



**Íslandsbanki hf.**

*(incorporated with limited liability in Iceland)*

**U.S.\$2,500,000,000**

**Global Medium Term Note Programme**

This Supplement (the **Supplement**) to the Base Prospectus dated 5 May 2020, which comprises a base prospectus (the **Base Prospectus**) for the purposes of the Prospectus Regulation (as defined below) constitutes a supplementary prospectus for the purposes of Article 23 of the Prospectus Regulation and is prepared in connection with the U.S.\$2,500,000,000 Global Medium Term Note Programme (the **Programme**) under which Íslandsbanki hf. (the **Issuer**) may from time to time issue notes (the **Notes**). Terms defined in the Base Prospectus have the same meaning when used in this Supplement. When used in this Supplement, **Prospectus Regulation** means Regulation (EU) 2017/1129.

The purpose of this Supplement is to (i) update the “Documents Incorporated by Reference” section to incorporate by reference into the Base Prospectus: (a) the unaudited reviewed consolidated interim financial statements of the Issuer for the six months ended 30 June 2020; and (b) the unaudited consolidated interim financial statements of the Issuer for the nine months ended 30 September 2020; (ii) update the “Overview of the Programme” section, the “Risk Factors” section, the “Form of Final Terms” section and the “Use of Proceeds” section of the Base Prospectus to include references to potential issues of Sustainability Instruments (as defined below) by the Issuer under the Programme; and (iii) update the “Significant or Material Change” statement. This Supplement has been approved by the Central Bank of Ireland (the **CBI**), as competent authority under the Prospectus Regulation. The CBI only approves this Supplement as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of the Notes that are the subject of this Supplement. Investors should make their own assessment as to the suitability of investing in the Notes.

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

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

## Documents Incorporated by Reference

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

- (i) the unaudited reviewed consolidated financial statements of the Issuer for the six months ended 30 June 2020 contained in the Condensed Consolidated Interim Financial Statements – First Half 2020 which can be viewed online at: [https://cdn.islandsbanki.is/image/upload/v1/documents/ISB\\_Condensed\\_Consolidated\\_Interim\\_Financial\\_Statements\\_First\\_half\\_2020.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Condensed_Consolidated_Interim_Financial_Statements_First_half_2020.pdf); and
- (ii) the unaudited condensed consolidated interim financial statements of the Issuer for the nine months ended 30 September 2020 contained in the Condensed Consolidated Interim Financial Statements – Third Quarter 2020 which can be viewed online at: [https://cdn.islandsbanki.is/image/upload/v1/documents/ISB\\_Condensed\\_Consolidated\\_Interim\\_Financial\\_Statements\\_Third\\_quarter\\_2020\\_2020.10.28.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Condensed_Consolidated_Interim_Financial_Statements_Third_quarter_2020_2020.10.28.pdf).

## Overview of the Programme

The part entitled “Use of Proceeds” in the section headed “Overview of the Programme” on page 35 of the Base Prospectus shall be deemed deleted and replaced with the following:

“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 Notes will, as specified in the applicable Final Terms, be:

- (a) used for the Issuer’s general corporate purposes; or
- (b) 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 Issuer’s 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](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.”

## Risk Factors

The following risk factor will be added in “*Factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme*” at the end of the sub-section entitled “*Risks related to the structure of a particular issue of Notes*” on page 23 of the Base Prospectus:

*“In respect of any Notes 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 Notes (any such Notes, **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 (as defined above). 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 Noteholders 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 Noteholders' 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, the Dealers 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. None of the Dealers will assess, verify or monitor the application of the amount equal to the net proceeds of any such Sustainability Instruments issued under the Programme.

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 Noteholder against the Issuer; (ii) constitute an Event of Default or Enforcement Event (as applicable) under the Notes or a default of the Issuer for any purpose; (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; or (iv) in the case of Subordinated Notes, affect the qualification of such Notes as Tier 2 Capital.

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 Notes 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 Noteholders 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.”

## Form of Final Terms

Paragraph 4 (*Reasons for the offer and estimated net proceeds*) in Part (B) (*Other information*) of the section entitled “Form of Final Terms” on page 52 of the Base Prospectus shall be deleted and replaced with the following:

### 4. “REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS

(i) Reasons for the offer:

[General corporate purposes]

[The Notes constitute Sustainability Instruments and an amount equal to the net proceeds of the issue of the Notes 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:

[ ]”

## **Use of Proceeds**

The section entitled “Use of Proceeds” on page 119 of the Base Prospectus will be deleted and replaced with the following:

“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 Notes will, as specified in the applicable Final Terms, be:

- (a) used for the Issuer’s general corporate 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](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.

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.

## ***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.

None of the Dealers shall be responsible for (i) any assessment of the Eligible Assets, (ii) any verification of whether the Eligible Assets falls within an investor's requirements or expectations of a “green” or “sustainable” or equivalently-labelled project or (iii) the ongoing monitoring of the use of proceeds in respect of any Sustainability Instruments.

### ***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](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](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.”

### **Significant or Material Change**

The paragraph under the heading “Significant or Material Change” on page 154 of the Base Prospectus shall be deemed deleted and replaced with the following:

“There has been no significant change in the financial or trading position of the Issuer or the Group since 30 September 2020 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2019.”

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

Copies of this Supplement and the documents incorporated by reference in this Supplement will be available for inspection at <https://www.islandsbanki.is/en/product/about/funding>. In addition, a copy of the Supplement will be published on the website of Euronext Dublin at [www.ise.ie](http://www.ise.ie).

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

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

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