

Supplement to Base Prospectus dated 18 February 2025



ÍSLANDBANKI HF.

(incorporated with limited liability in Iceland)

€4,000,000,000

European Covered Bond (Premium) Programme

This Supplement (the **Supplement**) to the base prospectus dated 3 May 2024, as supplemented by the supplements thereto dated 10 June 2024, 29 July 2024 and 24 October 2024, which together comprise a base prospectus (together, the **Base Prospectus**) for the purposes of the Prospectus Regulation (as defined below), constitutes a supplementary prospectus for the purposes of Article 23 of the Prospectus Regulation and is prepared in connection with the €4,000,000,000 European Covered Bond (Premium) Programme (the **Programme**) under which Íslandsbanki hf. (the **Issuer**) may from time to time issue covered bonds (the **Covered Bonds**). Terms defined in the Base Prospectus have the same meaning when used in this Supplement. When used in this Supplement, **Prospectus Regulation** means Regulation (EU) 2017/1129 (as amended).

Purpose of this Supplement

The purpose of this Supplement is to update (i) the “Documents Incorporated by Reference” section to incorporate by reference into the Base Prospectus the Issuer’s audited consolidated financial statements for the year ended 31 December 2024 and certain sections of its Pillar 3 Report 2024; (ii) the “Description of the Issuer” section to reflect certain recent developments; (iii) the “General Information-Significant or Material Change” subsection; and (iv) the “General Information-Litigation” subsection.

This Supplement has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Regulation. The Central Bank of Ireland only approves this Supplement as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of the Covered Bonds that are the subject of this Supplement. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

This Supplement is supplemental to, and shall be read in conjunction with, the Base Prospectus. To the extent that there is any inconsistency between any statement in this Supplement and any other statement in the Base Prospectus, the statements in this Supplement will prevail.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer, the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Documents Incorporated by Reference

The following documents (or sections thereof), which have previously been published and have been filed with the Central Bank of Ireland, shall be incorporated in, and form part of, the Base Prospectus:

- the audited consolidated financial statements of the Issuer for the year ended 31 December 2024 (including the auditors' report thereon), which are provided on pages 10 to 87 (inclusive) of the Consolidated Financial Statements 2024 (the **2024 Financial Statements**) which can be viewed online at:
https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Consolidated_Financial_Statements_2024.pdf; and
- sections 4, 5, 6 and 7 of the Issuer's Pillar 3 Report 2024 which can be viewed online at <https://cdn.islandsbanki.is/image/upload/v1/documents/Pillar3Report2024.pdf>.

Description of the Issuer

The following new subsection shall be inserted on page 144 of the Base Prospectus after the subsection entitled "Credit Rating"

Recent Developments

The option provided by Act No. 40/2014, which amended the Pension Act No. 129/1997, to 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 has been extended until 31 December 2025 (see "*Risk Factors – 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 those loans in a manner that is adverse to the Issuer*").

General Information-Significant or Material Change

The paragraph under the heading "Significant or Material Change" on page 193 of the Base Prospectus shall be amended to state:

"There has been no significant change in the financial performance or financial position of the Group since 31 December 2024 and there has been no material adverse change in the prospects of the Issuer since 31 December 2024."

General Information-Litigation

The section under the heading "Litigation-The Consumers' Association of Iceland" on page 194-195 of the Base Prospectus shall be amended to state:

"In December 2021 three customers, sponsored by the Consumers' Association of Iceland, commenced litigation against the Issuer, demanding that certain provisions of their residential mortgages, governing variable interest rates, be deemed illegal and unenforceable and demand the repayment of any overpaid interest.

Firstly, two of the cases were brought by customers owing CPI-linked mortgages that contain a certain interest resetting provision that the Supreme Court found in its ruling on case no. 623/2016 could not be used by the Issuer to reset interest rates. Following that judgement, the Issuer repaid its customers any interest that the Issuer had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the suits now filed the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on Interest and Price Indexation. An unfavourable finding by the courts may have an influence on the Issuer's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Issuer estimates that the financial impact of an unfavourable ruling in an adverse scenario could amount to around ISK 2 billion. On 25 May 2023, the District Court of Reykjanes rendered a judgement in one of these cases and dismissed all claims that were made against the Issuer. The plaintiff appealed the judgement to the Court of Appeal. On 17 January 2025, the case was heard before the Court of Appeal and is currently awaiting judgement.

Secondly, a case has been brought against the Issuer by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Issuer as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. During the proceedings, the District Court decided to seek an advisory opinion from the EFTA Court. On 23 May 2024, the EFTA Court gave its advisory opinion, providing the Court's interpretation of certain provisions of the Mortgage Credit Directive no. 2014/17/EU (the Mortgage Credit Directive) and Directive 93/13/EEC on unfair terms in consumer contracts (the Unfair Terms Directive). The Court offered guidance on requirements under the directives for the clarity, accessibility, objectivity, and verifiability of contract terms and information provided to consumers. The EFTA Court concluded that it is up to Icelandic courts to determine whether these requirements are met and to assess the impact on the underlying contracts if they are not met. The Issuer believes that the terms of its mortgages and other loan contracts comply with these requirements, as well as with Icelandic legislation. Furthermore, the increases in the variable interest rates set by the Issuer on the disputed mortgage have been less than changes on policy rates during the same period. On 12 November 2024, the District Court of Reykjanes rendered a judgement in the case where all claims made by the plaintiffs against the Issuer were dismissed. The plaintiffs have appealed the judgement and were granted permission to appeal directly to the Supreme Court without first going to the Court of Appeal.

Should the judgement be overturned on appeal, it is the Issuer's preliminary assessment of the potential impact of an adverse ruling on the Issuer's loan portfolio with the same interest rate provision that the Issuer's financial loss, taking different scenarios into account, could amount to around ISK 17 billion. The preliminary assessment does not include an assessment of the impact on the Issuer's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Issuer regards as unlikely, would significantly increase the Issuer's interest rate risk and could have a considerable negative financial impact on the Issuer.

It is disputed in all three cases whether the terms of the Issuer's mortgages, and the method used by the Issuer to set variable interest rates, is in compliance with the Act on Mortgage Lending to Consumers no. 118/2016. That act is in this respect similar to the terms of Act no. 33/2013 on Consumer Credit. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

The Issuer believes that the claims of the plaintiffs are unfounded and has not recognised a provision in relation to this matter.”

Any information contained in or accessible through any website does not form a part of the Base Prospectus, unless specifically stated in the Base Prospectus, in any supplement hereto or in any document incorporated or deemed to be incorporated by reference in this Base Prospectus that all or any portion of such information is incorporated by reference in the Base Prospectus.

Statements contained in this Supplement shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in the Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of the Base Prospectus or this Supplement. Information on any website referenced in this Supplement is not part of the Base Prospectus or this Supplement.

Copies of this Supplement will be available for inspection at <https://www.islandsbanki.is/en/product/about/funding>. In addition, a copy of the Supplement will be published on the website of Euronext Dublin at <https://live.euronext.com/en/product/bonds-detail/20480/documents>.

Save as disclosed in this Supplement, no other significant new factor, material mistake or material inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since 24 October 2024.

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