



Íslandsbanki hf. Base Prospectus

2 July 2021

Íslandsbanki hf.
Hagasmara 3
201 Kópavogur

Íslandsbanki hf.

(Incorporated in Iceland as a limited liability company)

ISK 100,000,000,000

Bond Programme

*Under this ISK 100,000,000,000 Bond Programme (the “**Programme**”), Íslandsbanki hf. (the “**Issuer**”) may issue in a continuous and repeated manner bonds (the “**Bonds**”) denominated in any Specified Currency.*

*The Bonds may be issued in bearer form (“**Bearer Bonds**”), registered form (“**Registered Bonds**”), uncertificated book entry form cleared through the Central Securities Depository (the “**CSD**”) or any other clearing system as specified in the Final Terms, as decided by the Issuer.*

The maximum aggregate nominal amount outstanding of all Bonds issued under the Programme will not exceed ISK 100,000,000,000 (or its equivalent in other currencies calculated as described herein). The Bonds may be issued on a continuing basis.

*This Base Prospectus has been approved by the Financial Supervisory Authority of the Central Bank of Iceland (the “**FSA**”), in its capacity as competent authority under the Regulation (EU) 2017/1129 (**Prospectus Regulation**), which has been implemented in Iceland through Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market No. 14/2020 for the purpose of giving information with regard to the issue of Bonds under the Programme during a period of at least twelve months from the date of its publication. The FSA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. The FSA’s approval should not be considered as an endorsement of the Issuer that is the subject of this Prospectus, nor should it be considered as an endorsement of the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.*

*This Base Prospectus (which shall include all documents incorporated by reference therein) has been prepared for the purpose of providing disclosure information with regard to the Bonds and covers all outstanding series as well as any new series issued under the Programme. An application will be submitted to NASDAQ Iceland for Bonds issued under the Programme to be admitted to trading on NASDAQ Iceland’s Main Market, the regulated market of the NASDAQ Iceland. References in this Base Prospectus to Bonds being listed (and all related references) shall mean that such Bonds have been admitted to trading on the regulated market of the NASDAQ Iceland. The regulated market of the NASDAQ Iceland is a regulated market for the purposes of Directive 2004/39/EC (the “**MiFID**”) which has been implemented in Iceland through the Act No. 108/2007 on Securities Transactions (“**Act on Securities Transactions**”) and Act on Stock Exchanges No. 110/2007 or for the purpose of Directive 2014/65/EU on Markets in Financial Instruments (the “**MiFID II**”), which will be implemented into Icelandic law on the **MiFID II Implementation Date**. The Issuer may list the Bonds on additional regulated markets.*

The Bonds will be issued in such denominations as specified in the applicable Final Terms, save that the minimum denomination of each Bonds 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 (as defined below) and save that the minimum denomination of each Bond admitted to trading on a regulated market situated or operating within the EEA or within the UK and/or offered to the public in an EEA state or in the UK in circumstances which require the publication of a prospectus under the Prospectus Regulation will be €100,000 (or, if the Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Bonds admitted to trading on a regulated market. The obligation to supplement this Base

Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

The Issuer has senior unsecured debt ratings of BBB and A-2 with a stable outlook from S&P Global Ratings Europe Limited (**S&P**) as at the date of this Base Prospectus. S&P is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such S&P is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.

Notice of the aggregate nominal amount of Bonds, interest (if any) payable in respect of Bonds, the issue price of Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under Terms and Conditions of the Bonds) of Bonds will be set out in the Final Terms which, with respect to Bonds to be listed on NASDAQ Iceland, will be delivered to the NASDAQ Iceland and can be found on the Issuer's website <https://www.islandsbanki.is/en/landing/about/investor-relations>

Prospective investors should refer to the factors described in the section entitled "Risk Factors" in this Base Prospectus for a discussion of risk factors to be considered in connection with an investment in the Bonds.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**US Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

IMPORTANT – EUROPEAN ECONOMIC AREA AND UNITED KINGDOM RETAIL INVESTORS

The Bonds are not intended to be offered, sold or otherwise made available to any retail investor in the EEA or the UK. 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 (EU) 2016/97 (the **Insurance Distribution 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 Regulation. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended) (the **PRIIPs Regulation**) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET

As of **MiFID II Implementation Date**, the Final Terms in respect of any Bonds may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Bonds and which channels for distribution of the Bonds are appropriate. Any person subsequently offering, selling or recommending the Bonds (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 Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**US Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)).

The Issuer may decide that Bonds may be issued in a form not contemplated by the Terms and Conditions of the Bonds described herein, in which event, a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Bonds.

Íslandsbanki hf.

The date of this Base Prospectus is 2 July 2021

This Base Prospectus comprises a base prospectus for the purposes of Article 8 of the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche (as defined under „*Terms and Conditions of the Bonds*“). 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.

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. Other than in relation to the documents which are deemed to be incorporated by reference (see “Documents Incorporated by Reference”), the information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus and has not been scrutinised or approved by the FSA.

In relation to any Tranche, the aggregate nominal amount of the Bonds of such Tranche, the interest (if any) payable in respect of the Bonds 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) substantially in the form set out under “*Form of Final Terms*” below.

The Final Terms will be filed with the FSA on or before the date of issue of the Bonds of such Tranche.

Copies of Final Terms relating to Bonds which are admitted to trading on NASDAQ Iceland’s regulated market will be available on the website of the Issuer and at the registered office of the Issuer.

No person is or has been authorised by the Issuer to give any information or to make any representation of information not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

This Base Prospectus has been prepared to provide clear and thorough information on the Issuer. Investors are encouraged to acquaint themselves thoroughly with this Base Prospectus. They are advised to pay particular attention to the chapter on Risk Factors. This Base Prospectus should by no means be viewed or construed as a promise by the Issuer or other parties of future success either in operations or return on investments. Investors are reminded that investing in securities entails risk, as the decision to invest is based on expectations and not promises. Investors must rely primarily on their own judgement regarding any decision to invest in the Issuer’s securities, bearing in mind, inter alia, the business environment in which it operates in, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts, such as licensed financial institutions, to assist them in their assessment of the securities issued by the Issuer as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Issuer’s securities and seek external and independent advice in that respect.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds 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 Bonds constitutes an offer or invitation by or on behalf of the Issuer to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Bonds 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.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Bonds 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 Bonds may be restricted by law in certain jurisdictions. The Issuer does not represent that this Base Prospectus may be lawfully distributed, or that any Bonds 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 which would permit a public offering of any Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds 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 Bonds may come must inform themselves about, and observe any such restrictions, on the distribution of this Base Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Bonds in the United States, the European Economic Area and Japan, see "*Selling Restrictions*".

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 the applicable law. Capitalised terms used in this Base Prospectus have been defined in the section of the Terms and Conditions entitled "Definitions" or throughout this Base Prospectus. Accordingly, references to the Terms and Conditions shall be construed as references to the definitions found therein unless the context specifically states otherwise.

The Bonds may not be a suitable investment for all investors. Each potential investor in any Bonds 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 Bonds, the merits and risks of investing in the relevant Bonds 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 Bonds 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 Bonds 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 Bonds 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) Bonds are legal investments for it, (ii) Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate

regulators to determine the appropriate treatment of Bonds 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 Bonds being offered, including the merits and risks involved. The Bonds 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.

The Issuer does not make any representation to any investor in the Bonds regarding the legality of its investment under any applicable laws. Any investor in the Bonds should be able to bear the economic risk of an investment in the Bonds for an indefinite period of time.

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1. RISK FACTORS

In purchasing Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Bonds. There is a wide range of risk factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Bonds. It is not possible to identify all such risk factors, as the Issuer may not be aware of all relevant risk factors and certain risk 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 risk factors which could materially adversely affect its business and ability to make payments due under the Bonds. The Issuer has assessed the materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact and has organised the following risk factors accordingly within each category, beginning with those estimated to be most significant to the Issuer. The order in which the categories of risk factors are presented does not necessarily reflect the probability of their occurrence or the magnitude of their potential impact, as the categories of risk factors mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual category for the Issuer could be misleading, as other categories of risks factors may materialise to a greater or lesser degree.

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

Prospective investors in the Bonds should also read the detailed information set out elsewhere in (or otherwise incorporated by reference into) 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 BONDS 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 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

The Issuer undertakes credit risk by offering loans, guarantees and other credit products. Credit risk is the primary risk factor in the Issuer's operations and taking on credit risk is a core activity of the Issuer. Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any contract with the Issuer. Failure to accurately assess credit risk could increase credit risk exposure which could have a material adverse effect on the Issuer's financial condition.

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. As at 31 December 2020, the Issuer's maximum exposure to credit risk amounted to ISK 1,470bn. Credit risk accounted for 89 per cent. of capital requirements under Pillar 1.

The Issuer is subject to counterparty 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 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 earnings will 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's loan portfolio is concentrated in certain industries and borrowers

As at 31 December 2020, the Issuer's loan portfolio to customers was exposed to concentration in certain industry sectors, namely individuals (43 per cent.), real estate (15.6 per cent.), commerce and services (12.1 per cent.), the seafood industry (12.1 per cent.), industrial and transportation (8 per cent.) 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. Decline in the financial condition of the Issuer's largest borrowers could also materially affect the Issuer's business, financial condition and results of operations. In terms of geographic credit concentration most of the Issuer's activities are in Iceland but the Issuer maintains a certain amount of international activities. The overseas strategy is built on a heritage of servicing the core industries in Iceland, primarily focusing on the seafood industry. The strategy focuses on the North Atlantic region, including Canada, the United States and Norway. As at 31 December 2020, the Issuer's credit risk and credit concentration risk accounted for 85 per cent. of the total capital requirements.

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 the Issuer's 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. To the extent 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. 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.

Additional information regarding the Issuer's credit risk can be found in section 4 of the Issuer's Pillar 3 Report 2020 which is incorporated by reference into this Base Prospectus.

The Issuer is subject to market risks which may have material adverse effect on the Issuer's results of operations

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, inflation, equity prices and foreign exchange rates. Market risk is a key risk to the Issuer's operations. The Issuer takes on market risk as a part of its business strategy.

Market risk at the Issuer is split into two categories: risk in the trading book and risk in the banking book. Market risk due to mismatches in assets and liabilities with respect to currencies, interest reset dates and CPI- indexation falls in the banking book. Market risk in the banking book also includes exposures held for long-term investment purposes, in unlisted securities and holdings in subsidiaries or affiliates. Market risk exposures in the trading book arise in relation to short-term and medium-term trading in securities, currencies and other capital market instruments. Market risk in the trading book primarily arises from flow trading and market-making activities in listed securities, mainly equities and government bonds, as well as from bond holdings in the Issuer's liquidity portfolio. The Issuer is also exposed to currency risk in the trading book. The Issuer has controls in place to limit

its trading book exposure; however, these controls may not be effective in all circumstances, and the Issuer could experience material losses in its trading book. The Issuer could also experience significant variations in its consolidated income statement in the Annual Financial Statements due to movements in the market value of marked to market securities. The Issuer's asset management division is also subject to market risk as there could be fluctuations in the markets in which the asset management operations hold assets.

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.

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. If the price of these securities declines, this 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 decline in the market value of the portfolio could accordingly materially affect the Issuer's profitability, even if those decline 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 is also subject to the equity risk in its trading portfolios and in its banking book. The Issuer's equity risk arises from flow trading, market making, shares acquired through restructuring of companies, and strategic investments. Equity exposure in the trading book decreased in 2020 with an average position of ISK 1.3bn. The maximum equity exposure in the trading book was ISK 2.3bn in 2020. Equity exposure in the banking book, including fair value shares and shares held for sale amounted to ISK 5.8bn at the end of 2020.

Changes in the inflation rate may negatively affect the profit and loss of the Issuer

The Issuer is also exposed to inflation risk (CPI risk) since assets linked to the Consumer Price Index (CPI) exceed liabilities linked to the CPI. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect the profit and loss of the Issuer. The total CPI-linked imbalance of the Issuer amounted to ISK 26.2 billion as at 31 December 2020. Accordingly, changes in the inflation rate may negatively affect the profit and loss of the Issuer and could have a material adverse effect on the Issuer's operations and financial condition.

Additional information regarding the Issuer's market risk can be found in section 5 of the Issuer's Pillar 3 Report 2020 which is incorporated by reference into this Base Prospectus.

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 always strives to exceed regulatory liquidity ratio limits. The Issuer's main source of funding is customer deposits, which amounted to ISK 679,455 million as at 31 December 2020. Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). At 31 December 2020, the Issuer's LCR was 196 per cent. and the NSFR was 123 per cent. 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, which could have a material adverse effect on the Issuer's results.

Additional information regarding the Issuer's liquidity risk management can be found in section 6 of the Issuer's Pillar 3 Report 2020 which is incorporated by reference into this Base Prospectus.

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

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. 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. The Issuer's definition of operational risk includes reputational risk, legal risk, model risk, conduct risk and compliance risk among other risk factors. The top priorities of the Issuer in relation to operational risk as at the date of this Base Prospectus are outsourcing risk and ICT risk. According to the Supervisory Review and Evaluation Process (**SREP**) results, operational risk accounted for 7.2 per cent. of total SREP capital requirement of the Issuer together with its Subsidiaries (as defined below) (together, the **Group**) in 2020.

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 information technology (**IT**) systems could cause it to fail to complete transactions on a timely basis or at all and materially affect the Issuer. A sustained failure of the Issuer's IT systems, or of critical third-party systems, would have a significant impact on its operations and the confidence its customers have in the reliability and safety of its banking systems and could therefore adversely impact the Issuer's financial position.

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. Unauthorised disclosure of confidential information and personal data, whether through cyber security breaches, viruses or otherwise could expose the Issuer to fines, liabilities and costly litigation and damage in reputation.

The Issuer is vulnerable to disruptions of its operating systems and failures of its vendors

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, cyber-attacks, unsuccessful IT system updates, equipment malfunction 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.

Shortfalls in 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 relies on certain key members of management

The Issuer is highly dependent on the talent of its key personnel, in particular its Chief Executive Officer and senior management, many of whom have been employed by the Issuer for a substantial period of time. The loss of key members of its senior management or staff may significantly delay the Issuer's ability to implement its business objectives and strategies and could have a material adverse effect on its business, financial condition and results of operations. In addition, there is competition between businesses in Iceland which could hinder the Issuer's ability to recruit and retain new senior managers if competitors of the Issuer are able to offer more competitive salaries and better incentivise individuals.

Additional information regarding the Issuer's operational risk can be found in section 7 of the Issuer's Pillar 3 Report 2020 which is incorporated by reference into this Base Prospectus.

Risks Relating to Macroeconomic and other Business Conditions

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 as almost all of the Issuer's business activities take place 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 evolvment and legislation changes concerning liquidation of assets. Such changes in the general economic conditions and other business conditions may have a material adverse effect on the Issuer's results.

The COVID-19 virus may have adverse impact on the Issuer

Governments in affected areas have imposed a number of measures designed to contain the outbreak of COVID-19, including business closures, travel restrictions, quarantines and cancellations of gatherings and events. The spread of COVID-19 has had disruptive effects in the global economy, as well as causing increased volatility and declines in financial markets. If COVID-19 is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could deepen and result in further declines in financial markets. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies or industries. COVID-19's impact on such borrowers and industries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity and the ability of borrowers to pay their loans, COVID-19 may also result in disruption to the Bank's key suppliers of goods and services and result in increased unavailability of staff adversely impacting the quality and continuity of service to customers and the reputation of the Bank. As a result, the business, results of operations, corporate reputation and financial condition of the Bank could be adversely impacted for a substantial period of time.

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's business operations and results.

Risks Relating to the Business Model and the Ownership Structure of the Issuer

The Bank, its operations and its management may continue to come under the public spotlight from time to time for as long as the Icelandic state has an ownership interest in the Company

The Icelandic state, through the Icelandic State Financial Investments (**ISFI**), will remain a major shareholder of the Bank for the foreseeable future and as a result, the Bank, its operations and its management will continue to occupy the public spotlight and be subject to public scrutiny from time to time. It cannot be excluded that in the future, the Bank will be in the public spotlight and come under pressure to change aspects of its corporate governance, policies and certain operations or to review past practices. This may force the Group to spend potentially significant amounts of management time and incur significant expense.

Further reductions of the Icelandic state's interest in the Bank may result in a perception of increased risk by investors and customers, including depositors

The Icelandic state, through the ISFI holds 65% of the Bank's share capital (assuming full exercise of the overallotment option). Although the ISFI has agreed not to divest its remaining shares in the Bank for a period of 180 days after the first day of trading in the shares of the Bank on Nasdaq Iceland, this lock-up is subject to certain exceptions, and in any event the timing and the form of any further offerings of shares by the ISFI are uncertain. Such sales may result in a perception of increased risk by investors, counterparties and clients, including depositors, with respect to the safety of customer deposits, the Bank's capital position, risk profile and the Bank's soundness in general as some investors and customers may have taken comfort from the Icelandic state's shareholding in the Bank. This could lead to a general decrease in investor, counterparty and customer confidence, which may, for example, result in a reduction of customer deposits. The materialisation of any of these events could materially and adversely affect the market price of the Bank's securities and its business, financial condition and results of operations.

Disruptions, dislocations, structural challenges and market volatility in financial markets could materially and adversely affect the Bank's banking and funding activities and could materially and adversely affect the Group's business, financial condition, results of operations and prospects

Financial markets can experience, sometimes sustained, periods of unpredictable movements, severe dislocations, liquidity disruptions and economic shocks. These market conditions could lead to volatility in the Bank's profitability and in (the composition of) its balance sheet caused by price changes and changes in the demand for some of the Group's banking services and products. Such conditions could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects. These market conditions may also impede the Bank's ability to sufficiently and timely raise funding and capital. This could result in, among other things, a delay in raising funding or capital, the issuance of capital and funding of different types or under different terms than otherwise would have been issued or realised, or the incurrence of additional or increased funding and capital costs compared to the costs borne in a more stable market environment. Furthermore, the Bank's hedging and other risk management strategies, such as balance sheet steering and interest rate management, may not be as effective at mitigating risks as such strategies would be under more normal market conditions. This could potentially lead to a decrease of the Bank's profitability, financial condition and financial flexibility. Financial markets are susceptible to severe events characterised by rapid depreciation in asset values accompanied by a reduction in liquidity. Under such conditions, market participants are particularly exposed to the market behaviour of market participants simultaneously thereby on a large scale unwinding or adjusting positions, which may even further exacerbate rapid decreases in values of the Bank's assets or collateral held in its favour and which could cause liquidity tensions and disruptions. These market conditions may cause a decline in the profitability, an increase in unrealised losses in the Group's various (asset) portfolios, and a reduction in unrealised gains in the Bank's various (asset) portfolios.

The economies in which the Group is active may continue to face structural challenges, which could contribute to renewed high volatility in both the debt and the equity markets. Any deterioration of the sovereign debt market in the Eurozone or elsewhere, or other economic shocks could materially and adversely affect the Bank's results of operations, financial condition and prospects, as well as the Bank's funding and capital transactions and hedging and other risk management strategies. Other events may also affect the financial markets, such as heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events. There is no assurance that market volatility will not result in a prolonged market decline, or that such market declines for other reasons will not occur in the future. Severe market events have historically been proven to be difficult or impossible to predict, and could lead to the Bank realising significant losses, especially if they were to persist for an extended period of time. Therefore, market volatility, liquidity disruptions, or market dislocations could materially and adversely affect the Bank's banking, capital and funding activities and could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

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. The Issuer's business involves risks of liability in relation to litigation from customers, employees, third-party service providers, and action taken by regulatory agencies, and there is a risk that these may not be adequately covered by the insurance or at all. 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 which could have a material adverse effect on the Issuer's operations and financial condition.

Risks Relating to Capital and other Regulatory Requirements of the Issuer

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

The Issuer's capital management framework is based on Directive 2013/36/EU (**CRD IV**) and Regulation 575/2013/EU (**CRR**), which were largely already implemented into Icelandic legislation. For more information on the Issuer's capital requirements, see "*Business Overview — Regulatory and Tax Environment — Capital Requirements.*"

It is anticipated that the implementation of further aspects of CRD IV into Icelandic legislation will be undertaken before the end of 2021. 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 Bonds, both with or without the intervention by regulators or the imposition of sanctions.

Legal and Regulatory Risk

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

As a financial institution, the Issuer must comply with a comprehensive set of laws and regulations. The legal and regulatory environment of the Issuer is constantly changing and the Issuer puts substantial resources into monitoring and implementing these changes to ensure full compliance. 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.

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

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 has since been extended until 30 June 2023. This option is open to all residential mortgage holders regardless of the form of their mortgage. This action plan was financed by an increase in the Bank Levy (see "*Business Overview — Regulatory and Tax Environment — Tax Environment*") which 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.

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 addition to the basic corporate income tax rate of 20 per cent. in Iceland, the Icelandic Parliament passed the Act on Special Tax on Financial Undertakings, No. 155/2010, in December 2011 (**Act on Special Tax on Financial Undertakings**), 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. 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. Non-financial subsidiaries are exempt from this tax. The Act on Special Tax on Financial Undertakings was amended in March 2020 with Act No. 25/2020 in relation to measures from the Icelandic Government and the Central Bank due to the COVID-19 pandemic reducing the levy to 0.145 per cent in 2020.

According to the Income Tax Act No. 90/2003, as amended (**ITA**) payments of Icelandic sourced interest by an Icelandic debtor, such as the Issuer, to a foreign creditor, including holders of bonds, who are not Icelandic are taxable in Iceland and can be subject to withholding tax at the rate of 12.0 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Icelandic Internal Revenue 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. The exemption, subject to certain other requirements, applies to bonds that are held through a clearing system, such as CSD, Euroclear and Clearstream Luxembourg, within a member state of

the OECD, the EEA, a founding member state of EFTA or the Faroe Islands. Bonds issued by the Issuer are subject to the aforementioned exemption.

According to the Act on Tax on Financial Activities, No. 165/2011, certain types of financial institutions, including the Issuer, are required to pay a special additional tax levied on all remuneration paid to employees. The levy is currently set at 5.5 per cent. of such remuneration. Additionally, according to Article 71 of the ITA, a special additional income tax on legal entities liable for taxation according to Article 2 of Act No. 165/2011, which includes the Issuer is set at 6.0 per cent. on income over ISK 1 billion, disregarding joint taxation and transferable losses. The aforementioned taxes and levies placed on the Issuer increases the cost burden on the Issuer and subjects it to a competitive disadvantage relative to other competitors, which are not subject to such taxes or levies. See further in “Information about the Issuer- Tax Environment ”. The Issuer may be subject to additional taxes or levies in the future, so there can be no assurance that additional taxes and levies could increase the Issuer’s cost of funding and operating costs generally, reduce the ability of the Issuer to compete effectively with other lenders and/or decrease the Issuer’s lending volumes and margins any of which could have a material adverse effect on the Issuer’s business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Bonds. Any such increase could have a material adverse effect on the financial condition of the Issuer and its ability to make payments in respect of the Bonds.

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

As a member state of the EEA, Iceland is obligated to implement parts of European Union law. A large amount of Icelandic legislation relating to the financial services industry, such as the legislation on financial undertakings, securities transactions and other legislation relating to financial markets, is implemented from EU law. If the state fails to draft national law in a way that conforms with EEA rules, Icelandic citizens may not be able to rely on national laws and the Icelandic courts could be restricted from applying them unless the Icelandic legislation can be interpreted in a way which conforms with EU legislation. As a result, Bondholders 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. Moreover, there can be errors in the implementation of EU law and in those cases, Icelandic law will be deemed to prevail in the Icelandic courts. Inconsistencies between EU law and Icelandic law can lead to uncertainty over which rules the Issuer must follow, which can take up a lot of the Issuer’s resource and time in trying to identify which rules to follow.

There can be a delay before Icelandic law implements EU legislation, which could also feed into the Issuer’s uncertainty as to which rules it must comply with. Icelandic authorities may try to reduce uncertainty by working off requirements under the new EEA rules, which are in the process of being implemented. As a result, the issuer may be unable to rely on the precise wording of current statutes or draw guidance from legislative preparatory works. Working to comply with regulations which are changing can be resource intensive and exposes the Issuer to a risk of non-compliance.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE BONDS ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Bonds

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

The claims of Bondholders will be subordinated to the claims 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 Bonds, issued by a financial institution holding bank deposits would not be subordinated to the claims of depositors.

However, in Iceland, Article 102 of the Act on Financial Undertakings provides that, should such financial institution, such as the Issuer enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, then the claims of holders of senior unsecured unsubordinated debt would be subordinated to the claims of *all* of the Issuer’s depositors. Moreover, the act amending the Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms (the Act on Recovery and Resolution”), enacted on 4 May

2021 (the “Hierarchy of Claims Act”) introduces a new Article 85.a to the Act on Recovery and Resolution which provides in part that, in a winding-up: (x) claims of certain types of the Issuer’s depositors will have priority over other kinds of bank deposits (i.e. the inner ranking within deposits will change), but (y) all types of bank deposits will, as a group, rank higher than the claims of the Issuer’s senior unsecured unsubordinated debt obligations. Hence, under current Icelandic law, the claims of holders of senior unsecured unsubordinated debt are subordinated to the claims of *all* of the Issuer’s depositors in a winding-up of the Issuer. If a winding-up of the Issuer were to occur, there may not be sufficient assets in the resulting estate to pay the claims of such Bondholders after the claims of depositors have been paid.

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

An optional redemption feature is likely to limit the market value of Bonds. During any period when the Issuer may elect to redeem the relevant Bonds, or during any period when Bondholders perceive that the Issuer may elect to redeem Bonds, the market value of those Bonds 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 Bonds when its cost of borrowing is lower than the interest rate on the Bonds. 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 Bonds 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.

Bonds 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 Bonds) 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. Any such price volatility may have an adverse effect on the market value of any Bonds issued at a substantial discount or premium to their principal amount.

The regulation and reform of “benchmarks” may adversely affect the value of Bonds linked to or referencing such “benchmarks”

Interest rates and indices which are deemed to be “benchmarks” (such as, in the case of Floating Rate Bonds or a Reference 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 Bonds linked to or referencing such a “benchmark”.

The Benchmarks Regulation applies, subject to certain transitional provisions, 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).

Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**) among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Bonds 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 and/or the UK Benchmarks Regulation as applicable. 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 Bonds linked to, referencing, or otherwise dependent, in whole or in part, upon a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation and/or UK Benchmarks Regulation, as applicable, reforms in making any investment decision with respect to any Bonds 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 Bonds which are linked to or which reference any such benchmark rate

The FCA has indicated through a series of announcements 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 which cannot be predicted.

Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Bonds which are linked to or which reference such benchmark rate will be determined for the relevant period by the fallback provisions applicable to such Bonds specified in the applicable Final Terms.

In respect of any Bonds issued with a specific use of net proceeds, such as “Sustainability Instruments”, such use of net proceeds may not be suitable for the investment criteria of an investor

As described in the section “Use of Proceeds” of this Base Prospectus, the applicable Final Terms in relation to a particular Tranche of Bonds (any such Bonds, **Sustainability Instruments**) may provide that it will be the Issuer’s intention to apply an amount equal to the net proceeds of the issue of such Sustainability Instruments to finance or refinance, in whole or in part, the Issuer’s investments in Eligible Assets, as further described in the applicable Final Terms and the Sustainable Financing Framework dated 28 October 2020 (as amended or supplemented from time to time) (the **Sustainable Financing Framework**) available on the Issuer’s website

(https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Sustainable_Financing_Framework.pdf). The use of such proceeds may not satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Eligible Assets as further described in the Sustainable Financing Framework).

Furthermore, it should be noted that there is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a “green”, “blue” or “social” or equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as “green”, “blue” or “social” or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. A basis for the determination of such a definition has been established in the EU with the publication in the Official Journal of the EU on 22 June 2020 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (the **Sustainable Finance Taxonomy Regulation**) on the establishment of a framework to facilitate sustainable investment (the **EU Sustainable Finance Taxonomy**). The EU Sustainable Finance Taxonomy is subject to further development by way of the implementation by the European Commission through delegated regulations of technical screening criteria for the environmental objectives set out in the Sustainable Finance Taxonomy Regulation. While the Sustainable Financing Framework is expected to be in alignment with the relevant objectives for the EU Sustainable Finance Taxonomy, until the technical screening criteria for such objectives have been developed it is not known whether the Sustainable Financing Framework will satisfy those criteria. Accordingly, alignment with the EU Sustainable Finance Taxonomy, once the technical screening criteria are established, is not certain.

In addition, the requirements of any such definition may evolve from time to time, and, as such, the use of the proceeds of Sustainability Instruments may not meet any or all Bondholders expectations regarding such “green”, “blue” or “social” or other equivalently-labelled performance objectives.

Any opinion or certification by a third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Sustainability Instruments and in particular with any project to fulfil any environmental, and/or other criteria may not be suitable for Bondholders' purposes. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Sustainability Instruments. Any such opinion or certification is only current as of the date that opinion was issued. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Sustainability Instruments are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), such listing or admission may not satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any eligible projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Such listing or admission to trading obtained in respect of any such Sustainability Instruments may not be maintained during the life of the Sustainability Instruments.

Whilst it is the intention of the Issuer to apply an amount equal to the net proceeds of the Sustainability Instruments in, or substantially in, the manner described in the Sustainable Financing Framework, the related projects may not be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and accordingly such proceeds may not be totally or partially disbursed for such projects. Such projects may not be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer.

Any such event or failure by the Issuer to apply an amount equal to the net proceeds of any issue of Sustainability Instruments will not (i) give rise to any claim of a Bondholder against the Issuer; (ii) constitute an Event of Default under the Bonds or a default of the Issuer for any purpose; or (iii) lead to an obligation of the Issuer to redeem such Sustainability Instruments or be a relevant factor for the Issuer in determining whether or not to exercise any optional redemption rights in respect of any Sustainability Instruments.

Any such event or failure and/or withdrawal of any opinion or certification as described above or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Bonds no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value and marketability of the Sustainability Instruments and/or result in adverse consequences for Bondholders with portfolio mandates to invest in securities to be used for a particular purpose. For the avoidance of doubt, it is however specified that payments of principal and interest (as the case may be) on the Sustainability Instruments shall not depend on the performance of the relevant project.

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 Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell its Bonds

The Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds.

If an investor holds Bonds 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 Bonds could result in the investor not receiving payments on those Bonds

The Issuer will pay principal and interest on the Bonds 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 Bonds, (ii) the Investor's Currency equivalent value of the principal payable on the Bonds and (iii) the Investor's Currency equivalent market value of the Bonds.

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 Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

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

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

Risks related to the Bonds generally

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

The Issuer is liable to make payments when due on the Bonds

The Issuer is liable to make payments when due on the Bonds. The obligations of the Issuer under the Bonds are direct, unsecured, unconditional and unsubordinated obligations, ranking *pari passu* without any preference amongst themselves and equally with its other obligations of the Issuer that have been provided the same priority as debt instruments.

An investment in the Bonds involves a reliance on the creditworthiness of the Issuer. The Bonds are not guaranteed by any third party. In addition, an investment in the Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the Bonds.

The Bonds will not represent an obligation or be the responsibility of any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

The exercise of any power under the BRRD, as implemented in Iceland, could materially adversely affect the rights of holders of Bonds

Directive 2014/59/EU (the **Bank Recovery and Resolution Directive** or **BRRD**) is designed to provide the respective authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing relevant entity. This set of tools includes in particular the "bail-in tool" 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 to equity. For more information on the Bank Recovery and Resolution Directive, see "*Business Overview — Regulatory and Tax Environment — European Bank Recovery and Resolution Directive*".

The BRRD has been implemented in Iceland with Act 54/2018 amending the Act on Financial Undertakings No. 161/2002, by Act 70/2020 on the Recovery and Resolution of Credit Institutions and Investment Firms, and more recently, by the Hierarchy of Bills Act making further amendments to the Act on Financial Undertakings, the Recovery and Resolution Act and the Deposit Insurance and Insurance Schemes Act No. 98/1999.

Therefore holders of Bonds may be subject to any application of the resolution tools (such as the general bail-in tool) or 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 Bonds, or their rights in respect of the Bonds and/or the value of their investment may otherwise be materially adversely affected. The exercise of any power under the BRRD, as implemented in Iceland, or any suggestion of such exercise could, therefore, materially adversely affect the rights

of holders of Bonds, the price of value of their investment in any Bonds and/or the ability of the Issuer to satisfy its obligations under the relevant Bonds. Furthermore, the resolution authorities will have the power to amend or alter the maturity of debt instruments (including the Bonds) and other eligible liabilities or amend the amount of interest payable under such instruments (including the Bonds) and other eligible liabilities, or the date on which the interest becomes payable, including by suspending payment for a temporary period.

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

The Bonds will be unsecured and do not have the benefit of a negative pledge provision. If the Issuer defaults on the Bonds, 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 Bonds. As a result of the granting of such security, there may only be limited assets available to make payments on the Bonds in the event of an acceleration of the Bonds. 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 Bonds, which are unsecured.

Bondholders 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 Bond have been exchanged for definitive Bond in accordance with the Terms and Conditions of the Bonds. This means that Bondholders may lose all rights attaching to their interests in a Global Bond other than financial rights, i.e. rights to participate and vote in creditor meetings as well as other rights which they may have.

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 Bonds 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. Even if a judgment is enforceable in Iceland, the enforcement process may result in the judgment creditor receiving ISK.

A judgment entered against a company incorporated in Iceland in the courts of a state which is not a party to the Convention on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters made in Lugano on 30 October 2007 (the Lugano Convention) as a Contracting State (as defined in the Lugano Convention), would not be recognised or enforceable in Iceland as a matter of law without a retrial on its merits (but will be of persuasive authority as a matter of evidence before the courts of law of Iceland). As at the date of this Base Prospectus, the United Kingdom and Iceland are not bound by any agreement, treaty or other instrument on mutual recognition and enforcement of judgments applicable in relation to the Bonds. The United Kingdom has applied to re-accede to the Lugano Convention as an independent contracting state, but the other contracting states have, as at the date of this Base Prospectus, not approved the application. As a result, a final judgment in civil or commercial matters relating to the Bonds obtained in the courts of England against the Issuer, will, in principle, neither be recognised nor enforceable in Iceland. However, if a Bondholder brings a new action in a competent court in Iceland, the final judgment rendered in an English court may be submitted to the Icelandic court, but will only be regarded as evidence of the outcome of the dispute to which it relates, and the Icelandic court has full discretion to rehear the dispute ab initio. Any retrial on a judgment's merits could therefore significantly delay or prevent the enforcement by Noteholders of the Issuer's obligations under the Bonds.

Investors who hold less than the minimum Specified Denomination may be unable to sell their Bonds and may be adversely affected if definitive Bonds are subsequently required to be issued

In relation to any issue of Bearer Bonds 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 Bond

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 Bonds 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 Bond in respect of such holding (should such Bonds be printed) or issued and would need to purchase a principal amount of Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. If definitive Bearer Bonds are issued, holders should be aware that definitive Bearer Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

CHANGES OF LAW

The terms and conditions of the Bonds, in case of CSD System Bonds, are based on Icelandic law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic law or administrative practice after the date of this Base Prospectus.

FOLLOWING IS A LIST OF PENDING OR THREATENED PROCEEDINGS AGAINST THE ISSUER WHICH MIGHT HAVE SIGNIFICANT EFFECTS ON THE ISSUER'S FINANCIAL POSITION OR PROFITABILITY IF NOT RULED IN FAVOUR OF THE ISSUER.

Except as described below, there are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had, a significant effect on the Issuer financial position or profitability.

CONTINGENT LIABILITY BORGUN COURT CASE

Borgun (currently SaltPay, IIB hf) is a payment acquirer and issuing processor and a former subsidiary of the Bank. Landsbankinn sold its 31.2% stake in Borgun in late 2014. Landsbankinn claims that Borgun's management did not disclose all available information that might have affected the value of Borgun during the sales process, namely the value of its stake in Visa Europe which was sold to Visa International shortly after the Borgun sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun and others on 12 January 2017, claiming the right to damages for having been deprived of the true value of the stake involved in the sale. Landsbankinn does not quantify the claim, but its estimate of the lost profit from having sold its shares in Borgun is approximately ISK 1,930 million. Court appointed assessors presented their assessment in November 2019. A reassessment was demanded, and the senior assessors appointed by the court presented their reassessment in April 2021 which corroborates the previous assessment of Borgun's obligation to disclose. Further, the senior assessors estimated that Borgun's share in the Visa option as of 31 December 2013 amounted to at least ISK 387 million. It is uncertain when a ruling is to be expected. On 11 March 2020, the Bank signed an agreement to sell its 63.47% stake in Borgun to Salt Pay Co Ltd. and concluded the sale on 7 July 2020. In the agreement the Bank undertook to reimburse 63.47% of losses incurred by Borgun or the buyer as a result of an unfavourable outcome in the Landsbankinn case, however such reimbursement was never to exceed the Bank's share in the purchase price (as further outlined below). Since the amount of the claim, the allocation of liability and the possible outcome remain uncertain, the Issuer has not recognised a provision as a result of this event.

105 MIÐBORG PROJECT

The professional investor fund 105 Miðborg slhf., operated by Iceland Funds, a wholly owned subsidiary of the Bank, recently terminated its contractor agreement with ÍAV hf., the contractor retained for a real estate project at Kirkjusandur in the centre of Reykjavík. The main reason for the termination related to significant non-performance and delays in the construction of one building on the premises. The contractor, ÍAV hf., has claimed approximately ISK 3,829 million plus late payment interest and legal costs from the fund and Iceland Funds to compensate for the alleged unlawful termination. The case was filed on 11 May 2021 at the District Court of Reykjavík. In a written brief of dismissal, Iceland Funds opposed their involvement in the case on the basis that the contractual relationship was between ÍAV hf. and 105 Miðborg slhf. Further, the fund has issued a subpoena

against ÍAV hf. claiming approximately ISK 3,878 million plus late payment interest and legal cost due to delay and significant breaches of contract. The Bank owns a 6.25% stake in the fund. The Group has not recognised a provision in respect of this matter.

2. STATEMENTS

This Base Prospectus has been approved by the FSA as competent authority under the Regulation (EU) 2017/1129 (Prospectus Regulation), which has been implemented in Iceland through Act on Prospectus for Public Offering or Admission to Trading on a Regulated Market No. 14/2020 for the purpose of giving information with regard to the issue of Bonds under the Programme during a period of at least twelve months from the date of its publication. The FSA only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. The FSA's approval should not be considered as an endorsement of the Issuer that is the subject of this Prospectus, nor should it be considered as an endorsement of the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

ISSUER'S STATEMENT

The Chief Executive Officer and Chief Financial Officer of Íslandsbanki hf. ID number 491008-0160, registered office being Hagasmári 3, 201 Kópavogur, Iceland, on behalf of the Issuer, are responsible for the content of this Prospectus and hereby declare that having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, Iceland, 2 July 2021

On behalf of Íslandsbanki hf.

Birna Einarsdóttir
Chief Executive Officer
Icelandic ID No. 130761-3729

Jón Guðni Ómarsson
Chief Financial Officer
Icelandic ID No. 020576-4809

INDEPENDENT ASSURANCE REPORT ON THE SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2020 AND FOR THE THREE MONTHS ENDED 31 MARCH 2021

The auditor of the Issuer for the years 2019 and 2020 was Ernst & Young ehf. registration number 520902-2010. The registered office of the auditor is at Borgartún 30, 105 Reykjavík. Margrét Pétursdóttir was the Issuer's auditor on behalf of Ernst & Young ehf. She is a member in the Institute of State Authorized Public Accountants in Iceland (FLE).

To the Board of Directors of Íslandsbanki hf.

We have audited the consolidated financial statements for the financial years 2019 and 2020 presented and published by Management and the Board of Directors of Íslandsbanki hf. from which the consolidated financial

information on pages 81-83 have been extracted. We conducted our audit of the consolidated financial statements in accordance with International Standards on Auditing. Our independent audit opinion on the consolidated financial statements 2019 and 2020 for Íslandsbanki hf. can be found on the website: <https://www.islandsbanki.is/is/flokkur/bankinn/fjarfestatengsl>.

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Icelandic Law on Auditors and audit and other ethical requirements from the Code of Ethics for Professional Accountants (IESBA Code) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our responsibility is based on our work to express a conclusion on the extraction of the financial information from the published consolidated financial statements.

We did not carry out any additional audit procedures after sign-off of the 20 consolidated financial statements that were signed on 10 February 2021.

Basis of conclusion

We have planned and performed our work in accordance with the ISAE 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” to obtain reasonable assurance that the financial information on pages 81-83 are, in all material respects, in accordance with the published consolidated financial statements from which they have been extracted.

Our work primarily consisted of comparing the financial information presented on pages 81-83 to financial information in the consolidated financial statements for 2019 and 2020.

Conclusion

Our conclusion is that the consolidated financial information presented on pages 81-83, in all material respects, in accordance with the published consolidated financial statements for the financial years 2019 and 2020 from which they have been extracted.

Reykjavík, Iceland, 2 July 2021
On behalf of Ernst & Young ehf

THIRD PARTY INFORMATION

This Base Prospectus is not based on the statements of external specialists or another third party other than publicly available information published by governmental entities. In such instances the information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain no facts have been omitted which would render the reproduced information inaccurate or misleading.

LISTING AND VALIDITY OF THIS PROSPECTUS

Applications may be made for new series of Bonds issued under the Programme to be admitted to trading on NASDAQ Iceland’s Main Market. The regulated market of the NASDAQ Iceland is a regulated market, for the purposes of MiFID which has been implemented in Iceland through the Act on Securities Transactions, and Act on Stock Exchanges No. 110/2007, or for the purpose of MiFID II, which will be implemented into Icelandic law on MiFID II Implementation Date. Series of Bonds issued under the Programme have been admitted to trading on a regulated market, of Nasdaq Iceland.

This Base Prospectus is valid within twelve months from the date of this Base Prospectus. The obligation to supplement this Base Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when the Base Prospectus is no longer valid.

3. NOTICE TO INVESTORS

This document constitutes a base prospectus for the purposes of Article 8 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, as amended (the “Prospectus Regulation”).

The Base Prospectus is not being distributed in, and must not be mailed or otherwise distributed or sent in or into, any country in which distribution would require any additional registration measures or other measures to be taken, other than as applicable under Icelandic law and regulations, or would be in conflict with any law or regulation in such country. The Base Prospectus may be passported in accordance with the provisions of the Prospectus Regulation into other jurisdictions within the European Economic Area.

The admission to trading will proceed pursuant to Icelandic law and regulations. The FSA has scrutinised and approved this Base Prospectus, which is published in English only.

This Base Prospectus has been prepared to provide clear and thorough information on the consolidated company Íslandsbanki hf. Investors are encouraged to acquaint themselves thoroughly with this Base Prospectus. They are advised to pay particular attention to the Risk Factors. This Base Prospectus should by no means be viewed or construed as a promise by the Issuer or other parties of future success either in operations or return on investments. Investors are reminded that investing in securities entails risk, as the decision to invest is based on expectations and not promises. Investors must rely primarily on their own judgement regarding any decision to invest in the Issuer’s securities, bearing in mind *inter alia* the business environment in which it operates, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts, such as licensed financial institutions, to assist them in their assessment of the securities issued by the Issuer as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Issuer’s securities and seek external and independent advice in that respect.

Notwithstanding a special statement to the contrary references to any laws, acts or regulations are references to acts passed by the Icelandic parliament and regulations issued by Icelandic governmental agencies unless otherwise clear from the context.

4. APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Bonds issued under the Programme.

[Date]

[MIFID II PRODUCT GOVERNANCE / TARGET MARKET – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “MiFID II”); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (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 Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[PROHIBITION OF SALES TO EEA AND UNITED KINGDOM RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”) or in the United Kingdom (the “UK”). 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”)/MiFID II]; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “Insurance Distribution 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 Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

[Date]

ÍSLANDBANKI HF.

Legal entity identifier (LEI): 549300PZMFIQR79Q0T97

Issue of [Aggregate Nominal Amount of Tranche] [Title of Bonds]
under the ISK 100,000,000,000

Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Bonds (the **Terms and Conditions**) set forth in the Base Prospectus dated 2 July 2021. This document constitutes the Final Terms of the Bonds described herein for the purposes of Article 8(2) of the Prospectus Regulation and must be read in conjunction with the Base Prospectus and any supplements if applicable which constitute a base prospectus for the purposes of the Prospectus Regulation. Full information on the Issuer and the offer of the Bonds is only available on the basis of the combination of these Final Terms, the Base Prospectus and any supplements, if applicable. Copies of said Base Prospectus and any supplements, if applicable, are available for viewing on the Issuer's webpage, <https://www.islandsbanki.is/is/flokkur/bankinn/fjarfestatengsl> and at the office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland.

[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.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 23 of the Prospectus Regulation.]

- | | |
|---|---|
| 1. Issuer: | Íslandsbanki hf. |
| 2. | |
| i. Series Number: | [] |
| ii. Tranche Number: | [] |
| | <i>(If fungible with an existing Series, details of that Series, including the date on which the Bonds become fungible)</i> |
| iii. Ticker: | [] |
| 3. Specified Currency or Currencies: | [] |
| 4. Aggregate Nominal Amount: | |
| I. Series: | [] |
| II. Tranche: | [] |

5. **Issue Price:** [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
6. **Specified Denominations:** []
- 7.
- i. Issue Date: []
- ii. Interest Commencement Date: []
- 8.
- i. Maturity Date: *[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year]]*
- 9.
- i. Interest Basis to Maturity Date: [Inflation Linked Interest]
[[] per cent. Fixed Rate]
[[LIBOR/EURIBOR/REIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[specify other]
(further particulars specified below)
10. **Redemption/Payment Basis:** [Annuity]
[Redemption at par]
[Equal principal payments]
[Instalment]
[specify other]
- i. Payment Basis: []
- ii. Instalment Amounts: []
- iii. Instalment Dates: []
11. **Change of Interest Basis or Redemption/Payment Basis:** *[Specify details of any provision for change of Bonds into another Interest Basis or Redemption/Payment Basis]*
12. **Call Option:** [Issuer Call/ Not Applicable]
[(further particulars specified below)]
13. **Status of the Bonds:** Senior.

14. Approval for issuance of the Bonds:

[Date of [Board] approval for issuance of Bonds obtained]: [Date/ Not Applicable] (N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Bonds)

15. Method of distribution:

[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INFLATION LINKED ANNUITY BONDS

16. Inflation Linked Annuity Bonds:

[Applicable/Not Applicable]

(if not applicable, delete the remaining subparagraphs of this paragraph)

- i. Rate(s) of Interest to Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- ii. Number of Interest Payment Dates: []
- iii. Interest Payment Date(s): [The [] day in the months of [] and [] in each year up to and including the Maturity Date]. First Interest Payment Date being [].
- iv. Day Count Fraction: [30/360] [specify other]
- v. Principal Repayment(s): An amount calculated by the Issuer on each Interest Payment Date by multiplying the nominal amount on the Issue Date with the Index Ratio and with the factor A, which is calculated according to the following formula:

$$A = \frac{r * (1 + r)^k - 1}{(1 + r)^n - 1}$$

Where

A = Principal repayment factor

$$r = \frac{C}{f}$$

c = The rate of interest of the relevant bond

f = The number of interest payments per year

n = Number of Interest Payment Dates

k = the number of payments that have already been made (k=0 on the Issue Date, k=1 on the first Interest Payment Date, k=n on the last Interest Payment Date, etc.)

vi. Interest Payment(s):

Interest is calculated on each Interest Payment date as the nominal amount on the Issue Date multiplied with the Index Ratio and with the factor I_k , which is calculated according to the following formula:

$$I_k = \frac{r * \left[(1+r)^n - (1+r)^{k-1} \right]}{(1+r)^n - 1}$$

Where

I_k = Interest repayment factor for period k

$$r = \frac{c}{f}$$

c = The rate of interest of the relevant bond

f = The number of interest payments per year

n = Number of Interest Payment Dates

k = the number of payments that have already been made (k=0 on the Issue Date, k=1 on the first Interest Payment Date, k=n on the last Interest Payment Date, etc.)

vii. Payment(s):

On each Interest Payment Date the sum of the relevant Principal Repayment and the Interest Payment.

viii. Calculation Agent: [Issuer] [*specify other*]

ix. Index Ratio: The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Issuer:

$$IR = \frac{RI_t}{BI}$$

where:

Reference Index or **RI_t** means on each Interest Payment Date:

For each day in the calendar month and number RI rounded to 5 decimals:

$$RI = CP_{t-2} + \left[\frac{d-1}{D} * (CP_{t-1} - CP_{t-2}) \right]$$

where:

CP_{t-1} = CPI value for the first day of the preceding calendar month

CP_{t-2} = CPI value for the first day of the calendar month 2 months earlier

d = the relevant calendar date

D = number of calendar days in the relevant calendar month

Provided that if the Reference Index is lower than the Base Index, the Reference Index shall equal the Base Index.

And

Base Index means [*to be inserted*], being the value of the CPI on [*to be inserted*].

If at any time a new index is substituted for the CPI, as of the calendar month from and including that in which such substitution takes effect:

(i) the Reference Index shall be deemed to refer to the new index; and

(ii) the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

PROVISIONS RELATING TO INFLATION LINKED EQUAL

PRINCIPAL PAYMENT BONDS

17. Inflation Linked Equal Principal Payment

Bonds:

[Applicable/Not Applicable]

(if not applicable, delete the remaining subparagraphs of this paragraph)

- i. Rate(s) of Interest to Maturity Date: [] per cent. per annum payable annually in arrears

- ii. Number of Interest Payment Dates: [number of dates]
- iii. Interest Payment Date(s): [The [] day in [month] up to and including the Maturity Date]
- iv. Number of Principal Payment Dates: [Number of Interest Payment Dates/1]
- v. Principal Payment Date(s): [On each Interest Payment Date/Maturity Date]
- vi. Day Count Fraction: [Act/Act] *[specify other]*
- vii. Principal Repayment(s): An amount calculated by the Issuer on each Principal Payment Date by multiplying the Principal Amount Outstanding on the Issue Date with the Index Ratio and dividing with the number of principal Payment Dates.
- viii. Interest Payment(s): Interest is calculated on each Interest Payment date as the Principal Amount Outstanding on each Interest Payment Date multiplied with the Rate of Interest and, the appropriate Day Count Fraction.
- ix. Payments(s): On each Interest Payment Date the sum of the relevant Principal Repayment and the Interest Payment.
- x. Calculation Agent: [Issuer] *[specify other]*
- xi. Principal Amount Outstanding: On the relevant Interest Payment Date, the Principal Amount Outstanding is calculated based on the following formula:

$$PAO_t = (PAO_{t-1} - PR_{t-1}) \frac{IR_t}{IR_{t-1}}$$

where:

PAO_t means the Principal Amount Outstanding on the relevant Interest Payment Date.

PAO_{t-1} means the Principal Amount Outstanding on the preceding Interest Payment Date.

PR_{t-1} means the Principal Repayment on the preceding Interest Payment Date.

IR_t means the Index Ratio on the relevant Interest Payment Date.

IR_{t-1} means the Index Ratio on the preceding Interest Payment Date (Issue Date for the first Interest Payment Date).

xii. Index Ratio:

The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Issuer:

$$IR = \frac{RI_t}{BI}$$

where:

Reference Index or **RI_t** means on each Interest Payment Date:

For each day in the calendar month and number RI rounded to 5 decimals:

$$RI = CP_{t-2} + \left[\frac{d-1}{D} * (CP_{t-1} - CP_{t-2}) \right]$$

where:

CP_{t-1} = CPI value for the first day of the preceding calendar month

CP_{t-2} = CPI value for the first day of the calendar month 2 months earlier

d = the relevant calendar date

D = number of calendar days in the relevant calendar month

Provided that if the Reference Index is lower than the Base Index, the Reference Index shall equal the Base Index.

And

Base Index means [*to be inserted*], being the value of the CPI on [*to be inserted*].

If at any time a new index is substituted for the CPI, as of the calendar month from and including that in which such substitution takes effect:

- i. the Reference Index shall be deemed to refer to the new index; and
- ii. the new Base Index shall be the product of the existing Base Index and the Reference Index immediately following such substitution, divided by the Reference Index immediately prior to such substitution.

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18. Fixed Rate Bond Provisions:

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

i. Rate(s) of Interest to Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]

ii. Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/ [specify other]

(N.B. This will need to be amended in the case of long or short coupons)

iii. Day Count Fraction: [Actual/Actual (ISMA)/[specify other]]

iv. Other terms relating to the method of calculating interest for Fixed Rate Bonds: [None/Give details]

19. Floating Rate Bond Provisions:

[Applicable/Not Applicable]

(If not applicable, delete the remaining subparagraphs of this paragraph)

- i. Specified Period(s)/Specified Interest Payment Dates: []
- ii. Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- iii. Additional Business Centre(s): [Specify/None]
- iv. Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- v. Party responsible for calculating the Rate of Interest and Interest Amount: [Issuer/Other]
- vi. Screen Rate Determination:
 - Reference Rate: []
(Either LIBOR, EURIBOR, REIBOR or other, although additional information is required if 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 TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR) and second Reykjavik Business Day of each interest period if REIBOR
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

- vii. ISDA Determination:
- Floating Rate Option:
 - Designated Maturity:
 - Reset Date:
- viii. Margin(s) to Maturity Date: +/- per cent. per annum
- ix. Minimum Rate of Interest: per cent. per annum/Not Applicable]
- x. Maximum Rate of Interest: per cent. per annum/Not Applicable]
- xi. Day Count Fraction: Actual/Actual
 Actual/365
 Actual/365 (Fixed)
 Actual/365 (Sterling)
 Actual/360
 30/360
 30E/360
 Other]
- (See Condition 5.6 for alternatives)
- xii. Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Terms and Conditions:

- 20. Zero Coupon Bond Provisions:** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- i. Accrual Yield: [] per cent. per annum
 - ii. Reference Price: []
 - iii. Any other formula/basis of determining amount payable: []
 - iv. Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.6.b) and 7.10 apply/specify other]

PROVISIONS RELATING TO REDEMPTION

- 21. Issuer Call:** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (N.B. For Inflation Linked Annuity Bonds and Inflation Linked Equal Principal Payment Bonds, select "Applicable")*
- i. Optional Redemption Date(s): []
(N.B. For Inflation Linked Annuity Bonds and Inflation Linked Equal Principal Payment Bonds, select "Each Interest Payment Date")
 - ii. Optional Redemption Amount of each Bond and method, if any, of calculation of such amount(s): [[] per Bond of [] Specified Denomination] [*specify formula*] [Condition 7.6 (a) applies]

(N.B. For Inflation Linked Annuity Bonds and Inflation Linked Equal Principal Payment Bonds, select "Condition 7.6 (a) applies")
 - iii. Early Redemption Amount: [As set out in Condition 7.6]
 - iv. If redeemable in part:
 - v. Minimum Redemption Amount: []
 - vi. Maximum Redemption Amount: []
 - vii. Notice period (if other than as set out in the Terms and Conditions): []

(N.B. If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply)

22. Final Redemption Amount of each Bond:

per Bond of Specified Denomination/*specify other/see Appendix* [Not Applicable]

(N.B. For Inflation Linked Annuity Bonds and Inflation Linked Equal Principal Payment Bonds, select "Not Applicable")

(N.B. In relation to any issue of Bonds which are expressed at paragraph 6 above to have a minimum denomination and tradable amounts above such minimum denomination which are smaller than it the following wording should be added: "For the avoidance of doubt, in the case of a holding of Bonds in an integral multiple of in excess of as envisaged in paragraph 6 above, such holding will be redeemed at its nominal amount".)

GENERAL PROVISIONS APPLICABLE TO THE BONDS

- 23. New Global Bond:** [Yes/No]
- 24. Form of Bonds:** [VS System Bonds]
- [Temporary Bearer Global Bond exchangeable for a Permanent Bearer Global Bond which is exchangeable for definitive Bonds [on 60 days' notice given at any time/only after an Exchange Event]]
- [Temporary Bearer Global Bond exchangeable for definitive Bonds on and after the Exchange Date]
- [Permanent Bearer Global Bond exchangeable for definitive Bonds [on 60 days' notice given at any time/only after an Exchange Event]]¹
- [Registered Bond]
- 25. Additional Financial Centre(s) or other special provisions relating to Payment Days:** [Not Applicable/*give details*]
- (Note that this item relates to the place of payment and not Interest Period end dates)*
- 26. Talons for future Coupons or Receipts to be attached to definitive Bonds (and dates on which such Talons mature):** [Yes/No. *(If yes, give details)*]

¹ The option to exchange a Temporary or Permanent Global Bond for a Definitive Bond on 60 days' written notice which may be given at any time will only be available to Bondholders where (a) drawdowns are issued in denominations that are a multiple of the minimum denomination traded by Euroclear and Clearstream, Luxembourg or (b) in circumstances where the Bondholder's share is an integral of the minimum denomination traded by Euroclear and Clearstream, Luxembourg.

27. Details relating to Partly Paid Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Bonds and interest due on late payment:

[Not Applicable/give details. N.B. a new form of Temporary Global Bond and/or Permanent Global Bond may be required for Partly Paid issues]

28. Details relating to Instalment Bonds:

i. Instalment Amount(s): [Not Applicable/give details]

ii. Instalment Date(s): [Not Applicable/give details]

29. Redenomination applicable:

Redenomination [not] applicable

(if Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))

30. Other final terms:

[Not Applicable/give details]

(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for supplements to the Base Prospectus under Article 23 of the Prospectus Regulation.)

DISTRIBUTION

31.

i. If syndicated, names of Managers : [Not Applicable/give names]

ii. Stabilising Manager (if any): [Not applicable/give name]

32. If non-syndicated, name of relevant Dealer: []

33. Additional selling restrictions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading, the issue of Bonds described herein pursuant to the ISK 100,000,000,000 Bond Programme of Íslandsbanki hf.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[] 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].

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- i. Listing: [NASDAQ Iceland/other (*specify*)/None]
- ii. Admission to trading: [Application has been made for the Bonds to be admitted to trading on [] [with effect from []].] [Not Applicable.]

2. RATING

[Not Applicable/The Bonds to be issued have been rated:

[S & P: [•]]

[Moody's: [•]]

[Fitch: [•]]

[Other: [•]]

[*Need to include here a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.*]

[*The above disclosure should reflect the rating allocated to Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)]

3. NOTIFICATION

[The [*name of competent authority in home Member State*] [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Regulation. / Not Applicable]

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

[Save for any fees payable to the [Managers/Dealer/Advisor], so far as the Issuer is aware, no person involved in the issue of the Bonds has an interest material to the issue. – *Amend as appropriate if there are other interests*]

5. USE OF PROCEEDS, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- I. Use of proceeds: [For general funding purposes of the Issuer]
- [The Bonds constitute Sustainability Instruments and an amount equal to the net proceeds of the issue of the Bonds will be used to finance or refinance, in whole or in part, the Issuer's investments in Eligible Assets (being [Green] [and/or] [Blue] [and/or] [Social] Project[s]), as further described in the Issuer's Sustainable Financing Framework dated 28 October 2020 (as amended or supplemented from time to time) available on the Issuer's website) [*For Sustainability Instruments only,*

include weblink for relevant framework and any other relevant information]

[Specify other]

II. Estimated net proceeds: []

III. Estimated total expenses:
[]

6. YIELD *(Fixed Rate Bonds only)*

Indication of yield: []

[Calculated as on the Issue Date.

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. HISTORIC INTEREST RATES *(Floating Rate Bonds Only)*

Details of historic [LIBOR/EURIBOR/REIBOR/other] rates can be obtained from [Telerate].

8. PERFORMANCE OF CPI, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING *(Inflation Linked Annuity Bonds and Inflation Linked Equal Principal Payment Bonds Only)*

The general cash-flow of the Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 16 and 17 of Part A of this Final Terms.

Information about the CPI can be obtained from the website of Statistics of Iceland, <https://www.statice.is/statistics/economy/prices/consumer-price-index>.

9. OPERATIONAL INFORMATION

- i. ISIN Code: []
- ii. Common Code: []
- iii. CFI Code []
- iv. FISN Code []
- v. Any clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- vi. Delivery: Delivery [against/free of] payment
- vii. Names and addresses of additional Paying Agent(s) (if any): []
- viii. Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No].
[Note that the designation “yes” simply means that the Bonds are intended upon issue to be deposited with one of the CSDs as common safekeeper and does not necessarily mean that the Bonds 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 satisfaction of the Eurosystem eligibility criteria.][include this text if “yes” selected in which case the Bonds must be issued in NGN form]

5. TERMS AND CONDITIONS OF THE BONDS

The following are the Terms and Conditions of the Bonds which will be incorporated by reference into each Bond (as defined below). The applicable Final Terms in relation to any Tranche of Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Bonds. Reference should be made to "Form of the Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Bonds.

This Bond is one of a Series (as defined below) of Bonds issued by Íslandsbanki hf. (the **Issuer**).

Interest bearing Bonds: Interest bearing definitive Bearer Bonds have interest coupons (**Coupons**) and, if specified in the applicable Final Terms, 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. Bonds repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue.

Final Terms: The final terms for this Bond (or the relevant provisions thereof) are set out in Part A of the Final Terms which are (except in the case of VS System Bonds) attached to or endorsed on this Bond. The Final Terms (or such relevant provisions thereof) must be read in conjunction with these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of this Bond. References to **the applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof).

As used herein, **Tranche** means Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Bonds together with any further Tranche or Tranches of Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the applicable Final Terms are available for viewing at the office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland and on the Issuer's website: <https://www.islandsbanki.is/en/landing/about/investor-relations>. Copies may be obtained from the Issuer.

Except where the context otherwise requires, capitalised terms used and not otherwise defined in these Terms and Conditions (including the preceding paragraphs) shall bear the meanings given to them in the applicable Final Terms.

1 DEFINITIONS

Interpretation: In these Conditions:

- 1.1 Bonds and Bondholder shall be deemed to include references to Coupons and Coupon-holders, respectively, where relevant;
- 1.2 If Talons are specified in the relevant Final Terms as being attached to the Bonds at the time of issue, references to Coupons shall be deemed to include references to Talons;
- 1.3 If Talons are not specified in the relevant Final Terms as being attached to the Bonds at the time of issue, references to Talons are not applicable;
- 1.4 Any reference to principal shall be deemed to include Final Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 8 (Taxation), any premium payable in respect of a Bond and any other amount in the nature of principal payable pursuant to these Conditions;
- 1.5 Any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 8 (Taxation) and any other amount in the nature of interest payable pursuant to these Conditions;

- 1.6 If an expression is stated in Condition 1 (Definitions) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to Bonds;
- 1.7 VS System Bonds are in dematerialised form, and any references in these Terms and Conditions to Coupons and Talons shall not apply to VS System Bonds and no global or definitive Bonds will be issued in respect thereof; and
- 1.8 If the Bonds are Zero Coupon Bonds, references to Coupons and Couponholders are not applicable.

Accrual Period	In accordance with Condition 5.6(c)(i), 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
Accrual Yield	In relation to a Zero Coupon Bond, the meaning given in the applicable Final Terms
Act on Contracts	The Icelandic Act on Contracts, Agency and Void Legal Instruments No. 7/1936, which came into effect 1 February 1936, as amended (<i>Icelandic: Lög um samninga, umboð og ógilda löggerninga nr. 7/1936</i>)
Act on Interest and Price Indexation	The Icelandic Act on Interest and Price Indexation No. 38/2001, which came into effect 1 July 2001, as amended (<i>Icelandic: Lög um vexti og verðtryggingu nr. 38/2001</i>)
Act on Financial Undertakings	The Icelandic Act on Financial Undertakings No. 161/2002 which came into effect 1 January 2003, as amended (<i>Icelandic: Lög um fjármálafyrirtæki nr. 161/2002</i>)
Act on Prospectus for Public Offering or Admission to Trading	Act No. 14/2020 on Prospectus to be published when securities are offered to the public or admitted to trading on a regulated market (<i>Ice. Lög um lýsingu verðbréfa sem boðin eru í almennu útboði eða tekin til viðskipta á skipulegum verðbréfamarkaði nr. 14/2020</i>).
Act on Securities Transactions	The Icelandic Act on Securities Transactions No. 108/2007 which came into effect 1 November 2007, as amended (<i>Icelandic: Lög um verðbréfaviðskipti 108/2007</i>)
Additional Business Centre	The meaning (if any) given in the applicable Final Terms
Additional Financial Centre	The meaning (if any) given in the applicable Final Terms
Amortised Face Amount	The meaning given in Condition 7.6(b)
Agency Agreement	Shall mean the agency agreement to be entered into between the Issuer, Fiscal Agent and other agents.
Annuity Amount	The meaning given in Condition 6.1(a)

Annuity Bonds	Bonds which will be redeemed in Annuity Amounts (subject to adjustment for indexation in accordance with the provisions specified in the applicable Final Terms) on one or more Interest Payment Dates as specified in the applicable Final Terms
Bankruptcy Act	The Icelandic Act on Bankruptcy etc., No. 21/1991 which came into effect 1 July 1992, as amended (<i>Icelandic: lög um gjaldþrotaskipti o.fl. nr. 21/1991</i>)
Base Prospectus	This Base Prospectus dated 2 July 2021
Bearer Bond	Means Bonds issued in bearer form
Business Day	As defined in Condition 5.6(a)
Bond	The Bonds issued or to be issued by the Issuer under the Programme
Bondholders	The holders for the time being of the Bonds
Bond Legislation	Act on Securities Transactions, any relevant executive orders and appurtenant regulations as may be supplemented, amended, modified or varied from time to time (as well as any judicial decisions and administrative pronouncements, all of which are subject to change, including with retroactive effect),
Business Day Convention	In respect of a Tranche of Bonds and either the Specified Periods or the Interest Payments Dates, the business day convention specified in the applicable Final Terms and determined in accordance with conditions 5.6(b)
BRRD	EU Bank Recovery and Resolution Directive No. 59/2014 (as amended).
Calculation Agent	The meaning (if any) given in the applicable Final Terms
Clearstream, Luxembourg	Clearstream Banking, société anonyme, 42 Avenue JF Kennedy L-1855, Luxembourg, or its successors
Common Depository	The common depository for Euroclear and Clearstream, Luxembourg
CPI	The consumer price indexation, as calculated by Statistics Iceland in accordance with the Act on Price Indexation No. 12/1995 (<i>Icelandic: Lög um vísitölu neysluverðs nr. 12/1995</i>) and published monthly in the Legal Gazette (<i>Icelandic: Lögbirtingablaðið</i>) in Iceland
Couponholders	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talon)

Coupons	Interest coupons in respect of definitive Bonds
CRA Regulation	Regulation (EC) No. 1060/2009 on Credit Rating Agencies (as amended).
CRD IV	Regulation (EC) No. 1060/2009 on Credit Rating Agencies (as amended).
CRR	EU regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (amending Regulation (EU) No 648/2012.)
CSD	Either Nasdaq CSD Iceland, with its registered office at Laugavegur 182, 105 Reykjavík, Iceland, or Verðbréfamiðstöð Íslands CSD, with its registered office at Fiskislóð 31 A, 101 Reykjavík, as specified in the applicable Final Terms.
CSD System Account Manager	
CSD System Bonds	Íslandsbanki hf. in its capacity as CSD system account manager and/or any other agent appointed by the Issuer from time to time in relation to the CSD System Bonds.
	Shall mean Bonds issued in a dematerialised, uncertified book entry form cleared through CSD.
Member States	A state which is a party to the Agreement on the European Economic Area or the European Free Trade Association Treaty, or the Faroe Islands
Dealer	Any dealer appointed by the Issuer (if any)
Designated Maturity	The meaning given in the ISDA Definitions
Determination Date	The meaning given in the applicable Final Terms
Determination Period	The meaning given in condition 5.6(d)
Directors	The directors for the time being of the Issuer as defined in the Icelandic Act No. 2/1995, on Limited Liability Companies (<i>Icelandic: lög um hlutafélög nr. 2/1995</i>)
Distribution Compliance Period	The period that ends 40 days after completion of the distribution of each Tranche of Bonds, as certified by the relevant Dealer
Early Redemption Amount	The amount calculated in accordance with Condition 7.6
EEA	European Economic Area
EEA Agreement	The Agreement on the European Economic Area (EEA) which entered into force in 1 January 1994 and was incorporated into Icelandic legislation with Act No. 2/1993 on European Economic Area (Ice. Lög um Evrópska efnahagssvæðið)
Equal Payment Amount	The meaning given in Condition 6.1(b)

Established Rate	Means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Community regulations) into other Specified Currency
EU	The European Union
EURIBOR	Euro-zone inter-bank offered rate
Euroclear	Euroclear Bank S.A./N.V., 1, Boulevard du Roi Albert II B - 1210 Brussels, or its successor
Final Redemption Amount	The meaning given in the applicable Final Terms
Final Terms	Each Tranche will be the subject to the Final Terms which, for the purposes of that Tranche only, completes the Terms and Conditions of the Bonds and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Bonds are the Terms and Conditions of the Bonds as completed, amended and/or replaced by the relevant Final Terms.
Fiscal Agent	Íslandsbanki hf., or any successor agent appointed as such
Fixed Rate Bonds	Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer
Floating Rate	The meaning given in the ISDA Definitions
Floating Rate Convention	The meaning given in Condition 5.6(b)(i)
Floating Rate Bonds	<p>Bonds which bear interest at a rate determined:</p> <p>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 ISDA Definitions; or</p> <p>on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</p> <p>on such other basis as may be agreed between the Issuer and the relevant Dealer, or</p> <p>(I) as set out in the applicable Final Terms</p>
Following Business Day Convention	(II) The meaning given in Condition 5.6(b)(ii)
FSA	(III) Financial Supervisory Authority of the Central Bank of Iceland

Global Bonds	Global Bonds comprising Temporary Global Bonds and Permanent Global Bonds
Group	The Issuer and its Subsidiaries
IFRS	International Financial Reporting Standards
Inflation Linked Annuity Bonds	Bonds, where the principal amount is adjusted for changes in the consumer price index according to the Final Terms, that pay an Annuity Amount on such date or dates as decided by the Issuer and set out in the Final Terms
Inflation Linked Equal Principal Payment Bonds	Bonds, where the principal amount is adjusted for changes in the consumer price index according to the Final Terms, that pay an Equal Payment Amount on such date or dates as decided by the Issuer and set out in the Final Terms
Instalment Amounts	In respect of Instalment Bonds, each amount specified as such in the applicable Final Terms
Instalment Bonds	Bonds which will be redeemed in Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms
Instalment Dates	In respect of Instalment Bonds, each date specified as such in the applicable Final Terms
Interest Amount	The amount of interest payable on the Floating Rate Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 5.4(d) or the amount of interest payable on Inflation Linked Annuity Bonds or Inflation Linked Equal Payment Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Conditions 5.1 and 5.2 respectively
Interest Commencement Date	In the case of interest-bearing Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Bonds will accrue interest
Interest Determination Date	In respect of Floating Rate Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms
Interest Payment Date	In respect of Fixed Rate Bonds, Inflation Linked Annuity Bonds and Inflation Linked Equal Payment Bonds, the meaning given in the applicable Final Terms and in respect of Floating Rate Bonds the meaning given in Condition 5.4(a)
Interest Period	In accordance with condition 5.6(e) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date
Investor's Currency	The currency or currency unit that an investor's financial activities are denominated in, other than the Specified Currency

ISDA	International Swaps and Derivatives Association, Inc.
ISDA Definitions	The meaning given in Condition 5.4(b)
ISDA Determination	If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Bonds is to be determined in accordance with Condition 5.4(b)
ISDA Rate	The meaning given in Condition 5.4(b)
ISK or Icelandic Krona or krónur	The lawful currency of the Republic of Iceland
Issue Date	Each date on which the Issuer issues a Tranche of Bonds under the Programme, as specified in the applicable Final Terms
Issue Price	The price, generally expressed as a percentage of the nominal amount of the Bonds, at which a Tranche of Bonds will be issued
Issuer	Íslandsbanki hf., ID.No. 491008-0160 and LEI code 549300PZMF1QR79Q0T97, having its registered office at Hagasmári 3, 201 Kópavogur, Iceland
Issuer Call	If specified as applicable in the applicable Final Terms, the provision by which the Issuer may redeem a Series of Bonds in accordance with Condition 7.3
LIBOR	London inter-bank offered rate
Margin	As specified in the applicable Final Terms (if any).
Maturity Date	As specified in the applicable Final Terms.
Maximum Rate of Interest	In respect of a Floating Rate Bond, the percentage rate per annum (if any) specified in the applicable Final Terms
Maximum Redemption Amount	The amount specified as such in the applicable Final Terms
Member State	A state which is a member of the European Economic Area
Minimum Rate of Interest	In respect of Floating Rate Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
Minimum Redemption Amount	The amount specified as such in the applicable Final Terms
Modified Following Business Day Convention	The meaning given in Condition 5.6(b)(iii)
MiFID	Market in Financial Instruments Directive 2004/39/EC (<i>Icelandic: Tilskipun Evrópuþingsins og Ráðsins 2004/39/EB</i>)
MiFID II	Markets in Financial Instruments Directive No. 2014/65/EC, published in the Icelandic EEA Government Gazette (<i>ice. Stjórnartíðindi</i>).
MiFID II Implementation Date	1 September 2021.

	law.
MREL	Minimum Requirement for own funds and Eligible Liabilities
NASDAQ Iceland	The regulated market of the NASDAQ Iceland hf. with its registered office at Laugavegur 182, 105 Reykjavík.
Optional Redemption Amount	The meaning (if any) given in the applicable Final Terms
Optional Redemption Date	The meaning (if any) given in the applicable Final Terms
Paying Agents	The Principal Paying Agent and any other paying agent appointed (if any)
Payment Day	The meaning given in Condition 6.4
Preceding Business Day Convention	The meaning given in Condition 5.6(b)(iv)
Principal Amount Outstanding	In accordance with condition 5.6(f) means in respect of a Bond, except an Inflation Linked Annuity Bond and an Inflation Linked Equal Principal Payment Bond on any day, the principal amount of that Bond on the relevant Issue Date thereof less principal amounts received by the relevant Bondholder in respect thereof on or prior to that day and in respect of an Inflation Linked Annuity Bond and an Inflation Linked Equal Payment Bond, the meaning given in the applicable Final Terms
Principal Paying Agent	The Issuer, Íslandsbanki hf.
Programme	ISK 100,000,000,000 bond programme established by the Issuer on the Issue Date
Prospectus Regulation	Regulation (EU) 2017/1129 (Ice. Reglugerð Evrópuþingsins og Ráðsins (ESB) 2017/1129) as amended, if applicable.
Rate of Interest	In respect of a Series of interest-bearing Bonds, the rate of interest payable from time to time in respect of such Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms
Redeemed Bonds	The meaning given in Condition 7.3
Reference Price	In respect of a Zero Coupon Bond, the meaning given in the applicable Final Terms
Reference Rate	In respect of Floating Rate Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms
Registrar	Any registrar to be appointed in accordance with an Agency Agreement
Registered Bond	Means Bonds issued in registered form.
Regulation S	Regulation S under the US Securities Act

REIBOR	Reykjavík Inter Bank Offering Rate
Relevant Screen Page	In respect of Floating Rate Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms
Reset Date	The Meaning given in the ISDA Definitions
EU Savings Directive	The European Council Directive 2003/48/EC
Screen Rate Determination	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Bonds is to be determined in accordance with Condition 5.4(b)
Selection Date	The meaning given in Condition 7.3
Senior Debt	Debt that takes priority over other unsecured or subordinated debt owed by the Issuer
Series	A Tranche of Bonds together with any further Tranche or Tranches of Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices
Specified Currency	Subject to any applicable legal or regulatory restrictions, ISK, euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer and the Principal Paying Agent and specified in the applicable Final Terms.
Specified Denomination	In respect of a Series of Bonds, the denomination or denominations of such Bonds at the minimum amount of EUR 50,000 as specified in the applicable Final Terms
Specified Interest Payment Date	In respect of Floating Rate Bonds, the meaning (if any) given in the applicable Final Terms
Subsidiary	Means an entity from time to time of which the Issuer (a) has direct or indirect control or (b) owns directly or indirectly more than 50 per cent of the share capital or similar ownership; "control" for this purpose means the power to direct the management and the policies of the entity, whether through the ownership of voting capital, by contract or otherwise.
Sub-Unit	The meaning given in Condition 5.6(g)
Sustainability Instruments	Means Bonds issued to finance or refinance, in whole or in part, the Issuer's investments in Eligible Assets, as further described in the applicable Final Terms and the Issuer's Sustainable Financing Framework dated 28 October 2020 (as amended or supplemented from time to time).
Talons	Talons for further Coupons in respect of interest-bearing definitive Bonds

TARGET System	The meaning given in Condition 5.6(a)
Temporary Bearer Global Bond	The temporary global bond in bearer form which will initially represent the Bearer Bond of each Tranche
Terms and Conditions or Conditions	The terms and conditions of the Bonds
US Securities Act	U.S. Securities Act of 1933, as amended
Tranche	An issue of Bonds which are identical in all respects (including as to listing and admission to trading)
VS System Bonds	Means Bonds issued in uncertificated book entry form cleared through the CSD, Euroclear, Clearstream and/or, in relation to any Tranche of Bonds, any other clearing system as may be specified in the relevant Final Terms (as the case may be)
VP LUX	Means VP Lux S.à. r.l., 32, Boulevard Royal, L-2449 Luxembourg, or its successors.
Yen or JPY	The lawful currency for the time being of Japan
Zero Coupon Bonds	Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest
€, Euro or euro	The currency introduced at the start of the third stage of European economic monetary union pursuant to the Treaty
£ or Sterling	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
\$, U.S.\$ or U.S. Dollars or US Dollars	The lawful currency for the time being of the United States of America

2 FORM, DENOMINATION AND TITLE

Form of the Bonds: The Bonds are issued in bearer form (the Bearer Bonds), or, in the case of VS System Bonds, uncertificated book entry form, as specified in the applicable Final Terms and, in the case of definitive Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). The Bonds are in Specified Currency and the Specified Denomination(s). Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination.

The Bonds may be an Inflation Linked Annuity Bond, an Inflation Linked Equal Principal Payment Bond, a Fixed Rate Bond, a Floating Rate Bond, a Zero Coupon Bond or a combination of any of the foregoing, depending upon the Interest Basis and Redemption/Payment Basis shown in the applicable Final Terms.

Interest bearing definitive Bearer Bonds have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless context otherwise requires, be deemed to include a reference to Talons or talons. Definitive

Bearer Bonds repayable in instalments have receipts (“**Receipts**”) for the payment of the instalments of principal (other than the final instalment) attached on issue.

Each Tranche of Bonds issued in the form of Bearer Bonds will initially be represented by a Temporary Bearer Global Bond without Coupons, Receipts or Talons which will (i) if the global Bonds are intended to be issued in a new global Bond form (“**NGBF**”), as specified in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg; and (ii) if the global Bonds are not intended to be issued in NGBF, be delivered on or prior to the original issue date of the Tranche to a Common Depository for, Euroclear and Clearstream, Luxembourg. Interests in the Temporary Bearer Global Bond will be exchanged either for interests in a Permanent Bearer Global Bond or, where specified in the applicable Final Terms (subject to such notice period as is specified in the Final Terms), for definitive Bearer Bonds on or after the date (the “**Exchange Date**”) which is the later of (i) 60 days after the Temporary Bearer Global Bond is issued and (ii) 60 days after completion of the distribution of the relevant Tranche, 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). Such exchange will be made only upon delivery of written certification to Euroclear and/or Clearstream, Luxembourg, as the case may be, to the effect that the beneficial owner of such Bonds is not a U.S. person or other person who has purchased such Bonds for resale to, or on behalf of, U.S. persons and Euroclear and/or Clearstream, Luxembourg, as the case may be, and has given a like certification (based on the certification it has received) to the Fiscal Agent.

If an interest or principal payment date for any Bonds occurs whilst such Bonds are represented by a Temporary Bearer Global Bond, the related interest or principal payment will be made only to the extent that certification of non-U.S. beneficial ownership has been received as described in the last sentence of the immediately preceding paragraph unless such certification has already been given. The holder of a Temporary Bearer Global Bond will not be entitled to collect any payment of interest or principal due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Bond is improperly withheld or refused. Payment of principal or interest (if any) on a Permanent Bearer Global Bond will be made through Euroclear or Clearstream, Luxembourg (against presentation or surrender, as the case may be, of the Permanent Bearer Global Bond if the Permanent Bearer Global Bond is not intended to be issued in NGBF form) without any further requirement for certification. Pursuant to the Agency Agreement the Fiscal Agent shall arrange that, where a further Tranche of Bonds is issued, the Bonds of such Tranche shall be assigned a common code and ISIN by Euroclear and Clearstream, Luxembourg which are different from the common code and ISIN assigned to Bonds of any other Tranche of the same Series until at least expiry of the Distribution Compliance Period applicable to the Bonds of such Tranche.

The applicable Final Terms will specify that either (i) a Permanent Bearer Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Bonds with, where applicable, Receipts, Coupons and Talons attached upon not less than 60 days’ written notice from Euroclear and (or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Bond) to the Fiscal Agent as described therein or (ii) a Permanent Bearer Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Bonds with, where applicable, Receipts, Coupons and Talons attached only upon the occurrence of an Exchange Event as described therein. “Exchange Event” means (i) the Issuer has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Issuer, the Fiscal Agent, the other Paying Agents and the Bondholders is available or, unless otherwise specified in the applicable Final Terms, (ii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 (Taxation) which would not be required were the Bonds represented by the Permanent Bearer Global Bond in definitive bearer form and a certificate to such effect signed by two Directors of the Issuer has been given to the Fiscal Agent. The Issuer will promptly give notice to Bondholders in accordance with Condition 11 (Notices) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Bond) or the Bondholders may give notice to the Fiscal Agent requesting exchange and in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Fiscal Agent

and the Bondholders requesting exchange. Any such exchange shall occur not later than 30 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all bearer Bonds, Coupons, Receipts and Talons which have an original maturity of more than 365 days:

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

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

Unless otherwise provided with respect to a particular Series of Registered Bonds, the Registered Bonds of each Tranche of such Series 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 Regulation S Global Bond which will be deposited with a custodian for, and registered in the name of a nominee of, a Depository Trust Company (the “DTC”) or common safekeeper as the case may be for the accounts of Euroclear and Clearstream, Luxembourg. Prior to expiry of the Distribution compliance Period applicable to each Tranche of Bond, beneficial interests in a Reg. S. Global Bond 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 (Form, Denomination and Title) and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Reg. S Global Bond will bear a legend regarding such restrictions on transfer.

Registered Bonds of each Tranche of such Series may only be offered and sold in the United States or to U.S. persons in private transactions to Qualified Institutional Buyers (“QIB”). The Registered Bonds of each Tranche sold to QIBs will be represented by a Restricted Global Bond which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.

Persons holding beneficial interests in Registered Global Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Bonds in fully registered form.

Payments of principal on the Registered Bonds will be made on the relevant payment date to the persons shown on the Register at the close of business on the business day (being for this purpose a day on which banks are open for business in Brussels) immediately prior to the relevant payment date. Payments of interest on the Registered Bonds will be made on the relevant payment date to the person in whose name such Bonds, Receipts and Coupons)) immediately preceding such payment date.

Payments of the principal of, and interest (if any) on, the Registered Global Bonds will be made to the nominee of DTC as the registered holder of the Registered Global Bonds. 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 made on account of beneficial ownership interests in the Registered Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

For so long as any of the Bonds are represented by a Bearer Global Bond held on behalf of Euroclear and/or Clearstream, Luxembourg, or so long as DTC or its nominee is the registered holder of a Registered Global Bond or so long as the Bond is a VS Systems Bond, each person who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg, DTC, or the CSD, as the case may be, as the holder of a particular nominal amount of such Bonds (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg, DTC or its nominee, or the CSD as to the nominal amount of such Bonds 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, the Fiscal Agent and any other Paying Agent as the holder of such nominal amount of such Bonds for all purposes other than (in the case only of Bonds not being VS System Bonds) with respect to the payment of principal or interest on the Bonds, for which purpose, in the case of Bonds represented by a Bearer Global Bond, the bearer of the relevant Global Bearer Bond, or in the case of Bonds where DTC or its nominee is the registered holder of a Registered Global Bond, DTC or its nominee shall be treated by the Issuer, the Fiscal Agent and any other Paying Agent as the holder of such Bonds in accordance with and subject to the

terms of the relevant global Bond (and the expressions “**Bondholder**” and “**holder of Bonds**” and related expressions shall be construed accordingly).

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

No beneficial owner of an interest in a Registered Global Bond will be able to exchange or transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

Each Tranche of VS System Bonds will be issued in uncertificated and dematerialised book entry form. Legal title to the VS Systems Bonds will be evidenced by book entries in the records of CSD or VP LUX. Settlement of sale and purchase transactions in respect of VS System Bonds in the CSD or VP LUX will take place in accordance with market practice at the time of the relevant transaction. Transfers of interests in the relevant VS System Bonds will take place in accordance with the rules and procedures for the time being of the CSD or VP LUX.

Bonds that are represented by a global Bond and VS System Bonds will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream, VP LUX and/or CSD, (as the case may be). References to Euroclear, Clearstream, VP LUX and/or the CSD, (as the case may be) shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer.

Title to the Bearer Bonds, Receipts and Coupons will pass by delivery. The Issuer may deem and treat the bearer of any Bearer Bond, Receipt or Coupon 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. Title to the VS System Bond will pass by registration in the registers between the direct or indirect accountholders at the CSD or VP LUX in accordance with the rules and procedures of the CSD or VP LUX.

3 STATUS OF THE BONDS

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank pari passu among themselves and with all other obligations of the Issuer that have been provided the same priority (save for certain obligations required to be preferred by law) (other than subordinated obligations, if any), from time to time outstanding and will rank pari passu with the claims of all other unsubordinated creditors of the Issuer (other than those preferred by law) in all other respects. The cost of bankruptcy administration will rank ahead of claims for payments of the Bonds.

4 REDENOMINATION

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Bondholders, the Receiptholders and the Couponholders, but after at least 30 days' prior notice to the Bondholders in accordance with Condition 11, elect that, with effect from the Redenomination Date specified in the notice, the Bonds shall be redenominated in euro or other Specified Currency.

The election will have effect as follows:

- 4.1 the Bonds shall be deemed to be redenominated into euro or other Specified Currency in the denomination of euro 0.01 or as applicable to other Specified Currency with a principal amount for each Bond equal to the principal amount of that Bond in the Specified Currency, converted into euro or other Specified Currency at the Established Rate, provided that, if the Issuer determines, that the then market practice in respect of the redenomination into euro or other Specified Currency of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be

amended so as to comply with such market practice and the Issuer shall promptly notify the Bondholders, the stock exchange (if any) on which the Bonds may be listed of such deemed amendments;

- 4.2 save to the extent that an Exchange Notice has been given in accordance with paragraph 5.4 below, the amount of interest due in respect of the Bonds will be calculated by reference to the aggregate principal amount of Bonds presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01 or as applicable in the relevant Specified Currency;
- 4.3 if definitive Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer in the denominations as the Issuer shall determine and notify to the Bondholders;
- 4.4 if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Bonds) will become void with effect from the date on which the Issuer gives notice (the Exchange Notice) that replacement euro-denominated Bonds, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Bonds and Receipts so issued will also become void on that date although those Bonds and Receipts will continue to constitute valid exchange obligations of the Issuer. New redenominated Bonds, Receipts and Coupons will be issued in exchange for Bonds, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Bonds;
- 4.5 after the Redenomination Date, all payments in respect of the Bonds, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in the redenomination currency;
- 4.6 if the Bonds are Fixed Rate Bonds, Inflation Linked Annuity Bonds or Inflation Linked Equal Principal Payment Bonds, and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, 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; and
- 4.7 if the Bonds are Floating Rate Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

5 INTEREST

5.1 Interest on Inflation Linked Annuity Bonds

Each Inflation Linked Annuity Bond bears interest on its nominal amount outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest shall be

calculated as defined under Interest Payment(s) in the applicable Final Terms and rounding the resultant figure to the nearest amount in the Specified Currency. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by using the same methodology as described for Interest Payment(s) in the applicable Final Terms.

5.2 Interest on Inflation Linked Equal Principal Payment Bonds

Each Inflation Linked Equal Principal Payment Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest shall be calculated as defined under Interest Payment(s) in the applicable Final Terms and rounding the resultant figure to the nearest amount in the Specified Currency. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by using the same methodology as described for Interest Payment(s) in the applicable Final Terms.

5.3 Interest on Fixed Rate Bonds

Each Fixed Rate Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest.

Interest shall be calculated as defined under Interest Payment(s) in the applicable Final Terms and rounding the resultant figure to to the nearest amount in the Specified Currency. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

The Issuer will calculate the amount of interest (each an Interest Amount) payable on the Fixed Rate Bonds in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

5.4 Interest on Floating Rate Bonds

a) Interest Payment Dates

Each Floating Rate Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, 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, 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 Terms and 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)

b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Bonds will be determined in the manner specified in the applicable Final Terms.

ISDA Determination for Floating Rate Bonds

Where ISDA Determination is specified in the applicable Final Terms 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) 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 Principal Paying Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 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 Bonds (the **ISDA Definitions**), and under which:

- (i) the Floating Rate Option is as specified in the applicable Final Terms;
- (ii) the Designated Maturity is the period specified in the applicable Final Terms; and
- (iii) unless otherwise stated in the applicable Final Terms, the relevant Reset Date is the first day of that Interest Period.

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.

Screen Rate Determination for Floating Rate Bonds

Where Screen Rate Determination is specified in the applicable Final Terms 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:

- (i) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (ii) 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 as at 11.00 a.m. (Iceland time, in the case of REIBOR, London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Issuer. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Issuer for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Bonds will be determined as provided in the applicable Final Terms.

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

If the applicable Final Terms for a Floating Rate Bond specifies 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 for a Floating Rate Bond specifies 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 Issuer 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 Issuer will calculate the amount of interest (each an Interest Amount) payable on the Floating Rate Bonds, Inflation Linked Annuity Bond or Inflation Linked Equal Principal Payment Bonds, in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

e) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.4, shall (in the absence of wilful default, bad faith or manifest error as aforesaid) be binding on the Issuer and all Bondholders, Receiptholders and Couponholders.

5.5 Accrual of interest

Each Bond (or in the case of the redemption of part only of a Bond, that part only of such Bond) 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 Bond have been paid; and
- b) five days after the date on which the full amount of the moneys payable in respect of such Bond has been received by the Principal Paying Agent and notice to that effect has been given to the Bondholders in accordance with Condition 11.
- c) In the case of Bonds which are Zero Coupon Bonds, for the purposes of this Condition 5.5 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

In the event of non-payment of a Zero Coupon Bond, interest will accrue as provided in Condition 7.10.

5.6 *Business Day, Business Day Convention, Day Count Fraction and other adjustments*

- a) In these Terms and Conditions, **Business Day** means:
- (i) 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, Reykjavík and any Additional Business Centre specified in the applicable Final Terms; and
 - (ii) either (A) 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 as specified in Applicable Final Terms (if other than London, Reykjavík and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open.
- b) If a **Business Day Convention** is specified in the applicable Final Terms 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:
- (i) in any case where Specified Periods are specified in accordance with Condition 5.4 (a), **the Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (2) below shall apply mutatis mutandis, or (2) 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 (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) 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
 - (ii) **the Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
 - (iii) **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
 - (iv) **the Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
- if **Actual/Actual (ISDA)** is specified in the applicable Final Terms:
- (i) in the case of Bonds 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 (as defined in Condition 5.6. (d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming that interest was to be payable in respect of the whole of that year; or

- (ii) in the case of Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) 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 (II) 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;

if **Actual/365** is specified in the applicable Final Terms, 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);

if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

if **Actual/365 (Sterling)** is specified in the applicable Final Terms, 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;

if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

if **30/360, 360/360 or Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless, in the case of Floating Rate Bonds only, (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));

if **30E/360 or Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); or

such other Day Count Fraction as may be specified in the applicable Final Terms.

- d) **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).

- e) **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.
- f) **Principal Amount Outstanding** means, in respect of a Bond except an Inflation Linked Annuity Bond and an Inflation Linked Equal Payment Bond, on any day the principal amount of that Bond on the Issue Date less principal amounts (if any) received by the holder of such Bond in respect thereof on or prior to that day. In respect of an Inflation Linked Annuity Bond and an Inflation Linked Equal Payment Bond, the meaning given in the applicable Final Terms.
- g) **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, euro 0.01.

6 PAYMENTS

6.1 Payments in respect of Inflation Linked Bonds

- a) Payments in respect of Inflation Linked Annuity Bonds

In case of an Inflation Linked Annuity Bond, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, and interest due (together, the **Annuity Amount**) as calculated by the Calculation Agent in accordance with the formula specified in the applicable Final Terms.

- b) Payments in respect of Inflation Linked Equal Principal Payment Bonds

In case of an Inflation Linked Equal Payment Bond, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, and interest due (together, the **Equal Payment Amount**) as calculated by the Calculation Agent in accordance with the formula specified in the applicable Final Terms.

6.2 Method of payment

Subject as provided below payments in a Specified Currency will be made:

- a) by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency, or
- b) by credit or transfer to an account in any other Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency which shall be converted into such Specified Currency at the date of payment using the spot rate of exchange for the purchase of such currency against payment of ISK being quoted by the Fiscal Agent.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 8.

6.3 Presentation of Bonds and Coupons

- a) Bonds: Payments of principal in respect of definitive Bearer Bonds will (subject as provided below) be made in the manner provided in Condition 6.2 (Method of Payment) above only against presentation and surrender (or in the case of part payment of any sum due only, endorsement) of definitive Bearer Bonds, and payment of interest in respect of definitive Bearer Bonds 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 only, 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, its territories, its possessions and other areas subject to its jurisdiction)).

- b) Coupons for Fixed Rate Bonds: Fixed Rate Bonds in definitive bearer form (other than, Inflation-Linked Bonds) 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 ten years after the Relevant Date (as defined in Condition 8 (Taxation)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (Prescription)).

Up on any Fixed Rate Bond 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.

- (i) Coupons for Floating Rate, Inflation-Linked Bonds: Upon the date on which any Floating Rate Bond or Inflation-Linked Bond 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.
- (ii) Payments other than in respect of Matured Coupons: If the due date for redemption of any definitive Bearer Bond is not an Interest Payment Date, interest (if any) accrued in respect of such definitive Bearer Bond from (and including) the preceding Interest Payment Date of Interest Commencement Date, as the case may be, shall be payable only against surrender of the relevant definitive Bearer Bond.
- (iii) VS System Bonds: Payments of principal and interest in respect of VS System Bonds will be made to the Bondholders shown in the relevant records of the CSD, VP LUX or Clearstream/Euroclear (as the case may be) in accordance with and subject to the rules and regulations from time to time governing the CSD, VP LUX or Euroclear/Clearstream (as the case may be).

6.4 Payment Day

If the date for payment of any amount in respect of any Bond, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any 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:
- the relevant place of presentation;
 - Reykjavík; and
 - any Additional Financial Centre specified in the applicable Final Terms.
- (i) either (i) 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 (if other than the place of presentation, Reykjavík and any Additional Financial Centre) or (ii) in relation to any sum payable in euro, a day on which the TARGET System is open.

(ii) Interpretation of principal

Any reference in these Terms and Conditions to principal in respect of the Bonds shall be deemed to include, as applicable:

the Final Redemption Amount of the Bonds;

the Early Redemption Amount of the Bonds;

the Optional Redemption Amount(s) (if any) of the Bonds;

in relation to Bonds (other than Inflation Linked Annuity Bonds or Inflation Linked Equal Principal Payment Bonds) redeemable in instalments, the Instalment Amounts;

in relation to Zero Coupon Bonds, the Amortised Face Amount (as defined in Condition 7.6); and

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

7 REDEMPTION AND PURCHASE

7.1 Redemption of Inflation Linked Annuity Bonds and Inflation Linked Equal Payment Bonds

Unless previously redeemed or purchased and cancelled, each Inflation Linked Annuity Bond and each Inflation Linked Equal Payment Bond will, subject to Condition 6.1(a) or (b) (as applicable), be redeemed in one or more amounts, calculated in accordance with the formula specified in the applicable Final Terms, in the relevant Specified Currency on the relevant Interest Payment Dates.

7.2 Final Redemption

Unless previously redeemed or purchased and cancelled, each Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Final Maturity Date.

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

If an Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than 15 nor more than 30 days' notice to the Bondholders in accordance with Condition 11 (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms 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. In the case of a partial redemption of Bonds, the Bonds to be redeemed (**Redeemed Bonds**) will be selected individually without involving any part only of a Bearer Bond, in the case of Redeemed Bonds represented by definitive Bonds, and in accordance with the rules of Euroclear and/or Clearstream, (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in nominal amount, at their discretion) and in accordance with the rules of the CSD or any other relevant clearing system (as the case may be) in the case of VS System Bonds in each case 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 Bonds represented by definite Bonds, a list of the serial numbers of such Redeemed Bonds will be published in accordance with Condition 11 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Bonds represented by definitive Bonds shall bear the same portion to the aggregate nominal amount of all Redeemed Bonds as the aggregate nominal amount of definite Bond outstanding bears to the aggregate nominal amount of the Bonds outstanding, in each case on the Selection Date. No exchange of the relevant Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.3 and notice to that effect shall be given by the Issuer to the Bondholders in accordance with Condition 11 at least five days prior to the Selection Date.

7.4 Redemption due to illegality or invalidity

If the Bonds become illegal and/or invalid, the Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 or more than 60 days' notice to all Bondholders (which notice shall be irrevocable).

Bonds redeemed pursuant to this Condition 7.4 will be redeemed at their Early Redemption Amount referred to in Condition 7.6 together (if appropriate) with interest accrued (and, if this is an Inflation Linked Annuity Bond or an Inflation Linked Equal Principal Payment Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms) to (but excluding) the date of redemption.

7.5 Certification

The publication of any notice of redemption pursuant to Condition 7.3 or 7.4 shall include a certificate signed by two Directors of the Issuer stating that the Issuer is entitled or required 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 the certificate shall be sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all Bondholders, Receiptholders and Couponholders.

7.6 Early Redemption Amounts

For the purpose of Condition 7.4, each Bond will be redeemed at its Early Redemption Amount calculated as follows:

- a) in the case of a Bond (other than a Zero Coupon Bond but including an Instalment Bond), at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding (and, in the case of an Inflation Linked Annuity Bond or an Inflation Linked Equal Principal Payment Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms); or
- b) in the case of a Zero Coupon Bond, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is 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 Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Bond

becomes due and repayable and the denominator of which is 360, or on such other calculation basis as may be specified in the applicable Final Terms.

7.7 Instalments

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.6.

7.8 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Bonds at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Bondholders alike. Subject to the provision below, such Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to the Issuer for cancellation.

7.9 Cancellation

All Bonds which are redeemed will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Bonds so cancelled and any Bonds purchased and surrendered for cancellation pursuant to Condition 7.8 and cancelled (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the the Issuer and in the case of VS System Bonds shall be deleted from the records of the CSD, VP LUX or any other relevant clearing system (as the case may be) and cannot be reissued or resold.

7.10 Late Payment on Zero Coupon Bonds

If the amount payable in respect of any Zero Coupon Bond upon redemption of such Zero Coupon Bond pursuant to Conditions 7.2, 7.3 or 7.4 above, the amount due and repayable in respect of such Zero Coupon Bond 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 Bond 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 Bond 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 Bonds has been received by the Issuer and notice to that effect has been given to the Bondholders in accordance with Condition 11.

7.11 Redemption for Tax Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time or on any Interest Payment Date, on giving not less than 30 nor more than 60 days' notice to the CSD and, in accordance with Condition 11 (Notices), the Bondholders (which notice shall be irrevocable), if:

- a) on the occasion of the next payment due under the Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (Taxation) as a result of any change in, or amendment to, the laws or regulations in Iceland or any political subdivision or any authority thereof or any authority or agency therein having power to tax, or any change in the application or official interpretation of such laws or regulation, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Bonds; and
- b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

Bonds redeemed pursuant to this Condition 7.11 will be redeemed at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8 TAXATION

All payments of principal and interest in respect of the Bonds and Coupons by the Issuer will be made without, or deduction for or on account of, any present or future taxes, duties assessments or governmental charges of whatever nature imposed or levied by or on behalf of Iceland or any political subdivision or any authority or agency thereof or therein having power to tax unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amount as shall be necessary in order that the net amounts received by the holders of the Bonds and 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 Bonds 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 Bond or Coupon:

- a) in respect of any demand made for payment in Iceland; or
- b) in respect of any demand made for payment by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of it having some connection with Iceland other than the mere holding of such Bond or Coupon; or
- c) in respect of any demand made for payment more than thirty 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 making such demand for payment on or before the expiry of such period of thirty days; or
- d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- e) in respect of any demand made for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by making a demand in respect of the Bond or Coupon to another Paying Agent in a Member State of the European Union.

As used herein the “**Relevant Date**” means the date on which such payment first becomes due.

9 PRESCRIPTION

The Bonds, Receipts and Coupons will become void in accordance with Act on the Expiration of Debt and other Obligations No. 150/2007 (*Icelandic: Lög um fyrningu kröfuréttinda nr. 150/2007*) unless presented for payment within 10 years (in the case of principal) and four years (in the case of interest or any other amount) after the Relevant Date (as defined below).

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 6.3 or any Talon which would be void pursuant to Condition 6.3.

For the purposes of these Terms and Conditions, **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent 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 Bondholders in accordance with Condition 11.

10 EVENTS OF DEFAULT

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

- a) if default is made in the payment of any principal or interest due in respect of the Bonds 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 Bondholder on the Issuer of notice requiring the same to be remedied; or
- c) if (i) any Financial Indebtedness (as defined below) of the Issuer becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer fails to make any payment in respect of any Financial Indebtedness on the due date for payment; (iii) any security given by the Issuer for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Issuer 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.\$5,000,000 (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
- e) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, or the Issuer 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 under any applicable liquidation, insolvency, composition, reorganisation 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 or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer 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 14 days; or
- g) if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation 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 Bond may, by written notice to the Issuer, effective upon the date of receipt thereof by the Issuer, declare any Bond 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 these Conditions:

Financial Indebtedness means any indebtedness for or in respect of:

- (i) moneys borrowed;
- (ii) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;

- (iii) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by the Issuer 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;

11 NOTICES

All notices regarding the Bonds will be valid if published in a manner which complies with the rules and regulations of the relevant act which apply to publicly listed securities, and/or any stock exchange and/or any other relevant authority on which the Bonds 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. The Issuer can additionally at its own discretion obtain information from the CSD on the Bondholders in order to send notices to each Bondholder directly.

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relevant Bond or Bonds.

12 FURTHER ISSUES

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

13 GOVERNING LAW AND JURISDICTION

The Bonds (except for the CSD System Bonds), the Receipts, the Coupons are governed by, and shall be construed in accordance with, English law except for Condition 3 (Status of Bonds), which will be governed by, and construed in accordance with Icelandic Law.

The Issuer irrevocably agrees that any dispute arising out of the Programme, the Bonds, the Coupons, the Receipts (except for the CSD System Bonds) shall be subject to the exclusive jurisdiction of the Courts of England.

The CSD System Bonds will be governed by, and construed in accordance with, Icelandic law.

The Issuer irrevocably agrees that any dispute arising out of the CSD System Bonds shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (Héraðsdómur Reykjavíkur).

Legal action taken under this Condition 13 may be proceeded with in accordance with the Act on Civil Procedure No. 91/1991 (Lög um meðferð einkamála), Chapter 17.

6. USE OF PROCEEDS

The net proceeds (in respect of (a) and (c) below) or an amount equal to the net proceeds (in respect of (b) below) from each issue of Bonds will, as specified in the applicable Final Terms, be:

- (a) used for the Issuer's general funding purposes; or
- (b) in respect of Sustainability Instruments, used to finance or refinance, in whole or in part, the Issuer's investments in Eligible Assets, as further described in the applicable Final Terms and the **Sustainable Financing Framework** dated 28 October 2020 (as amended or supplemented from time to time) (https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Sustainable_Financing_Framework.pdf); or
- (c) used to finance any other particular identified use of proceeds as stated in the applicable Final Terms.

Sustainability Instruments

In respect of (b) above, the Sustainable Financing Framework describes the Eligible Assets to which an amount equal to the net proceeds of an issuance of Sustainability Instruments may be allocated. The Sustainable Financing Framework has been prepared by the Issuer in accordance with, *inter alia*, the International Capital Market Association (ICMA) Green Bond Principles from 2018, Social Bond Principles from 2020 and the Sustainability Bond Guidelines from 2018.

Unless otherwise specified in the applicable Final Terms, the Sustainable Financing Framework provides that the Issuer intends to allocate an amount equal to the net proceeds of the Sustainability Instruments to finance or refinance, in whole or in part, sustainability loans, equity, and/or projects, investments and expenditures located predominantly in Iceland, as determined by the Issuer in accordance with the project categories identified in the Sustainable Financing Framework, all referred to as 'Eligible Assets'. The applicable Final Terms will specify whether the Sustainability Instruments are intended to be used for Green Projects, Blue Projects and/or Social Projects.²

As set out in the Sustainable Financing Framework, the following project categories fall within Green Project: (i) clean transportation; (ii) eco-efficient and circular economy adapted products, production technologies and processes; (iii) energy efficiency; (iv) pollution prevention and control; (v) renewable energy; (vi) green buildings; (vii) environmentally sustainable management of living natural resources and land use, and terrestrial biodiversity conservation; (viii) sustainable waste management; and (ix) information & communications technology.

As set out in the Sustainable Financing Framework, the following project categories fall within Blue Project: (i) eco-efficient and circular economy adapted products, production technologies and processes; (ii) pollution prevention and control; and (iii) clean transportation.

As set out in the Sustainable Financing Framework, the following project categories fall within Social Project: (i) government defined company support; (ii) affordable housing; (iii) education and vocational training; (iv) financial support for micro, small and medium enterprises (MSMEs); (v) equality and empowerment; and (vi) affordable basic infrastructure.

Governance: project evaluation and selection

As with all lending activities, all potential sustainability loans will undergo the Issuer's robust standard credit process which is designed to ensure compliance with applicable domestic and international rules and regulations, know-your-customer processes and the Issuer's internal policies and guidelines, such as related to credit, anti-money laundering, counter-terrorist financing and sanctions policies. Moreover, potential environmental, social, and governance (ESG) risks are assessed. When assessing prospective eligible projects and their non-financial impacts, the Issuer may rely on analysis provided by external parties, in addition to its own assessment.

² Green: for the environment; Blue: for sustainable fisheries; and Social: for supporting social initiatives, as further described in the Issuer's Sustainable Financing Framework dated 28 October 2020.

Management of proceeds and reporting

The Issuer uses its sustainability registry, on a portfolio basis, to keep track of Eligible Assets as well as a separate registry for its Sustainability Instruments. The Issuer will strive, over time, to achieve a level of allocation for Eligible Assets which matches or exceeds the balance of net proceeds from its outstanding Sustainability Instruments. The sustainability registries ensure that the net proceeds from Sustainability Instruments only support the financing of sustainability loans or to repay Sustainability Instruments. While any proceeds or Sustainability Instruments remain unallocated to Eligible Assets, the Issuer will temporarily hold or invest any unallocated net proceeds at its own discretion in its liquidity portfolios.

The Issuer will annually provide the Allocation and Impact Reporting published on its website at a concurrent time as its Annual and Sustainability Report.

External Reviews

The Issuer also applies the recommendation to use the services of an independent external second opinion provider (the **Second Party Opinion**). A Second Party Opinion has been obtained on the Sustainable Financing Framework from the Second Party Opinion provider Sustainalytics, assessing the sustainability of the Sustainable Financing Framework and its alignment with the ICMA Green Bond Principles from 2018, Social Bond Principles from 2020 and the Sustainability Bond Guidelines from 2018. It is available on the Issuer's website (https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Sustainable_Financing_Framework_Second-Party_Opinion_by_Sustainalytics.pdf). Any amendment to such Second Party Opinion, or any new Second Party Opinion, to be provided following an amendment to the Sustainable Financing Framework, the publication of a new Sustainable Financing Framework or in application of any new legislation or regulation, will be made available on the Issuer's website.

An independent assurance provider will provide on an annual basis limited assurance that an amount equal to the net proceeds has been allocated to sustainable loans which will be published on the Issuer's website.

Any information contained in or accessible through any website, including <https://www.islandsbanki.is/en/article/sustainable-financing-framework> and https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Sustainable_Financing_Framework_Second-Party_Opinion_by_Sustainalytics.pdf, 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

7. INFORMATION ABOUT 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 Skattsins*) in Iceland and bears the registration number 491008-0160. The registered office of the Issuer is at Hagasmári 3, 201 Kópavogur, Iceland, and the telephone number is +354 440 4000. The Issuer's homepage is: www.islandsbanki.is. The information on the Issuer's website does not form part of this Base Prospectus unless such information is incorporated by reference into 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 No. 161/2002. The Issuer is authorised to provide all financial services stipulated in the latter Act. Its activities are under the supervision of the Financial Supervisory Authority of the Central Bank of Iceland (FSA).

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 the year 1990 Útvegsbanki Íslands, Alþýðubanki Íslands, Iðnaðarbanki Íslands and Verslunarbanki Íslands merged into Íslandsbanki. In 2000, Íslandsbanki hf. merged with The Icelandic Investment Bank (FBA), which itself was created through the merger of three state-owned credit funds, forming Íslandsbanki-FBA hf. As a result, the bank further solidified its connections with the corporate sector, particularly in the seafood industry. In the years 2000-2007, the bank expanded its business away from 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 a 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 back 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% stake in the Issuer. Glitnir therefore assumed majority control of the Issuer and a new Board of Directors was appointed on 25 January 2010. The 95 per cent. stake was owned by ISB Holding ehf., a holding company wholly owned by GLB Holding ehf., a subsidiary of Glitnir. In January 2016, Glitnir signed an agreement to deliver the 95 per cent. stake to the Icelandic Government as a part of the estate's stability contribution. The change was approved by the Competition Authority on March 11, 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 savings bank winding up committee and the Icelandic government. The acquisition price was ISK 6.6bn. 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 in the credit card company, Kreditkort hf. and on 27 March 2012 Kreditkort was merged into the Issuer.

Between 2017 and 2019, the Issuer underwent a digital transformation. In 2018 the Board approved an open banking strategy and the Issuer successfully replaced its core banking system, including an effective migration of an old legacy system to a global standardised core banking system (SOPRA) for payments and deposits. The Issuer has been assigned a credit rating by the rating agency S&P which is registered in the EU in accordance with

Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agency Regulation). S&P rate the issuer as BBB/A-2 with stable outlook.

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 2020, the Issuer had approximately 32 per cent. of the market share in personal banking, 35 per cent. of the market share in business banking and 35 per cent. of the market share of corporate & investment banking. The Issuer seeks to move Iceland forward by empowering its customers to succeed and prioritize sustainability as an integral driver of strategy and value creation.

The Issuer operates 12 branches, half of which are based around the Reykjavík metropolitan area but maintains a presence in larger municipalities across the country.

The Issuer's business lines are as follows:

- **Personal Banking.** Provides customers with a comprehensive range of financial services, with strong emphasis on digital distribution channels.
- **Business Banking.** Provides small and medium-sized enterprises (SMEs) with comprehensive financial services. Ergo, the Issuer's asset financing service, is also part of Business Banking.
- **Corporate and Investment Banking.** Offers a full range of financial and investment banking services to large companies, pension funds, municipalities, mutual funds, investors and affluent individuals.

PERSONAL BANKING

Personal Banking offers a full range of financial services for individuals and households, such as lending, savings and payments, with a particular focus on digital and self-service solutions. The Issuer's customers are increasingly taking care of their day-to-day banking via digital solutions, such as mobile apps, online banking and the secure web chat. Customers can also visit the Issuer's efficient branch network for comprehensive consultancy services and contact the contact centre.

BUSINESS BANKING

Business Banking provides comprehensive banking services and versatile banking products to SMEs, such as lending, savings offers and payment solutions offered through business banking centres in Kópavogur and Akureyri, including 10 strategically located branches around Iceland, as well as through online banks and mobile apps. Ergo, the Issuer's asset-based financing division is also part of Business Banking. Customers also have full access to their business and day-to-day operations via online banking and mobile apps. The Business Banking call centre is operated from Norðurturn, the headquarter branch. According to Gallup surveys, the Issuer has been voted market leader in Business Banking in Iceland for the previous 11 years. Additionally, the Issuer has consistently scored highest in service amongst peers according to the same surveys.

CORPORATE & INVESTMENT BANKING

Corporate & Investment Banking provides services to large companies, municipalities, institutional investors and high net worth individuals. The Product and services offering is a comprehensive range of financial and investment banking services, including lending, securities and currency brokerage, corporate advisory services, private banking services and sales of hedging instruments. The division is focused on building and maintaining relationships across all industry divisions within Iceland. Outside of Iceland, the division has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

SUPPORT DIVISIONS

FINANCE

The Finance division includes finance and accounting operations, as well as treasury and financial institutions, back office functions, and investor relations. This division also manages and oversees shareholding in the Issuer's subsidiaries.

RISK MANAGEMENT

The Issuer has an independent risk management function, Risk Management, headed by the Chief Risk officer. Risk Management is responsible for ensuring efficient implementation of the Issuer's risk strategy and policies, for verifying that the Issuer has efficient risk management processes in place and that each key risk that the Issuer faces is identified and properly managed by the relevant function.

IT

The IT division is responsible for the Issuer's IT platform and systems and software development, including internet banking, websites and its hardware, such as data centres, telephone systems, ATMs and personal computers.

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 can be defined as the risk of legal or regulatory sanctions, financial loss, or damage to the Issuer's reputation in the event of failure to comply with applicable laws, regulations, and codes of conduct and standards of good practice. The Compliance division, in co-operation 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 an independent function headed by the Chief Audit Executive and is responsible for assessing whether the Group's risk management, internal control framework (including internal policies) and governance processes are effective and efficient and whether they comply with the relevant legal and regulatory requirements. Group Internal Audit is not responsible for internal control or its implementation but provides the Group with independent objective assurance and consulting services designed to add value and improve the Issuer's operations.

The work of Group Internal Audit is performed in accordance with a risk-based audit plan approved by the Board's Audit Committee. Group Internal Audit is furthermore responsible for internal investigations on suspected fraudulent activities. Group Internal Audit reports directly to the Board on its findings and suggestions for material improvements to the risk management, controls and governance processes. All audit recommendations are subject to a formal follow-up procedure by the appropriate levels of management to ensure and report their resolution.

The Chief Audit Executive is appointed by the Board and reports directly to the Board. Group Internal Audit operates independently from other departments in accordance with Article 16 of the Financial Undertakings Act. The responsibilities and authorisations of the Chief Audit Executive and group Internal Audit are further outlined in the Group Internal Audit Charter.

REGULATORY AND TAX ENVIRONMENT

Capital Requirements

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 575/2013/EU (CRR). CRD IV and CRR were implemented into Icelandic legislation for the most part by amendments made to the Act on Financial Undertakings (Act on Financial Undertakings No. 161/2002) and with the Regulation on the Prudential Requirements for Financial Undertakings. The first amendment was introduced on 9 July 2015 by Act No. 57/2015 which amended the Financial Undertakings Act and incorporated into Icelandic law the CRD IV's provisions on capital buffers and regulation implementing the provisions of the CRR and other technical standards. The second amendment, introduced on 1 September 2016 by Act No. 96/2016, amended the Financial Undertakings Act and incorporated the CRD IV's provisions on operating licences, initial capital, information obligations, leverage ratios, supervisory review and the evaluation process. The third amendment, introduced on 9 May 2017 by Act No. 23/2017, includes an obligation on financial undertakings to establish effective and reliable mechanisms to enable employees to report potential or actual breaches of laws and / or regulations that apply to the undertakings. The fourth amendment, introduced on 19 June 2018 by Act No. 54/2018, further amended the Financial Undertakings Act and introduced provisions on supervision and prudential requirements on a consolidated basis, co-operation with supervisors in other countries in the European Economic Area and a legal basis for the regulation on large exposures. The fifth amendment, introduced on 18 February 2019 by Act No. 8/2019, amended the Financial Undertakings Act and included provisions regarding the board of directors and auditing. The remaining features of CRD IV (not already incorporated by the amendments outlined above) are still to be implemented into Icelandic law.

The remainder of the CRR was enacted into Icelandic law by the entry into force of Regulation No. 233/2017 on 6 March 2017, although Articles 500 and 501 of CRR, the latter one stipulating capital requirements deduction for credit risk on exposures to SMEs, only came into effect on 1 January 2020 following the incorporation of CRR into the EEA Agreement. The second SME factor, as stipulated in CRR2, is expected to be implemented as the regulation will be incorporated into the EEA agreement.

On 11 May 2021, the Parliament enacted an amendment act to the Financial Undertaking Act. The most notable amendments enable the Minister to implement CRR II and EU Regulation 2019/630 amending CRR as regards minimum loss coverage for non-performing exposures (NPEs), which aims to accelerate the reduction of nonperforming loans in the banking sector, by way of issuing secondary legislation in the form of regulations. Moreover, the amendments will enable the Central Bank of Iceland to implement related secondary EU legislation based on technical standards, which have already been incorporated into the EEA Agreement. Those amendments entered into force on 28 June 2021, as the better part of CRR II will enter into force in the European Union on that date.

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.

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 provisions of the BRRD have been implemented into Icelandic law by means of a combination of legislative acts. First, the passage of Act No. 54/2018, amending the Act on Financial Undertakings, implemented the BRRD provisions focusing on recovery plans and timely intervention to prevent an economic shock to financial institutions operating in Iceland.

Second, the enactment of Act No 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms implemented the parts of the BRRD which provide for the resolution process, from preventative measures and preparation, to decision-making and the implementation of each resolution. Under the Act, the Central Bank of Iceland possesses powers of resolution and can take action, prepare and execute resolution procedures on behalf of credit institutions and investment firm.

As the Resolution Authority, the Central Bank oversees the preparation and implementation of each resolution and a special funding resource, the Resolution Fund, which is intended to finance the resolution process. Additionally, the Act also provides for the implementation of Minimum Requirement for own funds and Eligible Liabilities (MREL) in Iceland and amended the amount guaranteed in the deposit guarantee scheme under which payments to each depositor are now guaranteed up to the equivalent of EUR 100,000 in ISK.

On 4 May 2021, the Parliament passed a bill that implements Directive 2017/2399/EU with regard to the position of unsecured debt instruments in the insolvency hierarchy and amends the Recovery and Resolution Act accordingly. The Act further implemented conformation amendments to the Financial Undertakings Act and the Deposit Guarantees Act.

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 to equity (the **general bail-in tool**), which equity could also be subject to any future cancellation, transfer or dilution.

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).

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 unsecured 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 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.

Furthermore, the resolution authorities will have 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.

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 at the point of non-viability and before, or at least together with, the application of any other resolution action (**non-viability loss absorption**).

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 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 and to preserve financial stability.

In addition, following the publication on 7 June 2019 in the Official Journal of the EU of (i) the Directive (EU) 2019/879 of the European Parliament and of the Council dated 20 May 2019 amending the BRRD (the “BRRD II”) as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC and (ii) the Regulation (EU) 2019/877, of the European Parliament and of the Council dated 20 May 2019, amending the Single Resolution Mechanism Regulation, as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms, a comprehensive legislative package has been produced which intends to reduce risks in the banking sector and the financial system, reinforce bank’s ability to withstand potential shocks and strengthen the banking union from 28 December 2020. It is currently unclear how and when BRRD II will be implemented in Iceland and when this will affect the Issuer.

Tax Environment

The Issuer’s results of operations depend, to a certain extent, on tax laws and tax treaties or the interpretation thereof.

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 remained unchanged until 1 January 2020 when it was reduced to 0.145 per cent. Non-financial subsidiaries are exempt from this tax. There can be no assurance that the levy will not be further increased.

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 Bonds who are not Icelandic, are taxable in Iceland at a current rate of 12.0 per cent. However individuals are not subject to taxation on interest income up to ISK 300.000 or lower per year. This taxation 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.

ORGANISATIONAL STRUCTURE

The Icelandic government, through Icelandic State Financial Investments (ISFI), owns 65 per cent. of the Issuer’s share capital (assuming full exercise of the overallotment option) see “Business Overview — Information about the Issuer — Major Shareholders”.

The following chart illustrates the Issuer’s organisational structure.

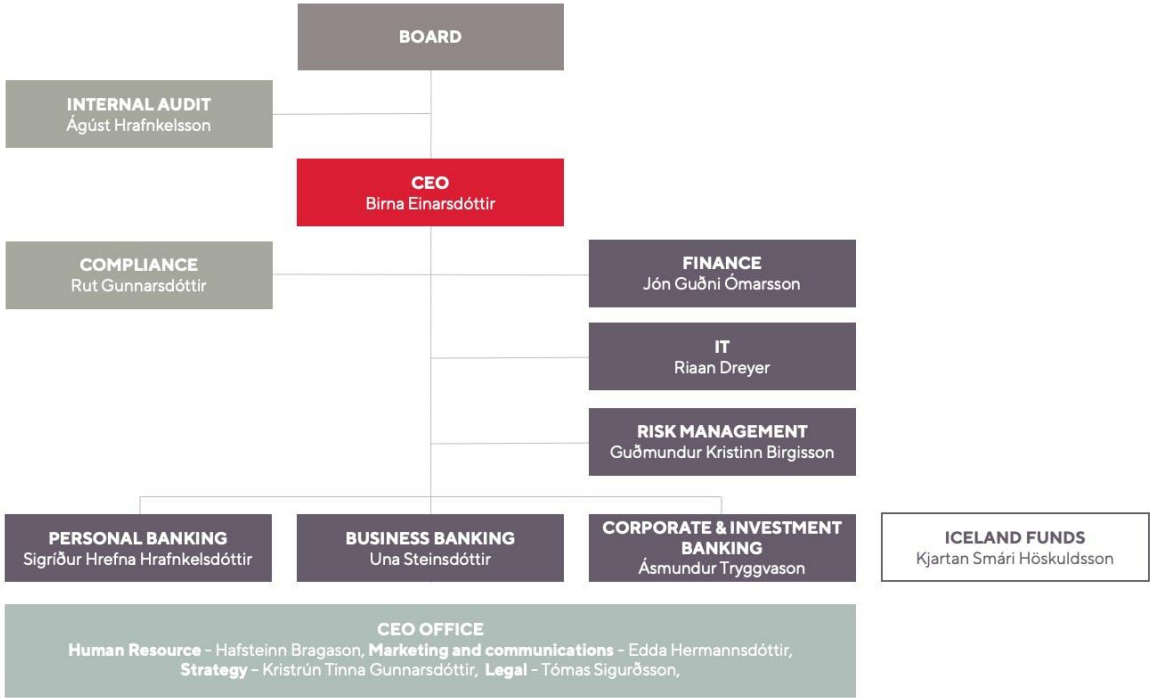


Figure 1: Organisational Structure

The Issuer’s investment in significant subsidiaries can be seen in the table below, along with a specification of the nature of business of those subsidiaries (as of 31 December 2020):

The Issuer is the parent company of a group and its principal subsidiaries include the following as at the date of this Base Prospectus (the Group)

Subsidiary	Ownership	Company Description
Íslandssjóðir hf.	100%	Investment fund management company
Allianz Ísland hf.	100%	Insurance agent
BVS ehf.	64,46%	Holding company

10 other non-significant subsidiaries		
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Trend Information

No material adverse changes have occurred in the prospects of the Issuer since the date of its last published audited financial statements.

Recent Developments

There has been no significant change in the financial performance or financial position of the Group since 31 December 2020 and there has been no material adverse change in the prospects of the Issuer since 31 December 2020.

Legal and arbitration proceedings

Information regarding legal and arbitration proceedings can be found in the chapter on Risk Factors on page 12.

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

BOARD OF DIRECTORS

The Issuer's Board of Directors consists of seven members. 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 member of the Board of Directors and each member of the Executive Committee is Íslandsbanki hf., Hagasmári 3, 201 Kópavogur, Iceland.

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

<u>Name</u>	<u>Title</u>
Mr. Hallgrímur Snorrason	Chairman of the Board of Directors
Ms. Anna Þórðardóttir	Member of the Board of Directors
Mr. Árni Stefánsson	Member of the Board of Directors
Mr. Frosti Ólafsson	Member of the Board of Directors
Ms. Guðrún Þorgeirsdóttir	Member of the Board of Directors
Ms. Heiðrún Jónsdóttir	Member of the Board of Directors
Mr. Jökull H. Úlfsson	Member of the Board of Directors

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

Hallgrímur Snorrason is an independent consultant in official statistics at international level. He was Director-General of Statistics Iceland from 1985 to 2007 and Deputy managing Director of the National Economic Institute of Iceland from 1980 to 1984. He has been a member of the board of several companies including Útvegsbanki Íslands hf., Skýrr and Auður Capital, and has chaired or served on a number of governmental committees, both domestically and in connection with Nordic cooperation, EFTA, EU and the OECD.

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

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

Anna Þórðardóttir has been a board member of a number of companies and organizations, including KPMG ehf. and the institute of State Authorized Public Accountants in Iceland. She is currently a member of the board of the Icelandic Center for Future Studies (Framtíðarsetur Íslands) and is chairman of the Board Audit Committee of Hagar. Anna was an employee of KPMG in 1988-2015, where she became partner in 1999. While at KPMG, she

was responsible for the audit of the following companies: Reitir, Hagar, 365, Baugur Group, Vodafone, Landfestar, Landey, 10-11 and Félagsbústaðir.

Ms. Þórðardóttir is a chartered accountant and holds a Cand. Oecon degree in Business Administration from the University of Iceland. She has also studied toward a cand. merc degree in financial studies from Handelshøjskolen in Århus, Denmark.

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

Árni Stefánsson has extensive management experience in power-intensive industry in Iceland and is currently manager and member of the executive board at the Rio Tinto primary aluminium plant. Previously, he was a manager of the Century Aluminium plant Norðurál in Grundartangi, manager and on the executive board with Landsnet the electric transmission grid company of Iceland; and manager with Landsvirkjun, the National Power Company of Iceland.

Mr. Stefánsson holds an M.Sc. degree in electrical engineering.

Mr. Frosti Ólafsson (Member of the Board of Directors)

Frosti Ólafsson is an independent strategic consultant. He is the former CEO of ORF Genetics a leading plant biotechnology company that owns and operates BIOEFFECT skin care brand, was the Managing Director of Iceland Chamber of Commerce and worked as a strategic consultant for McKinsey & Company. In his past roles, Frosti has supported leading domestic and international companies on a wide range of topics, including strategy, operations and governance. He is currently a Board member at Reykjavík University and affiliated real estate entities, of Freyja Private Equity Fund and of Controlant.

Mr. Ólafsson holds an MBA degree from London Business School and a B.Sc. degree in economics from University of Iceland and Macquarie University in Sydney.

Ms. Guðrún Þorgeirsdóttir (Member of the Board of Directors)

Guðrún Þorgeirsdóttir is the Chief Business Development Officer of PayAnalytics. Previously, she was the Chief Financial officer of Skeljungur. She has prior experience as a Chief Risk Officer and as an investment manager. She is an experienced board member and has served on the board of directors of insurance companies, financial companies and retail- and service companies, including VÍS, Lífis, Lyfja and Lýsing.

Ms. Þorgeirsdóttir has a B. Sc. Degree in Industrial Engineering from the University of Iceland, an MBA degree from HEC School of Management in France and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

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

Heiðrún Jónsdóttir is an attorney at law with Múli Legal Services and serves as a member of the board of Reginn real estate company and Royal Arctic Line. Previously, she was a managing director at Eimskipafélag Íslands hf., Lex Legal Services and KEA. She has been chairman of the board at Norðlenska, Íslensk Verðbréf, and Gildi pension fund and has been a member of the board of Síminn hf., Icelandair Group, Olíuverslun Íslands, The Icelandic Banks' Data Centre (RB), Ístak, Arion Verðbréfavarsla, Þekking and the Icelandic Pension Funds Association,. She served as a board member of the board of the Icelandic Bar Association from 2016-2019 and was the deputy chairman of the board from 2018-2019.

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. She completed an Advanced Management Program (AMP) at the IESE Business School in Barcelona in 2017.

Mr. Jökull H. Úlfsson (Member of the Board of Directors)

Jökull Úlfsson has worked in the financial market for the past 25 years where he has acquired comprehensive knowledge of financial institutions' operations. He has spent most of his career with Arion Bank hf. and its predecessors as a manager in asset management, business development and human resources. He sat on the

board of directors of Stefmir hf. in the years 2013 – 2019 and was Managing Director of Stefmir hf. from 2019 – 2020.

Mr. Úlfsson holds a Cand.Oecon degree in business administration from the University of Iceland and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

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

Name	Title
Ms. Herdís Gunnarsdóttir	Alternate Member of the Board of Directors
Mr. Óskar JÓsefsson	Alternate Member of the Board of Directors

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

Herdís Gunnarsdóttir is the director of The Icelandic Social Insurance Administration's rights division. She holds an MBA from the University of Iceland and an MSc and BSc in nursing from the University of Iceland.

Mr. Óskar JÓsefsson (Alternate Member of the Board of Directors)

Óskar JÓsefsson holds a M.Sc. degree in industrial and operations engineering from Aalborg University in Denmark. He is the CEO of Iceland Tourism Task Force since 2016 and has been a member of the executive management and board of directors of a number of leading companies in Iceland.

SENIOR MANAGEMENT

The Executive Committee consists of the following seven members:

Ms. Birna Einarsdóttir, Chief Executive Officer.

Birna Einarsdóttir worked at Iðnaðarbankinn hf., a predecessor of the Bank, from 1987. After six years with Royal Bank of Scotland as Senior Product Manager, Ms.Einarsdóttir rejoined the Bank in the fall of 2004 as the Managing Director of Sales and Marketing. She was appointed Executive Vice President of Retail Banking of Glitnir in August 2007. Ms. Einarsdóttir assumed the role of CEO of the Issuer in October of 2008. Ms. Einarsdóttir has worked as head of marketing for the Icelandic Broadcasting Company Ltd. (Channel 2) and Managing Director for the Icelandic Football Pools (Íslensk getspá).

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

Mr. Jón Guðni Ómarsson, Chief Financial Officer

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

Mr. Ómarsson holds a B.Sc. degree in Industrial and Mechanical Engineering from the University of Iceland and an M.Sc.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. Guðmundur Kristinn Birgisson, Chief Risk Officer

Guðmundur Kristinn Birgisson joined Íslandsbanki in 2011 as Executive Director of Risk Monitoring where he oversaw the implementation of the Bank's Operational Risk Management Framework and monitoring of the execution of credit processes. In 2017 he served as Executive Director of Lending in the Bank's Personal Banking division and in 2018, he was appointed as the Chief Risk Officer of the Bank.

Mr. Birgisson holds a Ph.D. degree in Mathematics Education from Indiana University and a B.A. in Philosophy and Science from the University of Iceland.

Mr. Riaan Dreyer, Managing Director, IT

Riaan Dreyer has been with Íslandsbanki since 2019. Mr. Dreyer has been in various Chief Information Officer roles in South Africa, most notably Standard Bank and Liberty Life, before he relocated to Iceland in 2016. He then joined Meniga after which he joined Arion Bank as the Head of Development.

Mr. Dreyer holds a master's degree in information technology from the University of Pretoria, South Africa and a bachelor's degree in actuarial science and Economics. He has completed an AMP management programme from IESE, Barcelona.

Ms. Sigríður Hrefna Hrafnkelsdóttir, Managing Director Personal Banking

Sigríður Hrefna Hrafnkelsdóttir 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. Hrafnkelsdóttir 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. Una Steinsdóttir, Managing Director Business Banking.

Una Steinsdóttir joined the Bank in 1991 as a specialist in International Banking. Ms. Steinsdóttir has over 30 years of experience in working for the Issuer and its predecessors and has amongst other things worked in credit control and service management. Ms. Steinsdóttir was a branch manager in Keflavik for eight years, from 1999-2007 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. Ásmundur Tryggvason, Managing Director Corporate and Investment Banking.

Ásmundur Tryggvason was Executive Director of the Bank's Corporate Finance department from 2012 to 2019. Mr. Tryggvason has also worked in the Bank's Research department, and in business banking. He has also served on the boards of various financial, technology, industrial, telephone and publishing companies.

Mr. Tryggvason holds a law degree from the Faculty of Law of the University of Iceland, is a District Court Attorney and has completed a degree in securities trading.

POTENTIAL CONFLICT OF INTEREST

The Bank has listed three situations as a possible conflict of interest situation

- Frosti Ólafsson, a member of the Board of Directors of the Bank, is a director at Freyja framtakssjóður, a fund operated by Kvika Asset Management, one of the competitors of Iceland Funds.
- Brynja Baldursdóttir, the spouse of Jón Guðni Ómarsson, the Bank's Chief Financial Officer, is a managing director of Creditinfo Lánstraust hf., which is a customer of the Bank and a director at Fossar markaðir hf., one of the Bank's competitors.
- Jón Þór Sigurvinsson, the spouse of Guðrún Þorgeirsdóttir, a member of the Board of Directors, is the head of corporate finance and one of the founders of Arctica Finance hf., one of the Bank's competitors.

Besides that, no member of the Board of Directors or the Executive Committee has any private interest that might conflict with the Bank's interests.

MAJOR SHAREHOLDERS

On 29 January 2021, the Ministry of Finance and Economic Affairs announced the decision to initiate a process of selling certain of ISFI's shares, up to 35 per cent., in the Issuer based on a proposal made by the ISFI on 17 December 2020. The Ministry submitted a report setting out the main objectives and procedure of the offering to the Budget Committee, the Economic Committee of the Althingi, and the Central Bank of Iceland. It was noted that the Budget Committee and the Economic Committee of the Althingi recommended that work begin on preparing the offering and for listing of the Issuer on the NASDAQ Iceland. On 7 June 2021, ISFI announced the offer size and indicative price range of the offering and published the prospectus. The offering closed on 15 June 2021. The number of shares sold in the offering amounted to 636,363,630 plus up to an additional 63,636,363 at a price for the offer shares of ISK 79 per offer share. Immediately following the closing of the offering, ISFI will hold 65% of the share capital of the Issuer, assuming full exercise of the overallotment option. Total number of shareholders post offering is approximately 24,000, which is the largest shareholder base of any listed company in Iceland.

VOTING RIGHTS

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

DIRECT OR INDIRECT OWNERSHIP OR CONTROL BY INDIVIDUAL SHAREHOLDERS

The Issuer is not directly or indirectly owned or controlled by parties other than the shareholder listed above. At the date of this Prospectus there are no arrangements known to the Issuer the operation of which may at a subsequent date result in a change of control of the Issuer. The ISFI is a separate state body under the Minister of Finance and Economic Affairs and manages the government's holdings in financial undertakings. The ISFI manages its holdings in the Issuer in accordance with applicable law, good administrative and business practices and the government's ownership policy for financial undertakings at each time. The government's ownership policy is based on Article 44 of the act No. 123/2015 on public finances and and Article 1 of Act No. 88/2009 on the Icelandic State Financial Investments.

8. FINANCIAL INFORMATION

IFRS

The Consolidated Financial Statements of the Issuer for the years 2019 - 2020 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. As were the unaudited and reviewed Condensed consolidated interim Financial Statements for the period 1 January to 31 March 2021.

AUDITORS

Consolidated Financial Statements for 2019 and 2020 were audited by Ernst & Young ehf. Margrét Pétursdóttir was the Issuer's auditor on behalf of Ernst & Young ehf. She is a member in the Institute of State Authorized Public Accountants in Iceland (FLE).

AGE OF LATEST FINANCIAL STATEMENT

The latest audited Consolidated Financial Statements were published on 10 February 2021 and are for the year ended 31 December 2020.

The Issuer's latest financial information is the unaudited and reviewed Condensed Consolidated Interim Financial Statement for the first three months 2021 which was published on 5 May 2021.

To the Issuer's best knowledge, no significant changes have occurred in the financial position of the Issuer since the end of the last financial period.

EXPLANATORY NOTES

Detailed information regarding the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flow are accessible in the explanatory notes in the relevant financial statements incorporated into this Base Prospectus, by reference³.

SELECTED FINANCIAL INFORMATION 2019 AND 2020

Following is a summary of the Issuer's Consolidated Financial Statements for the years 2019 and 2020. This information should be read together with each Consolidated Financial Statement due to changes in methodology between years. The Consolidated Financial Statements 2019 – 2020 can be found on the Issuer's website: <https://www.islandsbanki.is/en/landing/about/investor-relations>. Profit from the Issuer's operations for the year 2020 amounted to ISK 6,755 million, which corresponds to a 3.7 per cent. return on equity. Issuer equity, according to the Consolidated Financial Position, amounted to ISK 186,204 million at 31 December 2020. The Issuer's total official capital ratio, calculated according to the Act on Financial Undertakings, was 23.0 per cent. and the Tier 1 ratio was 20.1 per cent. Current capital ratios are in excess of both internal and regulatory requirements. The Issuer's total assets amounted to ISK 1,344,191 million at the end of the year 2020.

³ Notes 1 to 72 in the Consolidated Financial Statements 2018 and notes 1 to 66 in the Consolidated Financial Statements 2019.

Consolidated Income Statement

	2020	2019*
Interest income	55,695	61,965
Interest expense	(22,324)	(29,143)
Net interest income	33,371	32,822
Fee and commission income	12,651	12,052
Fee and commission expense	(2,126)	(1,153)
Net fee and commission income	10,525	10,899
Net financial expense	(1,391)	(820)
Net foreign exchange gain	451	139
Other operating income	197	2,125
Other net operating income	(743)	1,444
Total operating income	43,153	45,165
Salaries and related expenses	(12,917)	(14,019)
Other operating expenses	(9,829)	(10,469)
Contribution to the Depositors' and Investors' Guarantee Fund	(679)	(936)
Bank tax	(1,588)	(3,528)
Total operating expenses	(25,013)	(28,952)
Profit before net impairment on financial assets	18,140	16,213
Net impairment on financial assets	(8,816)	(3,480)
Profit before tax	9,324	12,733
Income tax expense	(2,472)	(3,909)
Profit for the year from continuing operations	6,852	8,824
Discontinued operations, net of income tax	(97)	(370)
Profit for the year	6,755	8,454
Profit attributable to:		
Shareholders of Íslandsbanki hf.	7,061	8,809
Non-controlling interests	(306)	(355)
Profit for the year	6,755	8,454
Earnings per share from continuing operations		
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	0.72	0.92

* Before its sale on 7 July 2020, the subsidiary Borgun hf. was classified as disposal group held for sale and as discontinued operations, accordingly the comparative figures for the year 2019 have been restated.

Consolidated Statement of Financial Position

	31.12.2020	31.12.2019
Assets		
Cash and balances with Central Bank	78,948	146,638
Loans to credit institutions	89,920	54,378
Bonds and debt instruments	128,216	52,870
Derivatives	6,647	5,621
Loans to customers	1,006,717	899,632
Shares and equity instruments	14,851	18,428
Investments in associates	775	748
Property and equipment	7,341	9,168
Intangible assets	3,478	4,330
Other assets	4,125	6,608
Non-current assets and disposal groups held for sale	3,173	1,075
Total Assets	1,344,191	1,199,490
Liabilities		
Deposits from Central Bank and credit institutions	39,758	30,925
Deposits from customers	679,455	618,313
Derivative instruments and short positions	6,936	6,219
Debt issued and other borrowed funds	387,274	306,381
Subordinated loans	27,194	22,874
Tax liabilities	5,450	7,853
Other liabilities	11,920	27,063
Total Liabilities	1,157,987	1,019,428
Equity		
Share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	6,181	7,065
Retained earnings	113,529	105,569
Total Shareholders' Equity	184,710	177,634
Non-controlling interests	1,494	2,428
Total Equity	186,204	180,062
Total Liabilities and Equity	1,344,191	1,199,490

SELECTED FINANCIAL INFORMATION Q1 2020 AND 2021

Following is a summary of the Issuer's unaudited and unreviewed Consolidated Financial Statements for Q1 2020 and unaudited and reviewed Consolidated Financial Statements for Q1 2021. The Consolidated Financial Statements can be found on the Issuer's website: <https://www.islandsbanki.is/en/landing/about/investor-relations>. Profit from the Issuer's operations in Q1 2021 amounted to ISK 3.6 billion, which corresponds to a 7.7 per cent. return on equity. Issuer equity, according to the Consolidated Financial Position, amounted to ISK 185 billion at 31 March 2021. The Issuer's total capital ratio, calculated according to the Act on Financial Undertakings, was 21.9% and the Tier 1 ratio was 19.2%. Current capital ratios are in excess of both internal and regulatory requirements. The Issuer's total assets amounted to ISK 1,385,235 million at the end of March 2021.

Consolidated Interim Income Statement

	2021 1.1-31.3	2020 1.1-31.3
Interest income*	12.784	13.645
Interest expense	(4.504)	(5.065)
Net interest income	8.190	8.580
Fee and commission income	3.307	2.763
Fee and commission expense	(445)	(272)
Net fee and commission income	2.862	2.491
Net financial income (expense)	293	(1.738)
Net foreign exchange gain	130	55
Other operating income	123	19
Other net operating income	546	(1.664)
Total operating income	11.598	9.407
Salaries and related expenses	(3.574)	(3.247)
Other operating expenses	(2.278)	(2.445)
Contribution to the Depositors' and Investors' Guarantee Fund	(183)	(228)
Bank tax	(410)	(359)
Total operating expenses	(6.445)	(6.279)
Profit before net impairment on financial assets	5.153	3.128
Net impairment on financial assets	(518)	(3.460)
Profit (loss) before tax	4.635	(362)
Income tax expense	(1.036)	(769)
Profit (loss) for the period from continuing operations	3.599	(1.131)
Discontinued operations, net of income tax	16	(245)
Profit (loss) for the period	3.615	(1.376)
Profit (loss) attributable to shareholders of Íslandsbanki hf.	3.617	(1.251)
Loss attributable to non-controlling interests	(2)	(125)
Profit (loss) for the period	3.615	(1.376)
Earnings per share from continuing operations		
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	0,36	(0,10)

*Of which interest income amounting to ISK 12,346 million (2020: ISK 13,092 million) is calculated using the effective interest method.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	31.3.2021	31.12.2020
Assets		
Cash and balances with Central Bank	88,748	78,948
Loans to credit institutions	103,333	89,920
Bonds and debt instruments	103,627	128,216
Derivatives	2,536	6,647
Loans to customers	1,029,415	1,006,717
Shares and equity instruments	25,763	14,851
Investments in associates	841	775
Property and equipment	7,191	7,341
Intangible assets	3,357	3,478
Other assets	17,568	4,125
Non-current assets and disposal groups held for sale	2,858	3,173
Total Assets	1,385,235	1,344,191
Liabilities		
Deposits from Central Bank and credit institutions	31,565	39,758
Deposits from customers	698,575	679,455
Derivative instruments and short positions	9,533	6,936
Debt issued and other borrowed funds	398,225	387,274
Subordinated loans	25,259	27,194
Tax liabilities	5,947	5,450
Other liabilities	30,660	11,920
Total Liabilities	1,199,764	1,157,987
Equity		
Share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	6,353	6,181
Retained earnings	113,335	113,529
Total Shareholders' Equity	184,688	184,710
Non-controlling interests	783	1,494
Total Equity	185,471	186,204
Total Liabilities and Equity	1,385,235	1,344,191

Amounts are in ISK million

9. 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 46-66 in the 2020 Financial Statements, which are incorporated by reference in this Base Prospectus.

10. AUTHORISATION

The establishment of the Programme and the issue of the Bonds have been duly authorised by resolutions of the meetings of the Board of Directors of the Issuer dated 20 August 2012 and 12 April 2016.

11. TAXATION

ICELANDIC TAXATION

The comments below are of a general nature based on the understanding of the Issuer of current law and practice in Iceland and should not be construed as providing legitimate expectations as to the system of taxation being described herein or precluding changes in the applicable rules on taxation in the future. They relate only to the position of persons who are the absolute beneficial owners of Bonds to be issued under the Programme. They may not apply to certain classes of persons such as dealers. Prospective holders of Bonds to be issued under the Programme 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.

NON-ICELANDIC TAX RESIDENTS

Non-Icelandic residents are not subject to tax on any interest income derived by them from the Bonds provided the Bonds are registered with a securities depository within the Organisation for Economic Co-operation and Development, the European Economic Area or a member of the European Free Trade Association or the Faroe Islands, and the Issuer will register any Bonds issued under the Programme with the Directorate of Internal Revenue in Iceland to exempt the Bonds 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 Bonds.

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 Bonds are classified as interest and thus are not subject to tax in Iceland.

There are no estate or inheritance taxes, succession duties or gift taxes imposed by Iceland or any authority of, or in, Iceland in respect of the Bonds if, at the time of the death of the holder or the transfer of the Bonds, such holder or transferor is not a tax resident of Iceland.

ICELANDIC TAX RESIDENTS

Beneficial owners of the Bonds that are resident in Iceland for tax purposes are subject to income tax in Iceland on their interest income in accordance with Icelandic tax law. The rate depends on their tax status.

Subject to certain exemptions, applicable to e.g. most banks and pension funds, the Issuer is required to withhold a 22 per cent. tax on the interest paid to the holders of Bonds which is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder.

12. SELLING RESTRICTIONS

United States

The Bonds 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.

This Base Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Bonds outside the United States. The Issuer reserves the right to reject any offer to purchase the Bonds, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Prohibition of sales to EEA and UK Retail Investors

The Bonds may not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. 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 Distribution 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 Regulation; 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 Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

Japan

The Bonds 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 may not be offered or sold, 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 FSA pursuant to the Prospectus Regulation.

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 1 Item 4 a) as defined in Article 2 Item of the Prospectus Regulation or (ii) other persons to whom this Base Prospectus may be communicated lawfully in accordance with the Prospectus Regulation (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 Bonds 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 Bonds 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 Bonds, 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 Bonds 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 Bonds may not be offered or sold, or caused to be made the subject of an invitation for subscription or purchase, and circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) 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 of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Switzerland

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds 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 Bonds 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 Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

13. DOCUMENTS ON DISPLAY

For the life of this Base Prospectus, the following documents are available for viewing at the Issuer's premises at Hagasmári 3, 201 Kópavogur, Iceland and at the Issuer's website

<https://www.islandsbanki.is/en/product/about/funding>

- i. The Base Prospectus, dated 2 July 2021
- ii. All issued Final Terms.
- iii. The Issuer's Articles of Association.
- iv. The Consolidated Financial Statements of the Issuer for the years 2019 and 2020, together with the audit reports prepared therewith.
- v. The most recently published audited annual financial statements of the Issuer and the most recently published reviewed interim financial statements of the Issuer, in each case together with any audit or review reports prepared in connection therewith.

Following the publication of this Base Prospectus one or more supplements may be prepared by the Issuer and approved by the FSA in accordance with Article 23 of the Prospectus Regulation. Statements contained in any such supplements (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.

In the event of any significant factor arising or any material mistake or accuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of any Bonds or any change in the condition of the Issuer which is material in the context of the Programme or the issue of Bonds, the Issuer will prepare and publish a supplement to this Base Prospectus or publish a new prospectus for use in connection with any subsequent issue of Bonds. Furthermore, the Issuer will, in connection with the listing of the Bonds on NASDAQ Iceland, so long as any Bond remains outstanding and listed on such exchange, in the event of any material adverse change in the financial condition of the Issuer which is not reflected in this Base Prospectus, prepare and publish a further supplement to this Base Prospectus or publish a new prospectus for use in connection with any subsequent issue of the Bonds to be listed on NASDAQ Iceland.

14. DOCUMENTS INCORPORATED BY REFERENCE

The following documents are 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 2019 (including the auditors' report thereon), available here on the Issuer's website: https://cdn.islandsbanki.is/image/upload/v1/documents/Consolidated_Financial_Statements_2019_Islandsbanki_hf.pdf

(ii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2020 (including the auditors' report thereon), available here on the Issuer's website: https://cdn.islandsbanki.is/image/upload/v1/documents/I%CC%81slandsbanki_hf.Consolidated_Financial_Statements_2020.pdf

(iii) the condensed consolidated interim financial statements of the issuer for the first quarter of the year 2021, available here on the Issuer's website: https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Condensed_Consolidated_Interim_Financial_Statements_1Q_2021.pdf

(iv) sections 4, 5, 6, and 7 of the Issuer's Pillar 3 Report: Risk and Capital Management 2020, available here on the Issuer's website: <https://cdn.islandsbanki.is/image/upload/v1/documents/Pillar3Report2020.pdf>

These documents are available for viewing at the Issuer's premises at Hagasmári 3, 201 Iceland and at the Issuer's website <https://www.islandsbanki.is/en/landing/about/investor-relations>.

ISSUER

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