ministry and the Byr Committee. The evaluation is expected to be completed in mid-year 2018. Court proceedings are expected to commence once the

evaluation has been completed and filed with the Court. The Issuer has not recognised any revenues relating to this claim.

The District Court of Reykjavík confirmed the Composition Agreement of Byr Savings Bank on 8 January 2016. The Agreement includes reservations due to the Issuer's claim and is not expected to impact the proceedings described above.

Auditors

The auditors of the Issuer are Ernst & Young ehf., State Authorised Public Accountants of Borgartùni 30, 105 Reykjavik, Iceland, who have audited the consolidated financial statements as of and for the years ended 31 December 2017, 31 December 2016 and 31 December 2015, without qualification, which were prepared in accordance with IFRS as adopted by the EU for each of the three financial years ended 31 December 2017, 31 December 2016 and 31 December 2015.

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 or Reset 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 and on the basis of the rate of interest as at the Issue Date of the Notes. 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 (**URL**s) 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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