

Supplement to Base Prospectus dated 24 October 2024



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 and 29 July 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 risk factor entitled "Risks Relating to Capital and Other Regulatory Requirements of the Issuer"; (ii) the "Documents Incorporated by Reference" section to incorporate by reference into the Base Prospectus the unaudited reviewed consolidated interim financial statements of the Issuer for the nine months ended 30 September 2024, (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.

Risk Factors

The last two sentences of the penultimate paragraph under the heading “Risks Relating to Capital and Other Regulatory Requirements of the Issuer” on page 21-22 of the Base Prospectus shall be amended to state:

The CRR III Proposal and CRD VI Proposal were both published in the Official Journal of the European Union on 19 June 2024 and entered into force twenty days afterwards. Most amended provisions of the CRR III Proposal will become effective on 1 January 2025, while the CRD VI Proposal implementation provisions are to be transposed by EU member states and applicable as of 11 January 2026. According to the Icelandic Ministry of Finance and Economic Affairs, the CRR III Proposal is expected to enter into force in Iceland at the beginning of 2025, while it is expected that the CRD VI Proposal will enter into force in January 2026. The impact of the CRR III Proposal and CRD VI Proposal on the Issuer’s financial performance or on the pricing of its Covered Bonds issued under the Programme cannot be determined with any precision.

Documents Incorporated by Reference

The following document, which has previously been published and has been filed with the Central Bank of Ireland, shall be incorporated in, and form part of, the Base Prospectus:

- the unaudited reviewed consolidated financial statements of the Issuer for the nine months ended 30 September 2024 which are provided on pages 6 to 58 (inclusive) of the Condensed Consolidated Interim Financial Statements – Third quarter 2024 which can be viewed online at: https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Condensed_Consolidated_Interim_Financial_Statements_third_quarter_2024.pdf.

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 30 September 2024 and there has been no material adverse change in the prospects of the Issuer since 31 December 2023.”

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 has appealed the judgement to the Court of Appeal.

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. Following the publication of the EFTA Court's advisory opinion, the court case will continue in the Icelandic courts. 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 15 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 in times of increased market interest rates.

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.

The section under the heading "Onsite inspection by the Financial Supervisory Authority of the Central Bank of Iceland into the Issuer's anti-money laundering measures" appearing on page 195 of the Base Prospectus shall be amended by inserting the following text immediately before the last paragraph:

On 11 September 2024 the Issuer completed its remedial actions, which the Issuer's internal auditor has evaluated as per the terms of the Settlement Agreement as to whether the required remedies are adequate. The internal auditor sent a report of its findings to the FSA on 18 October 2024. If the FSA deems these remedial measures to be insufficient, they could impose further fines or remedial measures.

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 29 July 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.