



Íslandsbanki hf. Base Prospectus

29 June 2020

Íslandsbanki hf.
Hagasmára 3
201 Kópavogur

Íslandsbanki hf.

(incorporated in Iceland as a limited liability company)

ISK 220,000,000,000

Covered Bond Programme

On 4 November 2011, Íslandsbanki (the “**Issuer**”) established a Covered Bond Programme which is described in this Base Prospectus, under which the Issuer may issue in a continuous and repeated manner bonds (the “**Covered Bonds**”) in accordance with the Icelandic Act on Covered Bonds, No. 11/2008 (the “**Act on Covered Bonds**”), any relevant executive orders (Icelandic: stjórnvaldsákvarðanir) 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), (together the “**Covered Bonds Legislation**”) denominated in any Specified Currency.

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

The maximum aggregate nominal amount of all outstanding Covered Bonds issued under the Programme will not exceed ISK 220,000,000,000 (or its equivalent in other currencies calculated as described herein). The Covered Bonds may be issued on a continuing basis. However, pursuant to the existing licence issued by the Financial Supervisory Authority of the Central Bank of Iceland (the “**FSA**”) the programme shall never exceed a limit approved by the FSA.

An investment in Covered Bonds issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.

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 Covered 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 Covered Bonds and covers all outstanding series as well as any new series issued under the Covered Bond Programme. An application will be submitted to NASDAQ Iceland for Covered 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 Covered Bonds being listed (and all related references) shall mean that such Covered 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 Act No. 108/2007 on Securities Transactions (“**the 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 Covered Bonds on additional regulated markets.

The Covered Bonds will be issued in such denominations as specified in the applicable Final Terms, save that the minimum denomination of each Covered 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 Covered 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 Covered 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 Covered 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 Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under Terms and Conditions of the Covered Bonds) of Covered Bonds will be set out in the Final Terms, which, with respect to Covered 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>.

IMPORTANT – EUROPEAN ECONOMIC AREA AND UNITED KINGDOM RETAIL INVESTORS

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

The Covered 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, Covered 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 Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered 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 Covered Bonds.

Íslandsbanki hf.

The date of this Base Prospectus is 29 June 2020

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 Covered 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 Covered Bonds of such Tranche, the interest (if any) payable in respect of the Covered 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 Covered Bonds of such Tranche. Copies of Final Terms relating to Covered Bonds which are admitted to trading on NASDAQ Iceland’s regulated market will be published on the website of NASDAQ Iceland’s website www.nasdaqomxnordic.com. Copies of Final Terms will also be available on the website of the Issuer <https://www.islandsbanki.is/en/landing/about/investor-relations> 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 Covered 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 Covered 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 Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered 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 Covered Bonds

constitutes an offer or invitation by or on behalf of the Issuer to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered 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 Covered 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 Covered 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 Covered 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 Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered 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 Covered 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 Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area (including, Iceland, Norway and, for these purposes, the UK), the People's Republic of China, Hong Kong, Singapore, Switzerland 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 Covered Bonds may not be a suitable investment for all investors. Each potential investor in any Covered 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 Covered Bonds, the merits and risks of investing in the relevant Covered 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 Covered 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 Covered 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 Covered 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) Covered Bonds are legal investments for it, (ii) Covered Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered 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 Covered Bonds being offered, including the merits and risks involved. The Covered 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 Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

CONTENTS

1. Risk Factors 2

2. Statements 20

3. Notice to investors 22

4. Applicable Final Terms 23

5. Terms and Conditions of the Covered Bonds 43

6. Selling restrictions 74

7. Summary of Icelandic Legislation Relating to Covered Bonds 76

8. Information about the Issuer 82

9. Financial Information 93

10. Risk Management 100

11. Issuer Cover Pool 100

12. The Icelandic Economy 103

13. The Icelandic Housing Market 104

14. Taxation 105

15. Documents on Display 106

16. Documents Incorporated By Reference 107

1. RISK FACTORS

In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered 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 Covered 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 Covered Bonds.

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

Prospective investors in the Covered 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 COVERED 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.

RISKS RELATING TO THE ISSUER'S BUSINESS ACTIVITIES AND INDUSTRY

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 2019, the Issuer's maximum exposure to credit risk amounted to ISK 1,305bn. 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 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 2019, the Issuer's loan portfolio to customers was exposed to concentration in certain industry sectors, namely individuals (39 per cent.), real estate (16 per cent.), commerce and services (14 per cent.), the seafood industry (12 per cent.), industrial and transportation (9 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 2019, the Issuer's credit risk and credit concentration risk accounted for 84 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, Icelandic 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. 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 2019 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 has been identified as one of the key risk factors in 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: trading book and 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.

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. A decline in the price of these securities could substantially reduce the value of the Issuer's securities portfolio. These securities are measured at fair value at the end of each financial period, and 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. The average position of equity exposure in the trading book was ISK 1.7bn. in 2019. The maximum equity exposure in the trading book was ISK 3.0bn in 2019. Equity exposure in the banking book, including fair value shares and shares held for sale amounted ISK 8.9bn in 2019.

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 this 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 8,254 million as at 31 December 2019. 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 2019 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 621,489 million as at 31 December 2019. Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). At 31 December 2019, the Issuer's LCR was 144 per cent. and the NSFR was 118 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 2019 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 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 IT risk. According to the Supervisory Review and Evaluation Process (**SREP**) results, operational risk accounted for 8.2 per cent. of total SREP capital requirement of the Issuer together with its Subsidiaries (as defined below) (together, the **Group**) in 2019.

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.

The secure transmission of confidential information is a critical element of the Issuer's operations. The Issuer cannot guarantee that existing security measures will prevent security breaches, including break-ins, viruses or disruptions. Persons that circumvent the security measures could use the Issuer's or its customers' confidential information wrongfully, which would expose the Issuer to loss, adverse regulatory consequences or litigation.

The Issuer implemented a new IT model late in 2019. The objective of the Issuer is to create joint teams of Business and IT that focuses on a specific product area. However, an organisational change like this can result in a short-term rise in risk level.

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 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.

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 its Chief Executive Officer and senior management. The loss of the services of key members of its senior management or staff may significantly delay the Issuer's business objectives and could have a material adverse effect on its business, financial condition and results of operations. In addition, competition in Iceland to hire qualified personnel could have a material adverse effect on the Issuer's ability to recruit new senior managers.

Additional information regarding the Issuer's operational risk can be found in section 7 of the Issuer's Pillar 3 Report 2019 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 most of the Issuer's 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 further adverse impact on the Issuer

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease (**COVID-19**) a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, 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 decline in financial markets. The Bank's earnings in the first quarter of 2020 were heavily affected by the economic crisis relating to the COVID-19 pandemic. Impairments increased substantially during the quarter as the expected credit losses are recognised early on through the IFRS 9 accounting standard. The Bank has transferred almost all of its exposures to the tourism industry from Stage 1 to Stage 2 and updated its economic forecasts, while at the same time trying to factor in the impact on Government programmes to mitigate the impact of the pandemic. As a result, the Bank had a negative impairment charge of ISK 3.5 billion in the first quarter. In addition to that, the Bank experienced losses in its trading activities and other equity and equity related investments of about ISK 1.7 billion.

If the pandemic 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 decline in financial markets. A substantial amount of the Issuer's business involves making loans or otherwise committing resources to specific companies or industries. The COVID-19 pandemic's impact on such borrowers and industries could have a material adverse effect on the Issuer's financial results, businesses, financial condition or liquidity and the ability of borrowers to pay their loans. The COVID-19 pandemic may also result in disruption to the Issuer'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 Issuer. As a result, the business, results of operations, corporate reputation and financial condition of the Issuer 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 Issuer is exposed to competition, principally from other large Icelandic banks, and expects that this competition will increase as Iceland's economy recovers

The Issuer currently faces competition from the three other commercial banks in Iceland, Landsbankinn, Arion Bank and Kvika. The Issuer also faces competition domestically from pension funds. The Issuer expects to compete on the basis of a number of factors, including transaction execution, its products and services, its ability to innovate, reputation and price. If the Issuer is unable to compete effectively in the future in any market in which it has a significant presence, this could adversely affect its business, results of operations and prospects.

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

The Icelandic government, through Icelandic State Financial Investments (ISFI), owns 100 per cent. of the Issuer's share capital. The Issuer is not directly or indirectly owned or controlled by parties other than the Icelandic government, through ISFI. The Icelandic government has issued public statements declaring that it does not plan to be a long-term owner of the Issuer. However, the Icelandic government has not yet initiated a sales process or taken any other action regarding its ownership stake in the Issuer. A sale of all or a portion of the Icelandic government's ownership stake in the Issuer may have an adverse effect on the Issuer's results.

The Issuer's insurance coverage may not adequately cover losses resulting from the risks for which it is insured

The Issuer maintains customary insurance policies for the Issuer's operations, including insurance for liquid assets, money transport and directors' and officers' liability. Due to the nature of the Issuer's operations and the nature of the risks that the Issuer faces, there can be no assurance that the coverage that the Issuer maintains is adequate 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

The Issuer's capital management framework is based on Directive 2013/36/EU (CRD IV) and Regulation 575/2013/EU (CRR), which were for the most part 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 2020. 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 Covered 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. An overview of the main legal and regulatory changes in Iceland relevant to the Issuer's operations that came into effect in can be found in section 9 of the Issuer's Pillar 3 Report 2019 which is incorporated by reference into this Base Prospectus. 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 these loans in a manner that is adverse to the Issuer

A high proportion of the Issuer's mortgage loans are inflation-linked. Under these loans, the monthly repayment increases if and to the extent that inflation in Iceland increases. Following the financial crisis in 2008, inflation in Iceland increased significantly. This resulted in higher payments falling due under inflation-linked loans at the same time as borrowers faced lower wages and less purchasing power. There was significant debate in Iceland regarding these loans in the period preceding the parliamentary elections in April 2013. The Icelandic government announced at the end of November 2013 an action plan aimed at reducing the country's housing debt. On the basis of the action plan, the Icelandic Parliament passed Act No. 35/2014 and Act No. 40/2014. The objective of Act No. 35/2014 was to write down the principal of indexed residential mortgages. Act No. 40/2014,

which amended the Pension Act No. 129/1997, authorised households with residential mortgages, in the period between 1 July 2014 and 30 June 2017, to use payments which would otherwise go to a private pension fund to reduce the principal amount of their mortgages. This option has since been extended until 30 June 2021. 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*”) that has increased the Issuer’s financial burden and decreased its profitability. There is a risk that additional legislation may be adopted or other government action taken to reduce the payment burden under inflation-linked mortgages. Should this occur, it would have a materially negative impact on the Issuer’s loan portfolio, financial condition and results of operations.

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

Iceland is obligated to implement certain EU instruments with EEA relevance, including legislation relating to financial markets, as a member state of the EEA. Where implementation of such instruments into Icelandic law is inadequate, i.e. Iceland has failed to adapt national law to conform to EEA rules, citizens may be unable to rely on them and the Icelandic courts barred from applying them (unless Icelandic legislation may be interpreted to conform with the relevant EEA rules). As a result, Covered 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.

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 hf. is a payment acquirer and issuing processor and a subsidiary of Íslandsbanki. Landsbankinn hf. sold its 31.2% stake in Borgun in late 2014. Since early 2016 Landsbankinn has been criticised (among others by the Icelandic National Audit Office) for not having foreseen in the process of the sale that Borgun was entitled to proceeds from the Visa Inc. takeover of Visa Europe. Landsbankinn’s response to the criticism is that it considers that Borgun’s management had not released information on all factors that could affect the value of Borgun during the sales process. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit on 12 January 2017, claiming damages for having been deprived of the true value of the stake involved in the sale.

Landsbankinn hf. (the plaintiff) is querying affirmation that the joint liability of Borgun hf., BPS ehf., Eignarhaldsfélagið Borgun slf. and Mr. Haukur Oddsson, former CEO of Borgun to pay damages for the plaintiff’s alleged loss resulting from the defendants’ negligence to inform the plaintiff of the value of Borgun’s share in Visa Europe Ltd. The defendants have denied liability. The plaintiff does not quantify the claim, however, his estimate of the loss of profit is approximately ISK 1,930 million (by selling the shares in Borgun). Seeing that the conclusion of the case is uncertain and the financial effect cannot be estimated, the Issuer has not recognised a provision in relation to this matter.

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

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

Payments and the principal of the Covered Bonds under the programme can in some cases be determined by reference to an index which could adversely affect the value of the index linked Covered Bonds

Subject to any applicable legal or regulatory restrictions being lifted, the Issuer may issue Covered Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “Relevant Factor”). In addition, the Issuer may issue Covered Bonds with principal or interest payable in one or more currencies which may be different from the currency in which the Covered Bonds are denominated. Potential investor should be aware that:

- (a) The market price for such Covered Bonds may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the possible effect on yield.

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Covered Bonds. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Covered Bonds linked to a Relevant Factor and the suitability of such Covered Bonds in light of its particular circumstances.

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

If the optional redemption feature of the Covered Bonds is applicable in the Final Terms, it is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may elect to exercise its option to redeem Covered Bonds when its cost of borrowing is lower than the interest rate on the Covered 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 Covered 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.

Covered 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 or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The regulation and reform of “benchmarks” may adversely affect the value of Floating Rate Covered 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 Covered Bonds, 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 Covered Bonds linked to or referencing such a “benchmark”.

Regulation (EU) 2016/1011 (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 (which, for these purposes, includes the UK). It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of “benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). The Benchmarks Regulation could have a material impact on any Floating Rate Covered 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. 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 Floating Rate Covered 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 Benchmarks Regulation reforms in making any investment decision with respect to any Floating Rate Covered 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 Covered Bonds which are linked to or which reference any such benchmark rate

The Financial Conduct Authority 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 Covered Bonds which are linked to or which reference such benchmark rate will be determined for the relevant period by the fallback provisions specified in the applicable Final Terms.

RISKS RELATING TO THE COVERED BONDS ISSUED BY THE ISSUER

The Covered Bonds are governed by law and regulations. The Act on Covered Bonds provides that the FSA may issue rules providing for the types of assets in a cover pool, methods for appraisal of collateral of bonds, terms and conditions for derivative agreements and conditions for the calculation of risk and interest payments. FSA has issued such rules, i.e. Rules No. 528/2008, on Covered Bonds (the “Rules on Covered Bonds”) that concern, among other things, the conditions for being granted a licence to issue Covered Bonds, appraisal and revaluation

of the assets in the cover pool, matching rules, derivative agreements, the covered bonds register and the eligibility and reporting of the cover pool monitor. Effective 1 January 2020, after the merger of the FSA and the Central Bank, the Central Bank is now responsible for the task entrusted by law and governmental directives to the FSA, in accordance to cf. article 25 of the Icelandic Act on Covered Bonds, as amended. Any changes to the Act on Covered Bonds and/or the Rules on Covered Bonds as well as other current legislation might affect the legal and regulatory risks relating to the Covered Bonds.

The Act on Covered Bonds entered into force on 20 March 2008. To date only a few licenses to issue covered bonds have been granted under the Act on Covered Bonds and there are limited precedents on how its provisions will be interpreted or applied by Icelandic courts or administrative authorities. The preparatory works to the Act on Covered Bonds give limited guidance and the system of covered bonds secured by the cover pool lacks any clear analogues in Icelandic law that would allow for clear conclusions in respect of the Act on Covered Bonds, the covered bonds or the cover pool. It is uncertain how the Icelandic Act on Covered Bonds and/or Rules on Covered Bonds will be interpreted by the courts or whether changes or amendments will be made to it which will affect Covered Bonds issued under the Programme. See further in section entitled *Summary of Icelandic Legislation Relating to Covered Bonds*.

A decline in the price of real estate and the housing market could affect the Issuer's ability to perform its obligations under the Covered Bonds

The Cover Pool which will secure the Covered Bonds is comprised of mortgage loans secured on residential property which, at the date of this Base Prospectus, are located in Iceland. These residential mortgage loans may be loans originally made to a borrower for the purpose of buying, constructing, altering or refinancing a residential property in which that borrower subsequently resides or may be mortgage loans made to a borrower for the purchase of that residential property for investment, rental or other purposes.

A borrower under a residential loan may default on its obligation under that residential loan. The credit risk relating to the Cover Pool is partly driven by the performance of the real estate and housing market in Iceland. There can be no assurance on the future development of the value of assets in the Cover Pool. Several circumstances may affect the level of credit loss such as changes in the economic climate, both nationally and internationally, changes in market rates, increases in taxation, inflation and changes in political policies etc. Borrowers may default and their financial standing may deteriorate as a result of, for example, changes in their own personal circumstances such as unemployment, death, illness or relationship status. Defaults in respect of the Issuer's assets in the Cover Pool under residential mortgage loans could jeopardise the Issuer's ability to make payment in full or on a timely basis on the Covered Bonds. If a substantial part of the assets in the Cover Pool were to default, there is no guarantee that the required level of assets in the Cover Pool could be maintained or that the Issuer would be able to replace the defaulting assets with non-defaulting assets. Any such failures could adversely affect the Issuer's results of operation, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds.

The Covered Bonds may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross-up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Covered Bonds.

No events of default

The Terms and Conditions of the Covered Bonds contain no contractual events of default or right to accelerate the Covered Bonds on a failure to pay, insolvency of the Issuer or otherwise. If the Issuer fails to make a payment when due or becomes insolvent, then the Covered Bonds remain outstanding in accordance with the Terms and Conditions of the Covered Bonds. The Act on Covered Bonds does not stipulate to what extent it is necessary to register a security in respect of other assets in a cover pool.

Maintenance of the Register

The Issuer must maintain a register (the “Register”) in respect of the Covered Bonds, the Cover Pool and any derivative agreements. If the Register or the value of the Cover Pool is not maintained in accordance with the Act on Covered Bonds, the FSA may revoke the Issuer’s license to issue Covered Bonds. Assets in a cover pool must be endorsed showing they are part of a cover pool and have been entered in a register as provided for in the Act on Covered Bonds. The endorsement must also indicate that the debt instrument is to secure priority rights of a specific class of covered bonds.

If the Issuer fails to enter the assets in the Cover Pool and payments received therefrom (“Cover Pool Revenue”) in the Register, the Covered Bondholders and Swap Providers will not have priority claims to the Cover Pool and the Cover Pool Revenue and will rank with the Issuer’s unsecured creditors in the event the Issuer is subject to winding-up proceedings.

Conflicting interests of other creditors

The rights of the Covered Bondholders rank junior to counterparties to derivative agreements included in the Cover Pool, though they have preferential right with respect to other creditors against the Cover Pool. Further, in the event of the winding-up of the Issuer, they will rank junior to costs incurred in connection with the operation, management, collection and realisation of the Cover Pool, as well as the claims due to derivative agreements concluded in accordance with the provisions of the Act on Covered Bonds, which will be covered before the claims of the Covered Bondholders.

To the extent that Covered Bondholders are not fully paid from the proceeds of the liquidation of the assets comprising the Cover Pool, they will be able to apply for the balance of their claims as unsecured creditors of the Issuer and will be entitled to receive payment from the proceeds of the liquidation of the other assets of the Issuer not comprising the Cover Pool. The Covered Bondholders would in such case rank *pari passu* with the other unsecured, unsubordinated creditors of the Issuer and, as a result, may not receive all amounts owed by the Issuer to such Covered Bondholders. However, as a result of the enactment of the Emergency Act, should the Issuer enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, Article 102 of the Act on Financial Undertaking such claims of Covered Bondholders would be subordinated to the claims of certain of the Issuer’s depositors. If this were to occur, there may not be sufficient assets in the resulting estate to pay such claims after the claims of depositors have been paid.

Restriction on ability to petition for bankruptcy

If distributions on realisation of the assets in the Cover Pool are insufficient to make payments on the Covered Bonds, none of the Covered Bondholders, any Swap Provider, any Paying Agent shall be entitled at any time to file against the Issuer, or join in any filing against the Issuer of any winding-up, bankruptcy, reorganisation, arrangement, insolvency or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations of the Issuer relating to the issuance of the Covered Bonds, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer in relation thereto.

Liquidity

If the Issuer is wound up, neither the Issuer nor its estate would be authorised to issue further Covered Bonds. It would therefore not be possible for a winding-up committee to raise finance in the market by the issuance of further Covered Bonds following the winding-up of the Issuer. Further, neither the Act on Covered Bonds nor the Rules on Covered Bonds stipulate that the winding-up committee or the Issuer’s estate may contract debt obligations of any kind in order to service timely payment under the terms of the Covered Bonds. There is no legislation in effect which states that the winding-up committee managing the Issuer’s estate can raise loans or enter into any such agreements in order to service the timely payment of interest and principal on the Covered Bonds. Article 17(1) of the Act on Covered Bonds states that the winding-up committee shall fulfil an issuer’s commitments under covered bonds and derivative agreements using the mortgage bonds and other assets in the cover pool and payments received on such assets, provided that the assets are listed in the register. However, neither the Act on Covered Bonds nor the Rules on Covered Bonds provide any guidelines as to whether liquidity

can be raised by selling the mortgage bonds and other assets registered to the cover pool in the market. The Issuer is subject to liquidity requirements in its capacity as a commercial bank supervised by the FSA, including a statutory requirement to maintain sufficient liquidity to enable it to discharge its obligations as they fall due. The Issuer is also subject to the Central Bank's Rules no. 266/2017, on Liquidity Ratios. The FSA has issued guidelines on liquidity, which are not binding on the Issuer. However, any serious or systematic deviations from such guidelines may lead to the FSA determining that the Issuer's business does not fulfil the statutory soundness requirement for commercial banks and result in the FSA imposing sanctions against the Issuer.

RISKS RELATED TO THE COVER POOL

Default by borrowers in paying amounts due on their loan

There are many circumstances that affect the level of credit loss, early repayments, withdrawals and final payments of interest and principal amounts, such as changes in the economic climate, both nationally and internationally, and changes regarding taxation, interest rate developments, level of unemployment, inflation and/or the political environment. Borrowers may default as a result of interest rate increases or as a result of adverse developments in their own personal circumstances (for example, in respect of residential mortgages following redundancy or divorce, insolvency of the borrower and/or insolvency of the tenant of the relevant property and/or failure (for any reason) by such tenant to make rental payments in respect of such property). In addition, the ability of a borrower to sell a property pledged as security for a mortgage loan at a price sufficient to repay the amounts outstanding under that mortgage loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time. The Act on Covered Bonds provides that no mortgage loan may be registered in the Cover Pool if payment on it is in arrears 90 days or more.

Default in respect of the Issuer's assets comprised in the Cover Pool could jeopardise the Issuer's ability to make payments in full or on a timely basis on the Covered Bonds. Risks attaching to the Covered Bonds as a result of default in respect of the assets in the Cover Pool are reduced by a number of features of the Covered Bonds, including the ability of the Issuer to substitute assets to and from the relevant Cover Pool. However, if a material amount of assets in the Cover Pool were to default, there is no guarantee that the required level of assets within the relevant Cover Pool could be maintained or that the Issuer would be in a position to substitute non-defaulting assets for the defaulting assets.

Non-compliance with matching rules

The Act on Covered Bonds contains matching rules which, inter alia, require that the total current value of the assets registered to the cover pool as collateral for a specific class of covered bonds must always exceed the total current value of the principal of the covered bonds of that same class. The Act on Covered Bonds also requires that the instalments and other payment flows accruing on assets in the cover pool and from derivative agreements are in such a manner that all commitments towards the covered bondholders and derivative agreements can be met.

A breach of the matching requirements prior to the winding-up of the Issuer in the circumstances where no additional assets are available to the Issuer or the Issuer lacks the ability to acquire additional assets could cause the FSA to revoke the Issuer's license to issue Covered Bonds. The same applies in the event that the Issuer does not comply with other requirements prescribed in the Act on Covered Bonds.

If the matching requirements are breached following the winding-up of the Issuer, the winding-up committee would not be permitted to add more assets to the Cover Pool. The Act on Covered Bonds does not provide any further guidance as to the consequences of a breach of the matching rules following the winding-up of the Issuer.

To the extent that the Covered Bondholders are not fully paid from the proceeds of the liquidation of the assets comprising the Cover Pool, the Covered Bondholders will not be able to file against the Issuer or join in any filing against the Issuer of any winding-up proceedings, Bankruptcy, reorganisation, arrangement, insolvency or liquidation proceedings see above "Restrictions on ability to petition for bankruptcy". The explanatory memorandum for the Act on Covered Bonds provides that assets can be removed from the cover pool and

replaced with same kind of assets without limitations. If assets are replaced with substitute collateral there are limitations in the Act on Covered Bonds as to how much can be replaced with such collateral. Neither the Act on Covered Bonds nor the Rules on Covered Bonds provide clear guidance in this respect. This can, however, be subject to contract.

Overcollateralisation

The Issuer will maintain the Value of the relevant Cover Pool at a level that exceeds the value of the Covered Bonds by at least 25 per cent. ("Overcollateralisation") until March 2024. From March 2024 until May 2026 the Overcollateralisation of the Cover Pool will be at least 20 per cent. From May 2026 the Overcollateralisation of the Cover Pool will be at least 10 per cent. This Overcollateralisation, in the opinion of the Issuer, will be sufficient to manage the market risk of the Cover Pool and to enable the Covered Bonds to obtain and maintain the Programme and any Cover Pool rating. The rating of the Covered Bonds, if any, is based on an assumption of Overcollateralisation; if the level of Overcollateralisation is not maintained, the rating of the Covered Bonds may change from time to time.

According to the Issuer's license to issue the Covered Bonds the aggregated total amount of the Cover Pool shall not exceed a level of 30 per cent. above the issued Covered Bonds at any time unless increased demand has developed due to other provisions of the Act on Covered Bonds, such as due to stress test present value calculations. If the Overcollateralisation exceeds the limit the Issuer shall notify the FSA and the Independent Inspector immediately. The Issuer will have 14 days to remedy the level. See the sections *Cover Pool Assets* and *The Issuer's licence to issue Covered Bonds* in the section *Summary of Icelandic legislation relating to Covered Bonds*.

The Cover Pool consists of limited assets

Mortgaged real estate in respect of residential properties securing the Covered Bonds issued under this Base Prospectus will be located in Iceland. Such real estate properties may be concentrated in certain locations and any deterioration in prices in the residential real estate markets and any deterioration in the economic conditions in such areas may adversely affect the ability of the borrowers to make payments on the loans. The concentration of loans secured by residential properties, therefore, result in a greater risk of non-payment than if such concentration had not been present.

Moreover, such factors may have an impact on the value of the properties. If the residential real estate markets in Iceland experience an overall decline in property values, the value of the Cover Pool could be significantly reduced and, may ultimately, result in losses allocable to the Covered Bonds should it be necessary to enforce the security granted in respect of such properties.

Limited description of the Cover Pool

Covered Bond holders will not receive detailed statistics or information in relation to the bonds or other assets contained or to be contained in the Cover Pool, as it is expected that the constitution of the Cover Pool may change from time to time. However, an Independent Inspector appointed under the Independent Inspector Agreement and in accordance with the Act on Covered Bonds, and appurtenant regulations, shall monitor the Issuer's compliance with the requirements of the Act on Covered Bonds. A regular report on the Cover Pool will be published quarterly, no later than 30 days from the end of each quarter, on the Issuer's homepage: <https://www.islandsbanki.is/en/landing/about/investor-relations>.

There is no assurance that the characteristics of further mortgages will be the same as those mortgages in the Cover Pool as at Issue Date. However, each mortgage will be required to meet the requirements set out in the Act on Covered Bonds and appurtenant regulations.

Economic Conditions

As the assets which make up the Cover Pool will include loans secured by mortgages over residential properties, then the values of the assets and the ability of the Issuer to continue to make timely payments on the Covered Bonds could be adversely affected by, among other things, adverse developments in the Icelandic economy and/or residential and/or, the real estate markets.

As at the date of the Base Prospectus all of the properties over which the mortgages are created are located in Iceland. The residential properties in the Cover Pool may, however, be concentrated in certain locations in Iceland. The value of the Cover Pool may decline in the event of a general or location-specific deterioration in prices of residential properties or general deterioration or location-specific deterioration in economic conditions. This could adversely affect the Issuer's operating results, financial condition and business prospects as well as its ability to perform its obligations under the Covered Bonds.

Appraisals

In accordance with the Act on Covered Bonds, appraisals or valuation of the properties securing the mortgage loans may be undertaken by the Issuer, and take account of the following: (a) The selling price of a property on the day the transaction is made; or (b) an independent appraisal conducted by a licensed realtor; or (c) an acquisition offer, signed on behalf of both the seller and the buyer; or (d) the rateable value of the property, made by Registers Iceland (Ice. Þjóðskrá Íslands). Appraisals based on the selling price of a property shall be valid for a period of 3 months from the day the transaction was made.

No assurance can be given that values of the properties underlying the mortgage loans have remained or will remain at the levels which existed on the dates of appraisal (or, where applicable, on the dates of appraisal updates) of the related mortgage loans.

The appraisal relates both to the land and to the structure; in fact, a significant portion of the appraised value of a property may be attributable to the value of the land rather than to the residence. Because of the unique locations and special features of certain properties, identifying comparable properties in nearby locations may be difficult. The appraised values of such properties will be based to a greater extent on adjustments made by the appraisers to the appraised values of reasonably similar properties rather than on objectively verifiable sales data. As a result, such appraisals could be more likely to overvalue certain properties and therefore overstate the value of the collateral underlying the Cover Pool.

No due diligence

Covered Bondholders will not have the ability to investigate the Cover Pool but will instead rely on the obligations of the Issuer under the Act on Covered Bonds and the investigations of the Independent Investigator.

Other than any reviewed interim financial statements or audited annual financial statements the Issuer does not publish any separate review or audits of the Cover Pool. However, the Issuer is subject to surveillance by an Independent Inspector in accordance with the requirements of the Act on Covered Bonds and FSA. This Independent Inspector monitors that the register is maintained in a correct manner See the section *Supervision by an Independent Inspector* in the section *Summary of Icelandic legislation relating to covered bonds* for a description of the Independent Inspector.

The Issuer will not undertake any investigations, searches or other actions in respect of the assets in the Cover Pool.

Changes to the lending criteria of the Issuer

Each of the mortgage loans originated by the Issuer will have been granted in accordance with its lending criteria at the time of origination. It is expected that the Issuer's lending criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ("LTV") ratio, status of applicants and credit history. The Issuer retains the right to revise its lending criteria from time to time but would do so only to the extent that such a change would be acceptable to a reasonable, prudent mortgage lender. If the lending criteria changes in a manner that affects the creditworthiness of the mortgage loans, that may lead to increased defaults by borrowers and may affect the Cover Pool revenue or the realisable value of the Cover Pool.

In accordance with the Act on Covered Bonds the Issuer may only include in the Cover Pool mortgage loans issued against mortgages secured by real property if the LTV ratio does not exceed 80 per cent. for residential property, 60 per cent. for industrial, office or commercial property, and 70 per cent. for agricultural property. Moreover, as noted above, mortgage loans 90 days or more in arrears may not be registered in the Cover Pool.

Set-off risks in relation to some types of loans may adversely affect the value of the Cover Pool or any part thereof

Registration of assets in the Cover Pool will not affect the rights of borrowers. Borrowers will therefore continue to have independent set-off rights against the Issuer, such as, for example, set-off rights associated with borrowers' holding deposits with the Issuer.

The exercise of set-off rights by borrowers may adversely affect the realisable value of the Cover Pool and/or the ability of the winding-up committee to meet in full the Issuer's obligation under the Covered Bonds.

Liquidity Risk relating to the Cover Pool upon insolvency of the Issuer

According to the Act on Covered Bonds, upon an insolvency event of the Issuer, the court appointed administrator shall fulfil the commitments of the Issuer under the Programme. However, there are no assurances that the Cover Pool can sustain the Covered Bonds payments post insolvency which could force the administrator to liquidate the Cover Pool. In such an event there could potentially be no market, or a limited market, for the Cover Pool assets.

Set-off risks in relation to some types of Loans may adversely affect the value of the Cover Pool or any part thereof

There is a risk that borrowers of certain loans contained in the Cover Pool retain a residual right under Icelandic law to set-off claims against the Issuer against the amount outstanding under their relevant loans. Under Icelandic law set-off can be exercised when claims are (i) mutual, (ii) due, and (iii) obligations are of the same nature.

In such circumstances the borrowers of certain loans contained in the Cover Pool would most likely be depositors with the Issuer. In a bankruptcy event of the Issuer, these depositors are guaranteed under the Icelandic Act No. 98/1999, on the Depositors and Investors Guarantee Fund, certain to a maximum amount. The Guarantee Fund would in a bankruptcy event compensate the depositor and assume the deposit claims, which would become priority claims of the estate of the Issuer under the Icelandic Act No. 21/1991 on Bankruptcy etc., cf. the Act on

Financial Undertakings, and therefore reducing any risk of set-off as the Guarantee Fund would not assume any right to set-off against the Issuer. The Issuer however intends to mitigate this risk with Overcollateralisation.

The exercise of set-off rights by borrowers may adversely affect the realisable value of the Cover Pool and/or the ability of the winding-up committee to meet in full the Issuer's obligation under the Covered Bonds.

No representations or warranties to be given by the Issuer if Cover Pool to be sold

In the event of the bankruptcy of the Issuer, the winding-up committee shall fulfil the Issuer's obligations under the Covered Bonds and any Swap Agreements using the assets in the Cover Pool and the Cover Pool Revenue. In respect of any sale of assets in the Cover Pool to third parties, the Issuer may not be permitted to give representations and warranties or indemnities in respect of the assets in the Cover Pool. Accordingly, there is a risk that the realisable value of the Cover Pool could be adversely affected by the lack of representations and warranties or indemnities which in turn could adversely affect the ability of the administrator to meet in full all the Issuer's obligations under the Covered Bonds.

Enforcement Risk

When a mortgage loan is enforced, a court order may be needed to establish the borrower's obligation to pay and to enable a sale by executive measures. The Issuer's ability to make use of the collateral after enforcement can be limited and the collateral could decline in value when trying to sell the collateral in the market.

RISK RELATING TO COVERED BONDS GENERALLY

Set out below is a brief description of certain risks relating to covered bonds generally:

Covered Bonds issued under the Programme

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds issued from time to time will rank *pari passu* with each other.

Obligations under the Covered Bonds

The Covered Bonds will constitute obligations of the Issuer which have the benefit of a statutory preference under the Act on Covered Bonds in respect of the relevant pool of assets maintained by the Issuer being the Cover Pool. An investment in the Covered Bonds involves a reliance on the assets of the Cover Pool and the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any third party. In addition, an investment in the Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the Covered Bonds.

The Covered 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 Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators.

Extendable obligations under the Covered Bonds

The applicable Final Terms will provide that an Extended Maturity Date applies to each Series of Covered Bonds unless to do so would result in the Issuer being unable to obtain if applicable the relevant credit rating from the

relevant rating agencies appointed by the Issuer at the relevant time in respect of a Series of Covered Bonds, as applicable.

The extension of the maturity of the principal amount outstanding of the Covered Bonds from the Maturity Date to the Extended Maturity Date will not result in any right of the Covered Bondholders to accelerate payments or take action against the Issuer, and no payment will be payable to the Covered Bondholders in that event other than as set out in the Terms and Conditions of the Covered Bonds as amended by the applicable Final Terms. Furthermore, the Issuer may at its discretion decide to either pay amounts due on any Interest Payment Date or add the same to the principal amount outstanding.

RISK 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.

Interest rate risks

Interest rate risks occur when fixed interest periods or interest basis for assets and liabilities do not coincide. Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds. Investments in Floating Rate Covered Bonds will involve a risk of interest rate changes.

The Issuer may enter into Cover Pool Swaps and Interest Rate Swaps to ensure that the risks do not exceed the limit values approved by its Board of Directors and to ensure that matching is maintained in accordance with the Act on Covered Bonds.

Competition

The Issuer faces competition in the residential mortgage market in Iceland. Some of the Issuer's competitors may be larger and better capitalised. The Issuer may face pricing pressure in the future as competitors seek to obtain market shares by reducing prices or offering new services at low prices. While the Issuer believes it is positioned to compete effectively with these competitors, there can be no assurance that existing or increased competition will not adversely affect the Issuer. The demand for the Issuer's products is also dependant on levels of customer confidence, prevailing market rates and other factors that have an influence on the customers' economic situation.

Absence of secondary market

While the Covered Bonds have been traded, and to some extent, a secondary market has developed, there can be no assurance that an active and liquid secondary market for the Covered Bonds will continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bond holder to realise a desired yield.

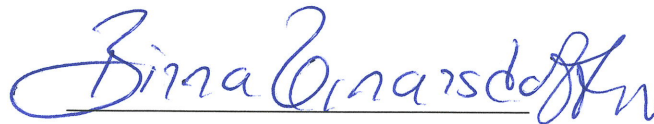
2. STATEMENTS

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, 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, 29 June 2020

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 2018 AND 31 DECEMBER 2019

The auditor of the Issuer for the years 2018 and 2019 was Ernst & Young ehf. and bears the 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 2018 and 2019 presented and published by Management and the Board of Directors of Íslandsbanki hf. from which the consolidated financial information on pages 93-96 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 2018 and 2019 for Íslandsbanki hf. can be found on the website: <https://www.islandsbanki.is/en/landing/about/investor-relations>

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 2019 consolidated financial statements that were signed on 12 February 2020.

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 93-96 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 93-96 to financial information in the consolidated financial statements for 2018 and 2019.

Conclusion

Our conclusion is that the consolidated financial information presented on pages 93-96 are, in all material respects, in accordance with the published consolidated financial statements for the financial years 2018 and 2019 from which they have been extracted.

Reykjavík, Iceland, 29 June 2020

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.

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 Covered 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 Covered Bonds has led to the conclusion that: (i) the target market for the Covered 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 Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered 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 Covered 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 Covered 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 Covered 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 Covered 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 Covered Bonds]
under the ISK 220,000,000,000

Covered 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 Covered Bonds (the **Terms and Conditions**) set forth in the Base Prospectus dated 29 June 2020. This document constitutes the Final Terms of the Covered 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 Covered 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/en/landing/about/investor-relations> 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 Covered 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]]*
 - ii. Extended Maturity Date: [Applicable/Not Applicable]
(If not applicable, delete the remaining sections of this subparagraph)
The Extended Maturity Date is [specify date or Interest Payment Date falling in or nearest to the relevant month and year; in each case falling up to 36 months after the Maturity Date]
[If applicable, complete relevant sections regarding interest, etc.]
- 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)
 - ii. Interest Basis from Maturity Date to Extended Maturity Date: [Inflation Linked Interest]
[[] per cent. Fixed Rate]
[[LIBOR/EURIBOR/REIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[specify other]
- 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 Covered Bonds into another Interest Basis or Redemption/Payment Basis]

12. Call Option:

[Issuer Call/ Not Applicable]

[(further particulars specified below)]

13. Status of the Covered Bonds:

Senior.

14. Approval for issuance of the Covered Bonds:

[Date of [Board] approval for issuance of Covered Bonds obtained]:

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

15. Method of distribution:

[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS

16. Inflation Linked Annuity Covered 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. Rate(s) of Interest from Maturity Date to Extended Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- iii. Number of Interest Payment Dates: []
- iv. 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 [].
- v. Day Count Fraction: [30/360] [*specify other*]
- vi. 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.)

- vii. 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, 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.)

- viii. Payment(s): On each Interest Payment Date the sum of the relevant Principal Repayment and the Interest Payment.
- ix. Calculation Agent:: [Issuer] [specify other]
- x. 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:

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

where:

CP_{M-1} = CPI value published by Statistic Iceland in the month preceding month M

CP_{M-2} = CPI value published by Statistic Iceland 2 months prior to month M

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 COVERED BONDS INCLUDING COVERED BONDS WITH ONE PAYMENT OF PRINCIPAL ON MATURITY DATE

17. Inflation Linked Equal Principal Payment Covered 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. Rate(s) of Interest from Maturity Date to Extended Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- iii. Number of Interest Payment Dates: [number of dates]
- iv. 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 [].
- v. Number of Principal Payment Dates: [Number of Interest Payment Dates/1]

- vi. Principal Payment Date(s): [On each Interest Payment Date/Maturity Date]
- vii. Day Count Fraction: [Act/Act] [*specify other*]
- viii. 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.
- ix. 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.
- x. Payments(s): On each Interest Payment Date the sum of the relevant Principal Repayment and the Interest Payment.
- xi. Calculation Agent: [Issuer] [*specify other*]
- xii. 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).

xiii. 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:

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

where:

CP_{M-1} = CPI value published by Statistic Iceland in the month preceding month M

CP_{M-2} = CPI value published by Statistic Iceland 2 months prior to month M

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

iii. 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)

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

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

19. Floating Rate Covered 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 Reykjavík 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. Margin(s) from Maturity Date to Extended Maturity Date: +/- per cent. per annum
- x. Minimum Rate of Interest: per cent. per annum/Not Applicable]
- xi. Maximum Rate of Interest: per cent. per annum/Not Applicable]
- xii. Day Count Fraction: [Actual/Actual
Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition 6.7 for alternatives)
- xiii. Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Covered Bonds, if different from those set out in the Terms and Conditions:

20. Zero Coupon Covered 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 8.6.b) and 8.10 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 Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, select "Applicable")

- i. Optional Redemption Date(s): []

(N.B. For Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, select "Each Interest Payment Date")
- ii. Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):

[[] per Covered Bond of [] Specified Denomination] [*specify formula*] [Condition 8.6 (a) applies]

(N.B. For Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, select "Condition 8.6 a) applies")

iii. Early Redemption Amount: [As set out in Condition 8.6]

iv. If redeemable in part:

(i) Minimum Redemption Amount: []

(ii) Maximum Redemption Amount: []

v. 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 Covered Bond:

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

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

(N.B. In relation to any issue of Covered Bonds which are expressed at paragraph 6 above to have a minimum denomination and tradeable 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 Covered 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 COVERED BONDS

23. New Global Covered Bond: [Yes/No]

24. Form of Covered Bonds:

[VS System Covered Bonds]

[Temporary Bearer Global Covered Bond exchangeable for a Permanent Bearer Global Covered Bond which is exchangeable for definitive Covered Bonds [on 60 days' notice given at any time/only after an Exchange Event]]

[Temporary Bearer Global Covered Bond exchangeable for definitive Covered Bonds on and after the Exchange Date]

[Permanent Bearer Global Covered Bond exchangeable for definitive Covered Bonds [on 60 days' notice given at any time/only after an Exchange Event]]¹

[Registered Covered 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 Covered Bonds (and dates on which such Talons mature):

[Yes/No. *(If yes, give details)*]

27. Details relating to Partly Paid Covered 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 Covered Bonds and interest due on late payment:

[Not Applicable/*give details. N.B. a new form of Temporary Global Covered Bond and/or Permanent*

¹ The option to exchange a Temporary or Permanent Global Covered Bond for a Definitive Covered 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.

Global Covered Bond may be required for Partly Paid issues]

28. Details relating to Instalment Covered 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 Covered Bonds described herein pursuant to the ISK 220,000,000,000 Covered 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 Covered Bonds to be admitted to trading on [] with effect from [].] [Not Applicable.]

2. RATING

[Not Applicable/The Covered 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 Covered 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.]

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 Covered 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]
- ii. Estimated net proceeds: []
- iii. Estimated total expenses: []

6. YIELD (*Fixed Rate Covered 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 Covered 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 Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds Only*)

The general cash-flow of the Covered 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. 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)*]
- iv. Delivery: Delivery [against/free of] payment
- v. Names and addresses of additional Paying Agent(s) (if any):
- vi. Intended to be held in a manner which would allow Eurosystem eligibility:
 - i. [Yes][No].
 - ii. [Note that the designation “yes” simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered 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 Covered Bonds must be issued in NGN form]

5. TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Covered Bond (as defined below). The applicable Final Terms in relation to any Tranche of Covered 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 Covered Bonds. Reference should be made to "Form of the Covered 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 Covered Bonds.

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

Interest bearing Covered Bonds: Interest bearing definitive Bearer Covered 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. Covered 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 Covered 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 Covered Bonds) attached to or endorsed on this Covered Bond. The Final Terms (or such relevant provisions thereof) must be read in conjunction with these Terms and Conditions 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 Covered 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 Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered 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 AND ABBREVIATIONS

Interpretation: In these Conditions:

- 1.1 Covered Bonds and Covered 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 Covered 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 Covered 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 9 (Taxation), any premium payable in respect of a Covered 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 9 (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 Covered Bonds;
- 1.7 VS System Covered Bonds are in dematerialised form, and any references in these Terms and Conditions to Coupons and Talons shall not apply to VS System Covered Bonds and no global or definitive Covered Bonds will be issued in respect thereof; and
- 1.8 If the Covered Bonds are Zero Coupon Covered Bonds, references to Coupons and Couponholders are not applicable.

Accrual Period	In accordance with Condition 6.7(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 Covered 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 Covered Bonds	The Icelandic Act on Covered Bonds No. 11/2008 which came into effect 4 March 2008, as amended (<i>Icelandic: Lög um sértryggð skuldabréf nr. 11/2008</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 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>Icelandic: Lög um lýsingu verðbréfa sem boðin eru í almennu útboði eða tekin til viðskipta á skipulegum verðbréfamarkaði nr. 14/2020</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 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 8.6(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 7.1(a)
Annuity Covered Bonds	Covered 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
Automatic Extension	The meaning given in Condition 8.11(b)
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 29 June 2020
Bearer Covered Bond	Means Cover Bonds issued in bearer form
BRRD	EU Bank Recovery and Resolution Directive No. 59/2014 (as amended).
Business Day	As defined in Condition 6.7(a)
Business Day Convention	In respect of a Tranche of Covered 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 6.7(b)
Calculation Agent	The meaning (if any) given in the applicable Final Terms
Clearstream, Luxembourg	Clearstream Banking, société anonyme, 42 Avenue JF KennedyL-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 Covered Bonds

Cover Pool	A collection of bonds, substitute collateral and other assets listed in the Register, as provided for in Chapter VI of the Act on Covered Bonds, in which the Covered Bondholders and Issuer's counterparties have rights of priority pursuant to the provisions of the Act on Covered Bonds
Cover Pool 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
Covered Bond	The covered bonds issued or to be issued by the Issuer under the Programme in accordance with the Act on Covered Bonds
Covered Bondholders	The holders for the time being of the Covered Bonds
Covered Bond Legislation	Act on Securities Transactions, Act on Covered Bonds, 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)
CRA Regulation	Regulation (EC) No. 1060/2009 on Credit Rating Agencies (as amended).
CRD IV	EU Capital Requirements Directive No. 2013/36/EU (as amended).
CRR	EU regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (amending Regulation (EU) No 648/2012).
CSD	Nasdaq CSD Iceland, with its registered office at Laugavegur 182, 105 Reykjavík, Iceland.
CSD System Account Manager	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 Covered Bonds.
CSD System Covered Bonds	Shall mean Covered Bonds issued in a dematerialised, uncertified book entry form cleared through CSD.
Dealer	Any dealer appointed by the Issuer (if any)
Defaulted Loan	Any mortgage in a Cover Pool which is three months or more in arrears
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 6.7(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 Covered Bonds, as certified by the relevant Dealer
Early Redemption Amount	The amount calculated in accordance with Condition 8.6
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 (<i>Ice. Lög um Evrópska efnahagssvæðið</i>)
Equal Payment Amount	The meaning given in Condition 7.1(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
Extended Maturity Date	Means the date falling no later than thirty-six months from the Maturity Date of the Covered Bonds
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 Covered 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 Covered Bonds are the Terms and Conditions of the Covered 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 Covered Bonds	Covered 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 6.7(b)(i)
Floating Rate Covered Bonds	<p>Covered Bonds which bear interest at a rate determined:</p> <ul style="list-style-type: none"> (i) 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 (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer, or <p>as set out in the applicable Final Terms</p>
Following Business Day Convention	The meaning given in Condition 6.7(b)(ii)
FSA	The Financial Supervisory Authority of the Central Bank of Iceland
Global Covered Bonds	Global Covered Bonds comprising Temporary Global Covered Bonds and Permanent Global Covered Bonds
Government Bond	Bonds issued by the Icelandic State or other Cover Pool Member States, municipality in Iceland or in another Cover Pool Member State, or guaranteed by such Cover Pool Member State, in accordance with Article 5 of the Act on Covered Bonds
Group	The Issuer and its Subsidiaries
IFRS	International Financial Reporting Standards
Inflation Linked Annuity Covered Bonds	Covered Bonds 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 Covered Bonds	Covered Bonds 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 Covered Bonds, each amount specified as such in the applicable Final Terms
Instalment Covered Bonds	Covered 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 Covered Bonds, each date specified as such in the applicable Final Terms
Interest Amount	The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant

	Interest Period, as calculated in accordance with Condition 6.4(d) or the amount of interest payable on Inflation Linked Annuity Covered Bonds or Inflation Linked Equal Payment Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Conditions 6.1 and 6.2 respectively
Interest Commencement Date	In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest
Interest Determination Date	In respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms
Interest Payment Date	In respect of Fixed Rate Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Payment Covered Bonds, the meaning given in the applicable Final Terms and in respect of Floating Rate Covered Bonds the meaning given in Condition 6.4(a)
Interest Period	In accordance with condition 6.7(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 6.4(b)
ISDA Determination	If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 6.4(b)
ISDA Rate	The meaning given in Condition 6.4(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 Covered 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 Covered Bonds, at which a Tranche of Covered Bonds will be issued
Issuer	Íslandsbanki hf., ID.No. 491008-0160 and LEI code 549300PZMFIQR79QOT97, 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 Covered Bonds in accordance with Condition 8.3
Issuer Cover Pool	The Cover Pool has the meaning given to it in the chapter Issuer Cover Pool in this Base Prospectus.
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 Covered 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 Covered 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 6.7(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 2014/65/EC, published in the Icelandic EEA Government Gazette (<i>ice. Stjórnartíðindi</i>).
MiFID II Implementation Date	The day of implementation of the MiFID II into the Icelandic law.
Mortgage	Each mortgage loan referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys due or owing with respect to that mortgage loan under the relevant mortgage terms by a borrower to the Issuer on the security of a Mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same, and eligible to be added to the Cover Pool.

NASDAQ Iceland	The regulated market of the NASDAQ Iceland with its registered office at Laugavegur 182, 105 Reykjavik.
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
Overcollateralisation	The certain percentage level by which the Value of the Cover Pool will exceed the nominal value of the liabilities, relating to the issued Covered Bonds, along with all accrued interests.
Partial Redemption	The meaning given in Condition 8.11(f)
Paying Agents	The Principal Paying Agent and any other paying agent appointed (if any)
Payment Day	The meaning given in Condition 7.4
Preceding Business Day Convention	The meaning given in Condition 6.7(b)(iv)
Principal Amount Outstanding	In accordance with condition 6.7(f) means in respect of a Covered Bond, except an Inflation Linked Annuity Covered Bond and an Inflation Linked Equal Principal Payment Covered Bond on any day, the principal amount of that Covered Bond on the relevant Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day and in respect of an Inflation Linked Annuity Covered Bond and an Inflation Linked Equal Payment Covered Bond, the meaning given in the applicable Final Terms
Principal Paying Agent	The Issuer, Íslandsbanki hf.
Programme	ISK 220,000,000,000 covered bond programme established by the Issuer on the Issue Date. Any increases of the Programme shall be subject to the FSA confirmation.
Property	A residential property in Iceland which is subject to a Mortgage
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 Covered Bonds, the rate of interest payable from time to time in respect of such Covered Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms
Redeemed Covered Bonds	The meaning given in Condition 8.3
Reference Price	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms

Reference Rate	In respect of Floating Rate Covered 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
Register	A special register in respect of covered bonds and the cover pool, together with any derivative agreements an issuer must maintain in accordance with Chapter VI of the Act on Covered Bonds and Chapter VI of the Regulation.
Registered Covered Bond	Means Covered Bonds issued in registered form.
Rules	The rules of 3 June 2008 No. 528/2008 on covered bonds issued by the FSA under the authority conferred on it by Article 25 of the Act on Covered Bonds, which came into effect 3 June 2008, as amended.
Regulation S	Regulation S under the US Securities Act
REIBOR	Reykjavík Inter Bank Offering Rate
Relevant Screen Page	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms
Reset Date	The Meaning given in the ISDA Definitions
Residential Mortgages	Bonds which have been issued against mortgages in residential housing in Cover Pool Member States, in accordance with Article 5 of the Act on Covered Bonds.
Resolution Committee	Committee appointed under Act No. 125/2008 to maximise the recovery value of Glitnir's assets for the benefit of Glitnir's creditors
Screen Rate Determination	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 6.4(b)
Security Interest	The meaning given in Condition 4.1
Selection Date	The meaning given in Condition 7.3
Senior Debt	Means loans that may be taken out to purchase assets which are in turn added to the Cover Pool in the event that the Issuer is required to post additional collateral
Series	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered 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 Covered Bonds, the denomination or denominations of such Covered 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 Covered 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 6.7(g)
Talons	Talons for further Coupons in respect of interest-bearing definitive Covered Bonds
TARGET System	The meaning given in Condition 6.7(a)
Temporary Bearer Global Covered Bond	The temporary global covered bond in bearer form which will initially represent the Bearer Covered Bond of each Tranche
Terms and Conditions or Conditions	The terms and conditions of the Covered Bonds
US Securities Act	U.S. Securities Act of 1933, as amended
Tranche	An issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading)
Value	The nominal par value of the Cover Pool along with all accrued interest (but excluding the nominal par value of each mortgage within the Cover Pool which is in arrears for 90 days or longer at the relevant time).
VS System Covered Bonds	Means Covered Bonds issued in uncertificated book entry form cleared through the CSD, Euroclear, Clearstream and/or, in relation to any Tranche of Covered 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 Covered Bonds	Covered 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 Covered Bonds: The Covered Bonds are issued in bearer form (the Bearer Covered Bonds), or, in the case of VS System Covered Bonds, uncertificated book entry form, as specified in the applicable Final Terms and, in the case of definitive Covered Bonds, serially numbered, in the Specified Currency and the Specified Denomination(s). The Covered Bonds are in Specified Currency and the Specified Denomination(s). Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

The Covered Bonds may be an Inflation Linked Annuity Covered Bond, an Inflation Linked Equal Principal Payment Covered Bond, a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered 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 Covered 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 Covered 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 Covered Bonds issued in the form of Bearer Covered Bonds will initially be represented by a Temporary Bearer Global Covered Bond without Coupons, Receipts or Talons which will (i) if the global Covered Bonds are intended to be issued in a new global covered bond form (“**NGCB**”), 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 Covered Bonds are not intended to be issued in NGCB Form, 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 Covered Bond will be exchanged either for interests in a Permanent Bearer Global Covered Bond or, where specified in the applicable Final Terms (subject to such notice period as is specified in the Final Terms), for definitive Bearer Covered Bonds on or after the date (the “**Exchange Date**”) which is the later of (i) 60 days after the Temporary Bearer Global Covered 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 Covered Bonds is not a U.S. person or other person who has purchased such Covered 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 Covered Bonds occurs whilst such Covered Bonds are represented by a Temporary Bearer Global Covered 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 Covered 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 Covered Bond is improperly withheld or refused. Payment of principal or interest (if any) on a Permanent Bearer Global Covered Bond will be made through Euroclear or Clearstream, Luxembourg (against presentation or surrender, as the case may be, of the Permanent Bearer Global Covered Bond if the Permanent Bearer Global Covered Bond is not intended to be issued in NGCB form) without any further requirement for certification. Pursuant to the Agency Agreement the Fiscal Agent shall arrange that, where a further Tranche of Covered Bonds is issued, the Covered 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 Covered Bonds of any other Tranche of the same Series until at least expiry of the Distribution Compliance Period applicable to the Covered Bonds of such Tranche.

The applicable Final Terms will specify that either (i) a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Covered 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 Covered Bond) to the Fiscal Agent as described therein or (ii) a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Covered 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 Covered 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 9 (Taxation) which would not be required were the Covered Bonds represented by the Permanent Bearer Global Covered 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 Covered 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 Covered Bond) or the Covered 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 Covered 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 Covered 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 Covered 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 Covered Bonds, Receipts or Coupons.

Unless otherwise provided with respect to a particular Series of Registered Covered Bonds, the Registered Covered 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 Covered 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 Covered Bond, beneficial interests in a Reg. S. Global Covered 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 Covered Bond will bear a legend regarding such restrictions on transfer.

Registered Covered 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 Covered Bonds of each Tranche sold to QIBs will be represented by a Restricted Global Covered 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 Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Covered Bonds in fully registered form.

Payments of principal on the Registered Covered 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 Covered Bonds will be made on the relevant payment date to the person in whose name such Covered Bonds, Receipts and Coupons)) immediately preceding such payment date.

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

For so long as any of the covered Bonds are represented by a Bearer Global Covered 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 Covered Bond or so long as the Covered Bond is a VS Systems Covered 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 Covered 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 Covered 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 Covered Bonds for all purposes other than (in the case only of Covered Bonds not being VS System Covered Bonds) with respect to the payment of principal or interest on the Covered Bonds, for which purpose, in the case of Covered Bonds represented by a Bearer Global Covered Bond, the bearer of the relevant Bearer Covered Bond, or in the case of Covered Bonds where DTC or its nominee is the registered holder of a Registered Global Covered Bond, DTC or its nominee shall be treated by the Issuer, the Fiscal Agent and any other Paying Agent as the holder of such Covered Bonds in accordance with and subject to the terms of the relevant global Covered Bond (and the expressions “**Covered Bondholder**” and “**holder of Covered Bonds**” and related expressions shall be construed accordingly).

Covered Bonds which are represented by a Bearer Global Covered 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 Covered 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 Covered Bonds will be issued in uncertificated and dematerialised book entry form. Legal title to the VS Systems Covered 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 Covered 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 Covered Bonds will take place in accordance with the rules and procedures for the time being of the CSD or VP LUX.

Covered Bonds that are represented by a global Covered Bond and VS System Covered 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 Covered Bonds, Receipts and Coupons will pass by delivery. The Issuer may deem and treat the bearer of any Bearer Bond, Receipt of 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 Covered 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 COVERED BONDS

The Covered Bonds constitute direct, unconditional, unsubordinated and secured obligations of the Issuer issued in accordance with the Act on Covered Bonds and appurtenant regulations and rank *pari passu* among themselves and with all other obligations of the Issuer that have been provided the same priority as debt instruments issued pursuant to the Act on Covered Bonds (save for certain obligations required to be preferred by law) (other than subordinated obligations, if any), from time to time outstanding. Senior Debt (if any) ranks thereafter. To the extent that claims in relation to the Covered Bonds, related derivative contracts and Senior Debt (if any) are not met out of the assets of the Cover Pool or the proceeds arising from it, the residual claims 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, to such extent as the cost is incurred due to efforts of the bankruptcy administrator concerning the Covered Bonds and the Cover Pool, will rank ahead of claims for payments of the Covered Bonds, of related derivative contracts and of the relevant Senior Debt (if any). Other cost of bankruptcy administration shall not be paid from the assets of the Cover Pool.

4. ISSUER COVENANTS

4.1 Negative Pledge.

In accordance with the Act on Covered Bonds, cf. Article 12(4), the Issuer undertakes, so long as any of the Covered Bonds, Receipts or Coupons remain outstanding, that it will not, and that it will procure that none of its Relevant Subsidiaries will, create or have outstanding any mortgage, charge, pledge, lien or other security interest (each a **Security Interest**) over the mortgages or other assets in the Cover Pool, other than any lien arising by operation of law (if any).

4.2 Maintenance of the Issuer Cover Pool.

For so long as the Covered Bonds are outstanding, the value of the Cover Pool will not at any time be less than the total aggregate outstanding principal amount of all Covered Bonds issued under the Programme plus an Overcollateralisation of 10 per cent. According to the Issuer's license to issue the Covered Bonds the

Overcollateralisation may however not exceed 30 per cent. unless increased demand has developed due to other provisions of the Act on Covered Bonds

For the avoidance of doubt, the Issuer shall not at any time reduce the Overcollateralisation which applies to the Programme if to do so would result in any credit rating then applying to the Covered Bonds by any rating agency appointed by the Issuer in respect of the Covered Bonds being reduced, removed, suspended or placed on credit watch.

4.3 Composition of the Cover Pool.

For so long as any of the Covered Bonds are outstanding the Issuer shall ensure that the Cover Pool maintained or to be maintained by the Issuer shall at all times comply with the requirements of the Act on Covered Bonds.

For so long as any of the Covered Bonds are outstanding the Issuer covenants that no Mortgages in commercial real estate will be contained in the Cover Pool.

4.4 Interest Cover

The amounts of interest received by the Issuer in respect of the Cover Pool and under the related derivative contracts entered into by the Issuer shall be at least equal to or exceed the amounts payable by the Issuer under the Covered Bonds and the related derivative contracts entered into by the Issuer.

5. REDENOMINATION

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

The election will have effect as follows:

- 5.1 the Covered 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 Covered Bond equal to the principal amount of that Covered 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 Covered Bondholders, the stock exchange (if any) on which the Covered Bonds may be listed of such deemed amendments;
- 5.2 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 Covered Bonds will be calculated by reference to the aggregate principal amount of Covered 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;
- 5.3 if definitive Covered 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 Covered Bondholders;
- 5.4 if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated

Covered 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 Covered Bonds and Receipts so issued will also become void on that date although those Covered Bonds and Receipts will continue to constitute valid exchange obligations of the Issuer. New redenominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered 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 Covered 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 Covered Bonds;

- 5.5 after the Redenomination Date, all payments in respect of the Covered Bonds, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in the redenomination currency;
- 5.6 if the Covered Bonds are Fixed Rate Covered Bonds, Inflation Linked Annuity Covered Bonds or Inflation Linked Equal Principal Payment Covered 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
- 5.7 if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

6 INTEREST

6.1 Interest on Inflation Linked Annuity Covered Bonds

Each Inflation Linked Annuity Covered 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.

6.2 Interest on Inflation Linked Equal Principal Payment Covered 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.

6.3 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered 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.

The Issuer will calculate the amount of interest (each an Interest Amount) payable on the Fixed Rate Covered 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.

6.4 Interest on Floating Rate Covered Bonds

a) Interest Payment Dates

Each Floating Rate Covered 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 Covered Bonds will be determined in the manner specified in the applicable Final Terms.

ISDA Determination for Floating Rate Covered 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 Covered 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 Covered 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 Covered Bonds is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Covered 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 Covered 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 Covered 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 Covered Bonds, Inflation Linked Annuity Covered Bond or Inflation Linked Equal Principal Payment Covered 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 6.4, shall (in the absence of wilful default, bad faith or manifest error as aforesaid) be binding on the Issuer and all Covered Bondholders, Receiptholders and Couponholders.

6.5 Accrual of interest

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered 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 in accordance with these Terms and Conditions. In the event of non-payment of a Zero Coupon Covered Bond, interest will accrue as provided in Condition 8.10.

- a) The Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed or the Extended Maturity Date, subject to Condition 6. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 6.6 (b) on the Principal Amount Outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;:
- b) The rate of interest payable from time to time under Condition 6.5(a) will be as specified in the applicable Final Terms and, where applicable, determined by the Calculation Agent so specified, three Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and
- c) In the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 6.5 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.

6.6 Interest Payments up to the Extended Maturity Date.

If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 8.11:

- a) the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed or the Extended Maturity Date. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 6.6 (b) on the Principal Amount Outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately

prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;

- b) the rate of interest payable from time to time under Condition 6.6 (a) will be as specified in the applicable Final Terms and, where applicable, determined by the Issuer so specified, three Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and
- c) in the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 6.6 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.

6.7 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 6.4 (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 (ISMA)** is specified in the applicable Final Terms:

- (i) in the case of Covered 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 Covered 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 Covered 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 Covered Bond except an Inflation Linked Annuity Covered Bond and an Inflation Linked Equal Payment Covered Bond, on any day the principal amount of that Covered Bond on the Issue Date less principal amounts (if any) received by the holder of such Covered Bond in respect thereof on or prior to that day. In respect of an Inflation Linked Annuity Covered Bond and an Inflation Linked Equal Payment Covered 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.

7 PAYMENTS

7.1 Payments in respect of Inflation Linked Covered Bonds

- a) Payments in respect of Inflation Linked Annuity Covered Bonds

In case of an Inflation Linked Annuity Covered 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 Covered Bonds

In case of an Inflation Linked Equal Payment Covered 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.

7.2 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 9.

7.3 Presentation of Covered Bonds and Coupons

- a) Covered Bonds: Payments of principal in respect of definitive Bearer Covered Bonds will (subject as provided below) be made in the manner provided in Condition 7.2 (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 Covered Bonds, and payment of interest in respect of definitive Bearer Covered 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 Covered Bonds: Fixed Rate Covered Bonds in definitive bearer form (other than, Inflation-Linked Covered 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 9 (Taxation)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10 (Prescription)).

Up on any Fixed Rate Covered 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 Covered Bonds: Upon the date on which any Floating Rate Covered Bond or Inflation-Linked Covered 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 Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such definitive Bearer Covered 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 Covered Bond.
- (iii) VS System Covered Bonds: Payments of principal and interest in respect of VS System Covered Bonds will be made to the Covered 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).

7.4 Payment Day

If the date for payment of any amount in respect of any Covered 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 10) 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 Covered Bonds shall be deemed to include, as applicable:

the Final Redemption Amount of the Covered Bonds;

the Early Redemption Amount of the Covered Bonds;

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

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

in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 8.6); and

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

8 REDEMPTION AND PURCHASE

8.1 Redemption of Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Payment Covered Bonds

Unless previously redeemed or purchased and cancelled, each Inflation Linked Annuity Covered Bond and each Inflation Linked Equal Payment Covered Bond will, subject to Condition 7.1(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.

8.2 Final Redemption

Unless previously redeemed or purchased and cancelled, each Covered 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.

8.3 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 Covered 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 Covered 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 Covered Bonds, the Covered Bonds to be redeemed (**Redeemed Covered Bonds**) will be selected individually without involving any part only of a Bearer Covered Bond, in the case of Redeemed Covered Bonds represented by definitive Covered 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 Covered 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 Covered Bonds represented by definite Covered Bonds, a list of the serial numbers of such Redeemed Covered 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 Covered Bonds represented by definitive Covered Bonds shall bear the same portion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of definite Covered Bond outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Date. No exchange of the relevant Covered 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 8.3 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 11 at least five days prior to the Selection Date.

8.4 Redemption due to illegality or invalidity

If the Covered Bonds become illegal and/or invalid, the Covered 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 Covered Bondholders (which notice shall be irrevocable).

Covered Bonds redeemed pursuant to this Condition 8.4 will be redeemed at their Early Redemption Amount referred to in Condition 8.6 together (if appropriate) with interest accrued (and, if this is an Inflation Linked Annuity Covered Bond or an Inflation Linked Equal Principal Payment Covered Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms) to (but excluding) the date of redemption.

8.5 Certification

The publication of any notice of redemption pursuant to Condition 8.6 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 Covered Bondholders, Receiptholders and Couponholders.

8.6 Early Redemption Amounts

For the purpose of Condition 8.4, each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- a) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered 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 Covered Bond or an Inflation Linked Equal Principal Payment Covered 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 Covered 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 Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered 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.

8.7 Instalments

Instalment Covered 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 8.6.

8.8 Purchases

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

8.9 Cancellation

All Covered 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 Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 8.8 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 Covered 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.

8.10 Late Payment on Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 8.2, 8.3 or 8.4 above, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 8.6 (b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered 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 Covered 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 Covered Bonds has been received by the Issuer and notice to that effect has been given to the Covered Bondholders in accordance with Condition 11.

8.11 Extension of Maturity Date

- a) Extended Maturity Date:

An Extended Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds unless to do so would result in the Issuer being unable to obtain if applicable the relevant credit rating from the relevant rating agencies appointed by the Issuer at the relevant time in respect of a Series of Covered Bonds.

- b) Automatic Extension:

If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the Issuer fails to redeem the relevant Covered Bonds in full on the Maturity Date or within three Business Days thereafter, the maturity of the outstanding Covered Bonds and the date on which such Covered Bonds will be due and repayable for the purposes of these Terms and Conditions will be automatically extended up to but no later than the Extended Maturity Date, subject as otherwise provided for in the applicable Final Terms. In that event, the Issuer may redeem all or any part of the principal amount outstanding of the Covered Bonds on any Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date or as otherwise provided for in the applicable Final Terms. The Issuer shall give notice to the Covered Bondholders (in accordance with Condition 11 (Notices)) of its intention to redeem all or any of the principal amount outstanding of the Covered Bonds at least five Business Days prior to the relevant Interest Payment Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date, or give rise to rights to any such person.

- c) Zero Coupon Bonds:

In the case of Covered Bonds which are Zero Coupon Covered Bonds to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition (8.11) 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 Terms and Conditions.

- d) Extension Irrevocable:

Any extension of the maturity of Covered Bonds under this Condition (8.11) shall be irrevocable. Where this Condition (8.11) applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition (8.11) shall not constitute an event of default or acceleration of payment for any purpose or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.

- e) Payments:

In the event of the extension of the maturity of Covered Bonds under this Condition (8.11) Interest Rates, Interest Periods and Interest Payment Dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms.

- f) Partial Redemption after Maturity Date:

If the Issuer redeems part and not all of the principal amount outstanding of Covered Bonds on any Interest Payment Date falling after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption. If any partial redemption after the Maturity Date is not sufficient to redeem all outstanding Interest

Payments, then the remainder of any Interest Payment shall be added to the principal amount of the Covered Bonds.

g) Restriction on Further Issues:

If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 8.11 subject as otherwise provided for in the applicable Final Terms, for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further Covered Bonds, unless the proceeds of issue of such further Covered Bonds are applied by the Issuer on issue to redeem in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

8.12 Redemption for Tax Reasons

The Covered 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 Covered Bondholders (which notice shall be irrevocable), if:

- a) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (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 Covered Bonds; and
- b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

Covered Bonds redeemed pursuant to this Condition 8(12) will be redeemed at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

9 TAXATION

All payments of principal and interest in respect of the Covered 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 Covered 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 Covered 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 Covered 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 Covered Bond or Coupon by reason of it having some connection with Iceland other than the mere holding of such Covered 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 Covered 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.

10 PRESCRIPTION

The Covered Bonds, Receipts and Coupons will become void in accordance with Act on the Expiration of Debt and other Obligations No. 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 7.3 or any Talon which would be void pursuant to Condition 7.3.

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 Covered Bondholders in accordance with Condition 11.

11 NOTICES

All notices regarding the Covered 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 Covered 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 Covered Bondholders in order to send notices to each Covered Bondholder directly.

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

12 FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further covered bonds having terms and conditions the same as the Covered 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 Covered Bonds.

13 GOVERNING LAW AND JURISDICTION

The Covered Bonds (except for the CSD System Covered Bonds), the Receipts, the Coupons are governed by, and shall be construed in accordance with, English law except for Condition 3 (Status of Covered 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 Covered Bonds, the Coupons, the Receipts (except for the CSD System Covered Bonds) shall be subject to the exclusive jurisdiction of the Courts of England.

The CSD System Covered 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 Covered 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. SELLING RESTRICTIONS

United States

The Covered 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 Covered Bonds outside the United States. The Issuer reserves the right to reject any offer to purchase the Covered 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 Covered 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

Japan

The Covered 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 (e) 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 Covered 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 Covered 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 Covered 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 Covered 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 Covered 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 Covered 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 Covered 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 Covered 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 Covered Bonds described herein. The Covered 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 Covered 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 Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

7. SUMMARY OF ICELANDIC LEGISLATION RELATING TO COVERED BONDS

The Issuer is licensed under the Icelandic Act on Covered Bonds to issue covered bonds. The following is a brief summary of certain features of Icelandic law governing the issuance of covered bonds in Iceland, at the date of this Base Prospectus, which law may be supplemented, amended, modified or varied whether by legislative enactment or by way of judicial decisions and administrative pronouncements, including possibly, with retroactive effect. The summary does not purport to be, and is not, a complete description of all aspects of the Icelandic legislative and regulatory framework pertaining to covered bonds. The original language of the Icelandic Act on Covered Bonds is Icelandic. The following summary is provided in English only for the sake of convenience. In the event of any doubt, the original Icelandic version of the relevant legislation, executive orders and or regulations should be consulted.

THE LEGISLATION

As of the date of this Base Prospectus, the main legislation which governs the issuance of covered bonds is the Act on Covered Bonds and the Rules issued by the FSA under the authority conferred on it by Article 25 of the Act on Covered Bonds.

Under the Act on Covered Bond the FSA grants licences for the issuance of covered bonds pursuant to the Act on Covered Bonds. Licences to issue covered bonds will only be granted to certain financial undertakings which meet the general definitions of a financial undertaking and have been granted an operating license as provided for in the terms of the Act on Financial Undertakings. Furthermore, issuers must comply with the Act on Covered Bonds, and the budget of issuers, as attested by a certified public accountant, demonstrates that its financial situation is sufficiently sound so that the issuance of covered bonds will not jeopardise the interests of other creditors.

The Issuer, which is a financial undertaking as defined in the Act on Financial Undertakings, has received the required operating license, and has demonstrated that it fulfils the conditions set forth in the Act on Covered Bonds for granting a license to issue covered bonds.

The Act on Covered Bond provides that holders of covered bonds (and also, if applicable, counterparties under derivatives contracts entered into for hedging purposes in relation to the covered bonds) have an exclusive and prioritised right of claim, on a *pari passu* basis between themselves over a pool of certain security assets (the **Cover Pool**). Under Icelandic law, an issuer of bonds, such as an issuer of covered bonds, is authorised to register the bonds in dematerialised book entry form by electronic registration in the CSD in accordance with Act No. 131/1997 on electronic registration of title to securities.

THE REGISTER

The issuer of covered bonds must maintain a register (the **Register**) of the issued covered bonds, the related derivatives agreements, and the Cover Pool pertaining to such covered bonds and the relevant derivatives agreements concluded in accordance with the Act on Covered Bonds. The assets included in the Register are included on, and are a part of, the issuer's balance sheet. Each item in the Register must be clearly identified and the Register must be updated on a regular basis to include any changes in the relevant information. The Act on Covered Bonds also stipulates the type of information that must be recorded in the Register with respect to each item. The Register must at all times contain detailed information on the nominal value of the covered bonds, the assets which constitute the Cover Pool and their valuation, substitute collateral (if any), cash inflow from the Cover Pool and the derivatives agreements. Bonds in a cover pool must be endorsed showing they are part of a cover pool and have been entered in a register as provided for in Chapter VI of the Act on Covered Bonds. The endorsement shall also indicate that the debt instrument is to secure priority rights of a specific class of covered bonds.

BENEFIT OF A PRIORITISED CLAIM

Pursuant to the Act on Covered Bonds, if an issuer is declared bankrupt, enters into debt negotiations pursuant to the Bankruptcy Act, is liquidated, or is placed under public administration, the holders of covered bonds issued by the relevant issuer shall have exclusive, equal and *pro rata* rights of priority to bonds and other assets in the cover pool and payments received on the above mentioned assets, provided they have been entered into the Register. The nature of claims and rights of priority of covered bonds to the assets shall be as provided for in Art. 111 of the Bankruptcy Act which characterises secured claims. The prioritised claims will rank ahead of all other claims, save for claims relating to the fees and expenses of a bankruptcy estate and derivative agreements concluded in accordance with the Act on Covered Bonds. Derivative contracts shall enjoy priority as provided for in Point 3 of Article 110 of the Bankruptcy Act, cf. Article 111 of the Bankruptcy Act.

By virtue of the priority established by the Act on Covered Bonds, claims of the holders of covered bonds against an issuer which has issued covered bonds will rank ahead of claims of all other creditors of the credit institution with respect to the Cover Pool (save for the priority described above granted to a bankruptcy estate in respect of fees and expenses and claims of the counterparties to the relevant derivative contracts).

Cost of bankruptcy administration, to such extent as this is incurred due to efforts of the bankruptcy administrator concerning covered bonds, bonds and other assets in the cover pool, payments with respect to these assets or derivative contracts connected with the cover pool, shall be paid from the assets of the cover pool or funds which are substituted for them. Other cost of bankruptcy administration shall not be paid from the assets of the cover pool and fulfilment of derivative contracts connected with the pool if such exist.

Pursuant to the Act on Covered Bonds, loans and other assets included in the cover pool may not be pledged.

COVER POOL – COMPOSITION OF ASSETS

Pursuant to the Act on Covered Bonds, a cover pool may only consist of certain assets, which include bonds secured by various types of mortgages, on other registered assets, bonds granted to or guaranteed by certain governmental bodies (**Government Bonds**), receivables in the form of certain derivatives agreements and substitute collateral.

The real property and the registered assets which serve as security for the bonds included in the Cover Pool must be located in a member state of the European Economic Area, the European Free Trade Association Treaty, or the Farao Islands (each a **Cover Pool Member State** and together the **Cover Pool Member States**). The mortgages may include residential mortgages, mortgages over other title documents relating to residences (together with

the former **Residential Mortgages**), and mortgages over other real property (**Commercial Mortgages**) and lastly mortgages over farms and other real estate used for agricultural purposes in Cover Pool Member States (**Agricultural Mortgages**).

Government Bonds must be either guaranteed or issued by governmental bodies which belong to a Cover Pool Member State.

Substitute collateral is intended to ensure that the interests of covered bond holders are not prejudiced despite changes which may occur to assets in the Cover Pool. Substitute collateral may only consist of; 1. Demand deposits with a financial undertaking; 2. Deposits with or claims against a Cover Pool Member State or central bank in a Cover Pool Member State; 3. Claims against other legal entities which in the FSA's estimation, do not involve greater risk than those in previous points 1 and 2. Substitute collateral may not comprise more than 20% of the value of the cover pool. The FSA may however authorise an increase in the proportion of substitute collateral in the cover pool to as much as 30% of its value.

LOAN-TO-VALUE (LTV) RATIO AND COVER POOL COMPOSITION

Mortgages listed in the Register, must on the date of registration fulfil the following conditions:

- The LTV ratio of Residential Mortgages must not exceed 80%.
- The LTV ratio of Commercial Mortgages must not exceed 60%.
- The LTV ratio of Agricultural Mortgages must not exceed 70%. Production quotas, allocated to registered farms, may not be included in the calculations of market value.

Residential Mortgages and Commercial Mortgages may not be listed in a cover pool if payment is in arrears of 90 days or more. Should an issuer intend to include more than one class of bonds in its cover pool, mention must be made thereof in the license application to the FSA.

REGULAR ASSESSMENT OF THE MARKET VALUE FOR COVER POOL ASSETS

The aggregate present value of mortgages, including accrued interest and indexation, and other assets in the cover pool which is to serve as collateral for a specific class of covered bonds, must always exceed the aggregate current value of this same covered bond class.

An issuer must regularly monitor and have appraised the market value of the mortgages of the Cover Pool. If the market value of collateral of the Cover Pool decreases substantially, the amount of the mortgages included in the Cover Pool shall be increased to ensure that the LTV lies within the above limits specified by the Act on Covered Bonds.

VALUATION OF COVER POOL, ADMINISTRATION ETC.

Market value of the mortgages shall be based on the selling price in recent transactions with comparable properties. If the market value of real estate based on the foregoing considerations is not available it shall be determined by a specific valuation. The valuation shall be based on generally accepted principles for market valuation of real estate. Data on real estate price developments from the Registers Iceland (*Icelandic: Þjóðskrá Íslands*), for instance, may be used as a basis, together with other systematic collection of real estate price data.

If an issuer assesses the market value of real estate in accordance with the foregoing, the Independent Inspector provided for in Chapter VIII of the Act on Covered Bonds (see *Independent Inspector* below) must verify that the appraisal is based on accepted methodology. The Independent Inspector may re-assess the market price of one or more properties if it is believed to be valued incorrectly. An appraisal of the market value of real estate must be in writing and specify what methodology is used, who has carried out the appraisal and when it was made.

Additional provisions regarding quantitative and qualitative requirements placed on the assets forming part of the Cover Pool are set out in the Act on Covered Bonds and the Rules. In order to qualify for inclusion in the Cover Pool all legislative requirements must be met. However, if the Cover Pool assets at a later stage cease to meet the requirements of the Act on Covered Bonds and/or the Rules in relation to ratios, or proportion limits etc., such assets may nevertheless form part of the Cover Pool, but will be excluded from the calculation of the value of the Cover Pool.

According to the Act on Covered Bonds, bonds, substitute collateral and other assets placed by an issuer in a cover pool shall be valued having regard to exchange rates, interest rates, maturities and other factors of significance, in order to maintain a suitable balance between the cover pool and the corresponding class of covered bonds. An issuer may conclude derivative agreements for the purpose of achieving this balance.

Moreover, the Act on Covered Bonds states an issuer must ensure that instalments and other payment flows accruing on assets in the cover pool, and from derivative agreements, match payments on the covered bonds so that all commitments towards the covered bond holders and counterparties to derivative agreements can be met. To this end the issuer shall keep instalments and other payments accruing on assets in the cover pool segregated from the issuer's other assets, including other cover pools, as well as their accrued instalments and other payments. An issuer must preserve assets such as instalments and other payments accruing on assets in the cover pool in a separate account and keep them segregated from its other assets.

Bonds and other cover pool assets shall not be subject to claims by the issuer's creditors.

SUPERVISION BY AN INDEPENDENT INSPECTOR

The Act on Covered bonds demands that an issuer appoint an Independent Inspector to supervise the issuance of covered bonds licensed by the FSA. The Independent Inspector must fulfil the eligibility criteria prescribed in the Act on Covered Bonds and his/her appointment is subject to the approval of the FSA. If the FSA is of the opinion that the Independent Inspector does not fulfil these requirements it may revoke its approval. In seeking the FSA's approval for an Independent Inspector's appointment, an issuer must disclose any possible ties between the Independent Inspector and the issuer and the issuer's principal leaders.

The Independent Inspector must ensure that a Register is maintained, as described above, and verify that valuation of collateral for bonds in the Cover Pool is based on proper methodology. The Independent Inspector shall provide the FSA with information which he/she obtains in the course of work as frequently and in such format as the FSA decides, or above and beyond this if exceptional circumstances so warrant.

COVER POOL ADMINISTRATION IN THE EVENT OF BANKRUPTCY OF THE ISSUER

The Act on Covered Bonds prescribes that if an issuer's estate is subject to bankruptcy proceedings, covered bonds it has issued shall not be accelerated unless a specific agreement to this effect has been concluded. The estate shall maintain rights and obligations subject to derivative agreements concluded in accordance with the provisions of the Act on Covered Bonds.

If an issuer's estate is subject to bankruptcy proceedings, covered bonds it has issued shall have rights of priority to bonds and other assets in the Cover Pool and payments received on the abovementioned assets, provided they have been entered into a Register.

The administrator, who is appointed by the relevant district court, will manage the Cover Pool and the rights of the Covered Bondholders and counterparties to derivative contracts. The administrator of the bankrupt estate must keep bonds and other assets in a Cover Pool, as provided for in the Act on Covered Bonds, segregated from other assets in the issuer's estate as further specified in the Register at any given time. The same shall apply to funds and other assets substituted for the bonds and other assets in the Register or paid towards such assets. Such separation shall be maintained until claims arising from covered bonds have been paid in full. The bankruptcy administrator shall also keep derivative agreements, and funds returned by such assets or which must be paid from the cover pool to counterparties in derivative agreements, separate from other assets of the estate. An administrator's fees and any other expenses in connection with the administration are to be paid by the administration estate.

If an issuer is granted a debt moratorium, the assisting administrator for the debt moratorium shall ensure that obligations arising from covered bonds and derivative agreements are fulfilled using the assets of the Cover Pool, substitute collateral and payments made on these assets.

An administration estate cannot be closed until (a) the obligations of the estate and the assets of the Register have been transferred to a third party credit institution holding a license to issue covered bonds, (b) all the covered bonds for which the assets in the Register serve as collateral have been repaid and the derivative contracts have matured or (c) the estate has filed for bankruptcy and the bankruptcy estate has been closed.

If an issuer's estate is subject to bankruptcy proceedings, covered bonds it has issued shall not be foreclosed unless a specific agreement to this effect has been concluded. The estate shall maintain rights and obligations subject to derivative agreements concluded in accordance with the provisions of the Act on Covered Bonds.

MATCHING RULES

An issuer of covered bonds must ensure that the total current value of a cover pool which is to serve as collateral for a specific class of covered bonds always exceeds the aggregate total current value of that class of covered bonds. Moreover, instalments and other cash flows accruing on the assets in the cover pool and from derivative agreements shall be in such a manner that at any given time the issuer can meet all its financial obligations to covered bondholders and counterparties to derivative agreements.

In order to maintain a suitable balance between the cover pool and the corresponding class of covered bonds, the issuer (a) must ensure that the assets in the cover pool (including substitute collateral) are valued having proper regard to currency exchange rates, interest rates, maturity dates, and other relevant factors; and (b) may enter into derivative agreements for the purpose of achieving this balance.

RESCISSION OF ACTIONS

Actions taken by an issuer, whether they involve delivery of funds to a cover pool, delivery of substitute collateral to the Cover Pool, payments on assets in the Cover Pool or disposal of funds from the Cover Pool to fulfil obligations under a bond covered by it or a derivative agreement concluded in accordance with the Act on Covered Bonds and in connection with the Cover Pool, shall not be subject to rescission, cf. Chapter XX of the Act on Bankruptcy etc. The same shall apply to payments to an issuer under a derivative agreement concluded in accordance with the provisions of this Act.

NO RIGHTS IN CERTAIN CIRCUMSTANCES

No covered bondholders, counterparties to derivative contracts can claim early repayment of payment obligations on the basis of a bankruptcy order against an issuing bank or an issuing bank's failure to satisfy the requirement for additional collateral. Moreover, the relevant borrower(s) of the underlying loan(s) will retain the right to repay their loans in full or in part without variation. Furthermore, it is not possible for individual covered bondholders, counterparties to the derivative contracts to initiate claims against the issuing bank during the issuing bank's bankruptcy. The Act on Covered Bonds makes it clear that the administrator is acting on behalf of all covered bondholders, counterparties to the derivative contracts and lenders of Senior Debt, if any, and that only the administrator may prove claims against the bankruptcy estate for any assets required to cover the claims of the covered bondholders and counterparties to derivative contracts.

SUPERVISION OF THE FSA

According to the Act on Covered Bonds the FSA shall monitor compliance with the Act on Covered Bonds, including compliance by the Issuer with the provisions of the Act on Covered Bonds and other rules applicable to their operations.

The FSA may revoke the Issuer's license to issue the Covered Bonds if (i) the Issuer no longer fulfils the requirements to issue covered bonds, (ii) the Issuer's budget, as attested to by a certified public accountant, demonstrates that its financial situation is no longer sufficiently sound so that the issuance of covered bonds will jeopardise the interests of other creditors, or (iii) the Issuer violates provisions of the Act on Covered Bonds or rules adopted by virtue of it.

If a license to issue covered bonds is revoked, the FSA shall decide how to terminate the activities of the Issuer. The FSA may, for instance, appoint a new custodian for the Issuer's Cover Pool and take such measures as it considers necessary to ensure the rights of the Covered Bondholders.

THE ISSUERS LICENSE TO ISSUE COVERED BONDS

On 10 January 2011, the Issuer applied to the FSA for a licence to issue the Covered Bonds under the Icelandic Act on Covered Bonds. Pursuant to the terms of such a licence, the Issuer would be able, from time to time, to

issue Covered Bonds that entitle the holder to the benefit of a statutory preferred creditor status in respect of the assets contained in the Issuer Cover Pool in the event of the insolvency of the Issuer.

The licence which was granted on 30 September 2011 has since been reviewed and is as of 23 June 2020 subject to the requirements specified here below:

- The Programme shall currently not exceed a limit of ISK 220,000,000,000. Any increases of the Programme shall be subject to the FSA confirmation.
- The Programme and the Cover Pool shall be composed of bonds issued in ISK. The Cover Pool shall only consist of bonds in accordance with item 1 of Paragraph 1 of Article 5 of the Act on Covered Bonds and replacement collateral in accordance with Article 6 of the Act.
- The aggregated total amount of the Cover Pool shall not exceed a level of 30% above the issued Covered Bonds at any time unless increased demand has developed due to other provisions of the Act on Covered Bonds, such as due to stress test present value calculations. If the Cover Pool exceeds the aforementioned limit the Issuer shall notify the FSA and the Independent Inspector immediately. The Issuer will have 14 days to remedy the level.
- The Independent Inspector shall on a bi-annual basis file his reports to the FSA regarding his supervision duties. The report shall contain information stipulated in Paragraph 3 of Article 16 of the Rules.
- The Independent Inspector shall at any Issue Date verify that the provisions of Chapters II and III of the Act on Covered, regarding the Cover Pool and Mortgages, are satisfied.
- The Issuer shall at least weekly execute stress tests and calculate the present value of the Cover Pool.
- The Issuer shall at least quarterly inform the owners of the Covered Bonds about key figures regarding the Programme, e.g. outcome of any stress tests and the calculation of the present value of the Cover Pool. Furthermore, the Issuer shall allow the Independent Inspector to submit its remarks, if any, regarding the Issuer's obligations above.

The aforementioned conditions, which are all subject to review, were set by the FSA to ensure proper diligence and to safeguard the position of the unsecured creditors of the Issuer.

8. 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 Skattisins*) 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 1990 Útvegsbanki Íslands, Alþýðubanki Íslands, Iðnaðarbanki Íslands and Verslunarbanki Íslands merged into Íslandsbanki hf. In 2000, Íslandsbanki hf. merged with The Icelandic Investment Bank (**FBA**), which itself was created through the merger of three state-owned credit funds, forming Íslandsbanki-FBA hf. As a result of the merger, the bank further solidified its connections with the corporate sector, particularly in the seafood industry. In the years 2000 to 2007, the bank expanded its business beyond Iceland by first lending to seafood enterprises in northern Europe and North America, and later through strategic acquisitions in the Nordic countries. In March 2006, the bank was rebranded as Glitnir banki hf. (All the aforementioned banks collectively referred to as "**Glitnir**").

Following 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 per cent. 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 of the credit card company, Kreditkort hf. and on 27 March 2012 Kreditkort was merged into the Issuer.

CREDIT RATING

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 2019, the Issuer had approximately 32 per cent. of the market share in consumer banking, 35 per cent. of the market share in small to medium-sized enterprise banking and 34 per cent. of the market share of banking services to Iceland's 300 largest companies and investors. The Issuer seeks to provide the highest quality services to consumers and corporations, with a focus on building value and retaining a strong sense of social responsibility.

The Issuer operates 14 branches, the majority of which are based around the Reykjavík metropolitan area. It also maintains a presence in larger municipalities across Iceland.

When the Issuer assumed the domestic operations of Glitnir, a decision was made to continue to build on Glitnir's industry focus in the fields of seafood and geothermal energy. Glitnir and its predecessors had based its overseas strategy on lending and advising services to these fields.

The Issuer's business lines are as follows:

Personal Banking.

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

Business Banking.

Responsible for service to SMEs in the Issuer's branches, as well as Ergo, Íslandsbanki's asset-based financing unit.

Corporate and Investment Banking.

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

PERSONAL BANKING

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

BUSINESS BANKING

Business Banking provides wide-ranging financial services to SMEs through Iceland's most efficient branch network, while also operating a separate brand, Ergo, in the asset financing sector. Business Banking serves the growing SME group in Iceland and has built up strong local relationships and expertise. Business Banking works

according to a devolved structure where each branch is responsible for and shares its experience and expertise with its immediate community.

CORPORATE & INVESTMENT BANKING

Corporate & Investment Banking provides universal banking services to large companies, municipalities, institutional investors and affluent individuals. The Issuer's experienced employees provide customised products and services to customers, including lending and advisory services, risk management products, brokerage, and private banking services. The Issuer takes great pride in its sector focus, building and maintaining relationships with key customer groups within Iceland. Outside Iceland, Íslandsbanki focuses in particular on the North Atlantic fishing industry, drawing on 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 Risk Management division is a core division of the Issuer. The role of Risk Management is to oversee, monitor and manage risk in the Issuer's operations. Risk Management reports on risks to internal and external stakeholders and ensures that risk limits are adhered to and in line with the Issuer's risk policy as defined by the Board of Directors.

IT

The IT division is responsible for the Issuer's IT platform and systems and software development.

COMPLIANCE

The Compliance division has an independent position within the Issuer's organisational structure. The Compliance division's function is to assist in managing compliance risk on a consolidated basis. Compliance risk 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 cooperation with Group Internal Audit, performs a special fit and proper test by gathering information via questionnaires and examinations to management and key employees.

GROUP INTERNAL AUDIT

Group Internal Audit is responsible for the Issuer's internal audits in accordance with the Act on Financial Undertakings. The role of Group Internal Audit is to provide the Issuer with independent and objective assurance and consulting services designed to add value and improve the Issuer's operations. Group Internal Audit assists the Issuer in evaluating and improving the effectiveness of its risk management, controls and governance processes. The Chief Audit Executive is appointed by the Board of Directors and reports directly to the Board of Directors.

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 amendments already made to the Act on Financial Undertakings No. 161/2002, include CRD IV's provisions on capital buffers, operating licences, initial capital, information obligations, leverage ratios, supervisory review, evaluation process, whistle blowing and the duties of the management body and auditors. Moreover, the amendments include provisions on supervision and prudential requirements on a consolidated basis, supervisory collaboration of competent authorities in EU Member States, and rules on large risk exposure. The amendments adopt a regulation implementing the provisions of the CRR and related technical standards. It is anticipated that the implementation of the remaining aspects of CRD IV will be undertaken before the end of 2020. Furthermore, a revised European banking package consisting of a regulation amending the CRR (Regulation (EU) 2019/876 (CRR II)) and a directive amending the CRD IV (Directive (EU) 2019/878 of 20 May 2019 (CRD V)) was published in the EU's Official Journal on 7 June 2019. CRR II and CRD V introduce changes to the leverage ratio, requirements for own fund and MREL, counterparty credit risk, market risk, exposures to central counterparties, large exposures, reporting and disclosure requirements, remuneration, capital conservation measures and the NSFR amongst others. The majority of the provisions of CRR II will apply from 28 June 2021, although certain provisions are already applicable from 27 June 2019. Prospective investors in the Covered Bonds should consult their own advisers as to the consequences of the implementation of CRD IV and the CRR as well as further changes to capital adequacy and liquidity requirements in Iceland.

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 directive will be implemented in two parts. The bill implementing the BRRD in Iceland, introduced June 2018 amending the Act on Financial Undertakings No. 161/2002, includes provisions on the content of recovery plan, early intervention and intra-group financial support. Another bill has been submitted to the Icelandic Parliament to further implement the BRRD into Icelandic law. The new bill presented implements BRRD further into Icelandic legislation by providing for the resolution process, from preventative measures and preparation, to decision-making and the implementation of each resolution. The bill also provides for a new administrative unit (the **Resolution Authority**) which will be responsible for the preparation and implementation of each resolution and a special funding resource (the **Resolution fund**) which is intended to finance the resolution process. The bill also provides for the implementation of Minimum Requirement for own funds and Eligible Liabilities (**MREL**) in Iceland.

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.

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 Covered Bonds who are not Icelandic, are taxable in Iceland and can be subject to withholding tax at the rate of 10.0 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Directorate of Inland Revenue in Iceland that an exemption applies, such as the existence of a relevant double taxation treaty, and in such case the provisions of the double tax treaty will apply. Bonds issued by energy companies and certain financial institutions, including bonds issued by the Issuer, are also subject to exemption. The exemption, subject to certain other requirements, applies to bonds that are held through a clearing system, such as Euroclear and Clearstream, Luxembourg, within a member state of the Organisation for Economic Co-operation and Development (OECD), the European Economic Area (EEA), a founding member state of European Free Trade Association (EFTA) or the Faroe Islands.

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

ORGANISATIONAL STRUCTURE

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

The following chart illustrates the Issuer's organisational structure.

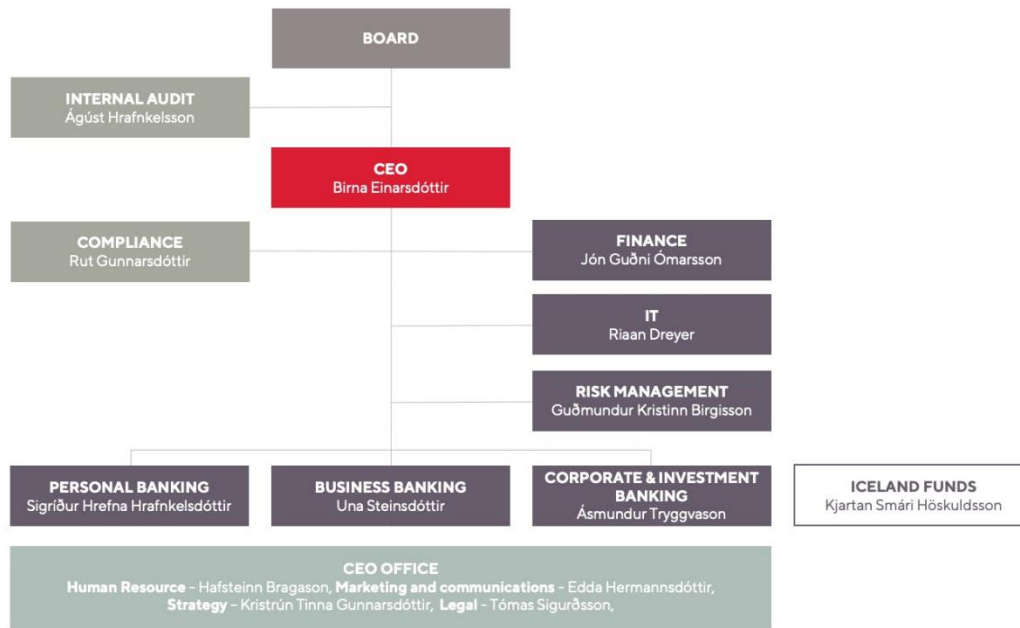


Figure 1: Organisational Structure

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 2019):

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
Borgun hf. ²	63,5%	Payment acquirer and issuing processor
B-Payment Group Szolgáltató Zrt.	100%	Payment processing company
Íslandssjóðir hf.	100%	Investment fund management company
Hringur eignarhaldsfélag ehf.	100%	Holding company
Allianz Ísland hf.	100%	Insurance agent
9 other non-significant subsidiaries		

² With an agreement signed March 11, 2020 the Issuer sold its 63.5% holding in its subsidiary Borgun hf. to Salt Pay Co Ltd (the Purchaser). The transaction is subject to the FSA’s approval of the Purchaser’s acquisition of a qualifying holding in Borgun hf. in accordance with Article 40 of the Act on Financial Undertakings No. 161/2002. From March 11 2020 until the delivery date, the Bank will recognise Borgun as “assets held for sale” in its financial statements.

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

Subject to the information set out in the following paragraphs, there has been no significant change in the financial performance or financial position of the Group since 31 December 2019 and there has been no material adverse change in the prospects of the Issuer since 31 December 2019.

On 11 March 2020, the Issuer sold its 63.5 per cent. holding in its subsidiary Borgun hf. to Salt Pay Co Ltd. (the Purchaser). The transaction is subject to the FSA's approval of the Purchaser's acquisition of a qualifying holding in Borgun hf. in accordance with Article 40 of the Act on Financial Undertakings No. 161/2002. From 11 March 2020, until the delivery date, the Issuer will recognise Borgun hf. as "assets held for sale" in its financial statements.

As at the date of this Base Prospectus, it is clear that the economic impact from the COVID-19 virus will have a negative impact on the Issuer's earnings in 2020, due to both capital market performance and increase in loan book impairments. In addition, the Issuer's ability to meet its obligations in respect of the Covered Bonds could be adversely affected. See "*Risk Factors—The COVID-19 virus may have an adverse impact on the Issuer.*" However, the Issuer believes that it remains well capitalised and liquid and is in a good position to support its customers in this difficult environment.

Legal and arbitration proceedings

Information regarding legal and arbitration proceedings can be found in the chapter on Risk Factors on page 9.

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
Ms. Anna Þórðardóttir	Member of the Board of Directors
Mr. Árni Stefánsson	Member of the Board of Directors
Mr. Flóki Halldórsson	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. Hallgrímur Snorrason (Chairman)

Hallgrímur Snorrason is an independent consultant in official statistics. 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 and 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

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. She served as a member of the board of KPMG ehf. and the institute of State Authorized Public Accountants in Iceland. She is currently a member of the board of The Icelandic Center for Future Studies (Framtíðarsetur Íslands ehf.) and is chairman of the Board Audit Committee of Hagar.

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

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

Árni Stefánsson has extensive management experience in power-intensive industries in Iceland. He is currently a manager and member of the executive board at the Rio Tinto primary aluminium plant in Straumsvík. Previously, he was a manager and member of the board of directors of the Century Aluminium plant Norðurál, manager and vice-president with Landsnet and manager with Landsvirkjun.

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

Mr. Flóki Halldórsson (Member of the Board of Directors)

Flóki Halldórsson has extensive experience in the financial markets. He was CEO of Stefnir Fund Management from 2009 to 2019. Prior to that he worked as a fund manager at Stefnir from 2001 to 2009. He also worked as an investment manager at Burðarás. He has been a member of the board of directors of various companies related to Stefnir's operations.

Mr. Halldórsson holds an EMBA degree from Copenhagen Business School and a B.A. degree in Economics from University of Iceland. He is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs

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

Frosti Ólafsson was the CEO of ORF Genetics a leading plant biotechnology company until 2019 and is now an independent strategic consultant. Mr. Ólafsson is former Managing Director of Iceland Chamber of Commerce and worked as a strategic consultant for Mc Kinsey & Company. Mr. Ólafsson is currently a Board member at Reykjavík University and affiliated real estate entities, at Freyja Private Equity Fund and entities affiliated to ORF Genetics.

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 has served on the board of directors of insurance companies, financial companies and retail- and service companies.

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, Royal Arctic Line and the deputy chairman of the board of the Icelandic Bar Association. Previously, she was a managing director at Eimskipafélag Íslands hf., Lex Legal Services and KEA. She has been a member of the boards of a number of companies since 1988, including Norðlenska, Íslensk Verðbréf, Olíuverslun Íslands hf., Síminn hf., Reiknistofa Bankanna, the Icelandic Pension Funds Association, Silicor Materials Iceland ehf. and Gildi Pension Fund. She completed an Advanced Management Program (AMP) at IESE Business School in Barcelona in 2017.

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.

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

<u>Name</u>	<u>Title</u>
Ms. Herdís Gunnarsdóttir	Alternate Member of the Board of Directors
Mr. Óskar Józefsson	Alternate Member of the Board of Directors

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

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

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

Óskar Józefsson 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, including the CEO:

Ms. Birna Einarsdóttir, Chief Executive Officer.

Birna Einarsdóttir worked at Iðnaðarbankinn hf., a predecessor of Glitnir, from 1987. After six years with Royal Bank of Scotland from 1998, Ms. Einarsdóttir rejoined Glitnir in the fall of 2004 as the Managing Director of Sales and Marketing. She was appointed Executive Vice President of Retail Banking of Glitnir in August 2007. Ms. Einarsdóttir assumed the role of CEO of the Issuer in October of 2008. Ms. Einarsdóttir's has worked as head of marketing for the Icelandic Broadcasting Company Ltd. (Channel 2) and Managing Director for the Icelandic Football Pools (*Íslensk getsþá*). 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 the Capital Markets division at Glitnir from 2000 to 2002. He rejoined Glitnir in 2005 and has held various positions in the Leverage Finance and Treasury divisions, working on different types of investment and funding 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. From 2017 until he was appointed CRO, he served as Executive Director of Lending in the Bank's Personal Banking Division.

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 degree in Actuarial Science and Economics. He has completed 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 Glitnir in 1991 as a specialist in International Banking. Ms. Steinsdóttir has over 20 years of experience in working for the Issuer and its predecessors and has among other things worked in credit control and service management. Ms. Steinsdóttir was a branch manager in Keflavik for eight years, from 1999 to 2007 until she was appointed director of Retail Banking in 2007. She was then appointed Managing Director of Retail Banking for the Issuer in October 2008.

Ms. Steinsdóttir holds a Cand. Oecon degree in Business Administration from the University of Iceland and has completed an AMP management programme from IESE, Barcelona.

Mr. 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, on bond issues, 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

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

MAJOR SHAREHOLDERS

Íslandsbanki is wholly owned by the Icelandic government and the shares are administered by the ISFI. The ISFI manages its holdings in the Issuer in accordance with its publicly available ownership policy.

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 shareholders listed above.

9. FINANCIAL INFORMATION

IFRS

The Consolidated Financial Statements of the Issuer for the years 2018-2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions. As were the unaudited and unreviewed Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2020.

In addition the unaudited and unreviewed Condensed Consolidated Interim Financial Statements for the period 1 January to 31 March 2020 were prepared in accordance with the International Accounting Standard IAS 34 as adopted by the European Union and additional requirements in the Act on Annual Accounts no. 3/2006, the Act on Financial Undertakings no. 161/2002 and rules on accounting for credit institutions.

AUDITORS

Consolidated Financial Statements for 2018 and 2019 were audited by Ernst & Young ehf., Borgartúni 30, 105 Reykjavík, Iceland. 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 12 February 2019 and are for the year ended 31 December 2019.

The Issuer's latest financial information is the unaudited and unreviewed Condensed Consolidated Interim Financial Statement for the first three months 2020 which was published on 6 May 2020.

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. It is however clear that the economic impact from the COVID-19 virus will have a negative impact on the Issuer's earnings in 2020, due to both capital market performance and increase in

loan book impairments. The Bank does however remain very well capitalized and liquid and is in a good position to support its customers in this difficult environment.

EXPLANATORY NOTES

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

SELECTED FINANCIAL INFORMATION 2018 AND 2019

Following is a summary of the Issuer's Consolidated Financial Statements for the years 2018 and 2019. This information should be read together with each Consolidated Financial Statement due to changes in methodology between years. The Consolidated Financial Statements 2018 and 2019 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 2019 amounted to ISK 8,454 million, which corresponds to a 4.8 per cent. return on equity. Issuer equity, according to the Consolidated Financial Position, amounted to ISK 180,062 million at 31 December 2019. The Issuer's total capital ratio, calculated according to the Act on Financial Undertakings, was 22.4% and the Tier 1 ratio was 19.9%. Current capital ratios are in excess of both internal and regulatory requirements. The Issuer's total assets amounted to ISK 1,199,490 million at the end of the year 2019.

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

Consolidated Income Statement

	2019	2018
Interest income*	62,846	61,675
Interest expense	(29,170)	(29,738)
Net interest income	33,676	31,937
Fee and commission income	21,026	19,853
Fee and commission expense	(7,667)	(7,626)
Net fee and commission income	13,359	12,227
Net financial expense	(817)	(962)
Net foreign exchange gain	143	1
Other operating income	2,134	1,784
Other net operating income	1,460	823
Total operating income	48,495	44,987
Salaries and related expenses	(16,279)	(15,500)
Other operating expenses	(11,828)	(12,150)
Contribution to the Depositors' and Investors' Guarantee Fund	(936)	(1,173)
Bank tax	(3,528)	(3,281)
Total operating expenses	(32,571)	(32,104)
Profit before net impairment on financial assets	15,924	12,883
Net impairment on financial assets	(3,663)	1,584
Profit before tax	12,261	14,467
Income tax expense	(3,682)	(4,734)
Profit for the year from continuing operations	8,579	9,733
Discontinued operations, net of income tax	(125)	912
Profit for the year	8,454	10,645
*Of which interest income amounting to ISK 60,123 million (2018: ISK 59,741 million) is calculated using the effective interest method.		
Profit attributable to:		
Shareholders of Íslandsbanki hf.	8,809	11,036
Non-controlling interests	(355)	(391)
Profit for the year	8,454	10,645
Earnings per share from continuing operations		
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	0.89	1.01

Consolidated Statement of Financial Position

	31.12.2019	31.12.2018
Assets		
Cash and balances with Central Bank	146,638	135,056
Loans to credit institutions	54,376	41,577
Bonds and debt instruments	52,870	69,415
Derivatives	5,621	4,550
Loans to customers	899,632	846,599
Shares and equity instruments	18,426	13,074
Investments in associates	746	682
Property and equipment	9,168	5,271
Intangible assets	4,330	5,002
Other assets	7,683	9,177
Total Assets	1,199,490	1,130,403
Liabilities		
Deposits from Central Bank and credit institutions	30,925	15,619
Deposits from customers	618,313	578,959
Derivative instruments and short positions	6,219	5,521
Debt issued and other borrowed funds	306,381	300,976
Subordinated loans	22,674	16,216
Tax liabilities	7,853	7,150
Other liabilities	27,063	29,649
Total Liabilities	1,019,428	954,090
Equity		
Share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	7,065	6,499
Retained earnings	105,569	102,496
Total Shareholders' Equity	177,634	173,995
Non-controlling interests	2,428	2,318
Total Equity	180,062	176,313
Total Liabilities and Equity	1,199,490	1,130,403

SELECTED FINANCIAL INFORMATION Q1 2019 AND 2020

Following is a summary of the Issuer's unaudited and unreviewed Consolidated Financial Statements for Q1 2019 and Q1 2020. The Consolidated Financial Statements can be found on the Issuer's website: <https://www.islandsbanki.is/en/landing/about/investor-relations>. Loss from the Issuer's operations in Q1 2020 amounted to ISK 1,376 million, which corresponds to a -3.0 per cent. return on equity. Issuer equity, according to the Consolidated Financial Position, amounted to ISK 179,542 million at 31 March 2020. 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 1,255,691 million at the end of March 2020.

Consolidated Interim Income Statement

	2020 1.1-31.3	2019 1.1-31.3
Interest income*	13,645	15,006
Interest expense	(5,065)	(7,089)
Net interest income	8,580	7,937
Fee and commission income	2,763	2,872
Fee and commission expense	(272)	(225)
Net fee and commission income	2,491	2,647
Net financial income (expense)	(1,738)	442
Net foreign exchange gain (loss)	55	(121)
Other operating income	19	1,141
Other net operating income	(1,664)	1,462
Total operating income	9,407	12,046
Salaries and related expenses	(3,247)	(3,464)
Other operating expenses	(2,445)	(2,749)
Contribution to the Depositors' and Investors' Guarantee Fund	(228)	(312)
Bank tax	(359)	(880)
Total operating expenses	(6,279)	(7,405)
Profit before net impairment on financial assets	3,128	4,641
Net impairment on financial assets	(3,490)	(907)
Profit (loss) before tax	(362)	3,734
Income tax expense	(789)	(1,196)
Profit (loss) for the period from continuing operations	(1,131)	2,538
Discontinued operations, net of income tax	(245)	51
Profit (loss) for the period	(1,376)	2,589
Profit (loss) attributable to:		
Shareholders of Íslandsbanki hf.	(1,251)	2,651
Non-controlling interests	(125)	(62)
Profit (loss) for the period	(1,376)	2,589
Earnings per share from continuing operations		
Basic and diluted earnings per share attributable to the shareholders of Íslandsbanki hf.	(0.10)	0.26

*Of which interest income amounting to ISK 13,092 million (2019: ISK 14,428 million) is calculated using the effective interest method. Comparative figures have been restated as the subsidiary Borgun hf. has been classified as disposal group held for sale.

Amounts are in ISK million

Consolidated Interim Statement of Financial Position

	31.3.2020	31.12.2019
Assets		
Cash and balances with Central Bank	123,062	146,638
Loans to credit institutions	84,263	54,376
Bonds and debt instruments	69,368	52,870
Derivatives	4,772	5,621
Loans to customers	923,850	899,832
Shares and equity instruments	12,496	18,428
Investments in associates	712	746
Property and equipment	8,015	9,168
Intangible assets	3,736	4,330
Other assets	5,154	6,808
Non-current assets and disposal groups held for sale	20,263	1,075
Total Assets	1,255,691	1,199,490
Liabilities		
Deposits from Central Bank and credit institutions	33,773	30,925
Deposits from customers	647,795	618,313
Derivative instruments and short positions	12,045	6,219
Debt issued and other borrowed funds	322,280	306,381
Subordinated loans	24,456	22,674
Tax liabilities	8,155	7,853
Other liabilities	14,392	27,063
Non-current liabilities and disposal groups held for sale	13,253	-
Total Liabilities	1,076,149	1,019,428
Equity		
Share capital	10,000	10,000
Share premium	55,000	55,000
Reserves	8,016	7,065
Retained earnings	104,349	105,569
Total Shareholders' Equity	177,365	177,634
Non-controlling interests	2,177	2,428
Total Equity	179,542	180,062
Total Liabilities and Equity	1,255,691	1,199,490

Amounts are in ISK million

10. 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 45-63 in the 2019 Financial Statements, which are incorporated by reference in this Base Prospectus.

11. ISSUER COVER POOL

AUTHORISATION

The establishment of the Programme and the issue of the Covered Bonds have been duly authorised by resolutions of the meetings of the Board of Directors of the Issuer dated 23 March 2010, 1 December 2010, 25 October 2011, 10 May 2017, 21 March 2018 and 6 May 2020.

COMPOSITION

The composition of the Cover Pool may vary from time to time but shall always fulfil the requirements laid down in any applicable FSA licence to issue the Covered Bonds. Information relating to the type of assets (and where relevant, their location) that make up the Cover Pool will be provided quarterly, no later than 30 days from the end of each quarter, on the Issuer's website at <https://www.islandsbanki.is/en/landing/about/investor-relations>. For the avoidance of doubt and in accordance with the Act on Covered Bonds, the Cover Pool, and any proceeds derived therefrom, will be kept separate from the Issuer's other assets at all times in the Register, and thus there will be no commingling of the relevant underlying assets.

In respect to the loans to be included in the Cover Pool, the Issuer will include loans secured by mortgages over residential properties located in Iceland. However, other non-loan assets may be included in accordance with the Act on Covered Bonds and any applicable licence issued by the FSA.

The Issuer will not treat any additional value as overcollateral for the purposes of determining the level of Overcollateralisation in the Cover Pool. The Issuer may enter into certain derivative contracts for the purpose of hedging risks between assets in the Cover Pools and the Covered Bonds. The Issuer will maintain an Overcollateralisation level of at least 10 per cent relating to the Covered Bonds. It is the opinion of the Issuer that the Overcollateralisation will be sufficient to manage the market risk of the Cover Pool and to enable the Covered Bonds to obtain and maintain an acceptable Programme and Cover Pool rating, as applicable. The Overcollateralisation may however not exceed 30 per cent, unless increased demand has developed due to other provisions of the Act on Covered Bonds.

ORIGINATION

The Mortgages in the original Cover Pool were primarily originated by the Issuer's predecessor, Glitnir. By decision of the FSA dated 14 October 2008 all assets of Glitnir were allocated to the Issuer. All mortgages are owned, maintained and serviced by the Issuer. Other Mortgages going forward may be originated by the Issuer or separately acquired by the issuer.

PROCEEDS

All proceeds derived from the Mortgages will be allocated to an account by the Issuer, which is separated from the Issuer's other assets and accounts (the "Proceeds Account"). The Proceeds Account will form a part of the Register, as further described in this Base Prospectus (Summary of Icelandic Legislation Relating to Covered Bonds). The Proceeds Account will be monitored by the Issuer and will eventually contain amounts that at a minimum are sufficient to pay an amount equal to 3 months forward looking accrued interest ("Minimum Account Amount"). After such date any proceeds exceeding the Minimum Account Amount can be allocated at

the discretion of the Issuer, subject to the approval of the Independent Inspector as further described below, provided that any such allocation would not affect the Overcollateralisation.

INDEPENDENT INSPECTOR AGREEMENT

According to a letter of approval dated 31 January 2011 the FSA has approved the Issuer's appointment of Helga Harðardóttir, Id.no. 101059-2519, Hvannaríma 20, 112 Reykjavík a certified public accountant and partner at KPMG hf. in Iceland as the Independent Inspector of the Programme in accordance with Chapter VIII. of the Act on Covered Bonds and the Rules (the Independent Inspector). The appointment was concluded by an agreement dated 31 January 2011 between the Issuer and the Independent Inspector (the **Independent Inspector Agreement**). The Independent Inspector Agreement has since been renewed regularly, last 23 March 2020. The principal duties of the Independent Inspector is the carrying out of the supervision set out in Chapter VIII of the Act on Covered Bonds and the Rules, including inter alia the maintenance of the Register in accordance with Chapter VI of the Act on Covered Bonds, verifying the collateral for bonds in a Cover Pool is based on proper methodology and provide the FSA with information obtained in the course of her work as frequently and in such form as the FSA may decide, or above and beyond that if exceptional circumstance so warrant. The Independent Inspector Agreement is governed by Icelandic law.

INDEPENDENT INSPECTOR'S OVERSIGHT

As further described in this Base Prospectus, the Register will be monitored by the Independent Inspector in accordance with the Act on Covered Bonds. The Independent Inspector must ensure that a Register is maintained, as described above, and verify that the valuation of collateral for bonds in the Cover Pool is based on proper methodology.

Additionally, the Issuer must seek prior approval from the Independent Inspector before any assets are removed from the Register, other than may be required by law.

DERIVATIVE CONTRACTS

General

The Act on Covered Bonds allows the inclusion of derivative contracts in the Cover Pool. Such derivative contracts can be entered into in order to hedge interest rate, exchange rate or liquidity risks.

According to the requirements of the Act on Covered Bonds, any such derivative contract can only be entered into with i) the Icelandic State; ii) member state; iii) municipality in a member state; iv) central bank in a member state; or v) other party deemed sufficiently solid to fulfil the obligations involved in the contract.

In addition, pursuant to the Act on Covered Bonds, the Register of assets within the Cover Pool shall, in relation to each derivative contract, identify the type of agreement and individual number, counterparty, nominal value, currency, interest terms, value of the net claim or net debt, as well as the start and expiry date of the agreement.

Currency Exchange Risk

If a particular Tranche of Covered Bonds or a part of the Cover Pool is denominated in a currency other than ISK, the Issuer shall enter into derivative contracts for the purpose of hedging any net currency exchange risk. The market value of cross currency swaps will fluctuate with exchange rates. Such market value fluctuations will be managed according to a Credit Support Annex (see below).

The Issuer also has the option to reverse existing swaps and enter into new ones at current exchange rates.

Interest Rate Risk

Interest rate exposure of the Issuer relating to assets within the Cover Pool may be managed through the derivative contracts. Interest rate swaps will be entered into with a hedge counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer.

Under derivative contracts, with respect to interest rate hedging on the fixed rate Cover Pool, on a monthly basis the Issuer will enter into contract with a hedge counterparty to hedge on a net risk basis the fluctuations in the relevant assets held by the Issuer and which are included in the Cover Pool on the relevant date and with regards

to the interest rate payable on the Covered Bonds with regards to the interest rate on the Mortgages contained in the Cover Pool.

Downgrade in Rating of Hedge Counterparty

Under the terms of the proposed derivative contracts to be entered into with the hedge counterparty, if the rating of any hedge counterparty short term unsecured, unsubordinated debt obligations falls below "F2" by Fitch, "P2" by Moody's or "A2" by S&P or the rating of any hedge counterparty long-term unsecured, unsubordinated debt obligations falls below "A-" by Fitch or "A-" by S&P or "A3" by Moody's at any time, the hedge counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Hedging Contract; (ii) terminate the derivative contract and arrange for its obligations under the derivative contracts to be transferred to an entity with the ratings required by the relevant rating agency; or (iii) procuring another entity with the ratings required by the relevant rating agency to become co-obligor in respect of its obligations under the derivative contracts.

Restrictions on Use of Derivative Contracts

The Issuer uses derivatives in the Cover Pool, including the swaps described above, strictly for hedging purposes and these are designated as hedging instruments. Derivatives are not used in trading activities or for speculative purposes.

Under rules made under the Act on Covered Bonds, the Issuer is required to fix a limit on interest risk in relation to its own funds and potential losses resulting from 1 per cent. parallel shift in all interest rate curves.

In respect of assets within the Cover Pool, the Issuer complies with the currency matching requirements set out in the Rules made under the Act on Covered Bonds and provisions applicable to cover assets derivative contracts.

ORIGINATION CRITERIA

All loans, in the Cover Pool, were at the time of lending (or at the time of restructuring, if applicable), if not otherwise specifically mentioned, subject to various conditions (the **Origination Criteria**) being satisfied on the relevant date. These are as follows:

- (i) no loan relates to a Property which is not a residential property;
- (ii) all of the borrowers of each respective loan are individuals and were aged 18 years or older at the date of entering into the relevant loan and its related Mortgage;
- (iii) each loan is denominated in ISK;
- (iv) prior to the making of each advance under a loan, the requirements of the relevant standard documentation were met, so far as applicable to that loan;
- (v) each loan complies fully with the Consumer Credit Act No.121/1994;
- (vi) the whole of the outstanding principal balance on each loan and any arrears of interest and all accrued interest is secured by a Mortgage;
- (vii) each loan and its Mortgage is valid and binding and enforceable in accordance with its terms;
- (viii) insurance cover for each Property is or will at all times be available under a policy arranged by the borrower in accordance with the relevant Mortgage conditions;
- (ix) prior to the making of each advance under a loan, the Origination Criteria and all preconditions to the making of that loan were satisfied in all material respects subject only to exceptions as would be acceptable to a reasonable, prudent mortgage lender.

12. THE ICELANDIC ECONOMY⁴

Following the rapid upswing in the Icelandic economy beginning in the middle of the first decade of the 21st century, the economy experienced a banking and currency crisis in the second half of 2008. The gross domestic product (**GDP**) contracted considerably during the next two years, the value of assets deteriorated, real wages declined, and unemployment rose. However, the Icelandic economy has now been growing since 2011, and currently has a GDP per capita among the highest in the world.

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

The International Monetary Fund (**IMF**) approached the Icelandic government at the end of 2008 with the promise of a credit facility in exchange for a letter of intent from the Icelandic government agreeing to changes in the Icelandic economy in three main areas: fiscal policy, the activities of financial institutions and stability of the foreign exchange market. Despite some initial delays, the Stand-by Agreement with the IMF came to an end on 26 August 2011. The Icelandic Parliament imposed capital controls in 2011 pursuant to the Act on Foreign Exchange in order to prevent serious difficulties with regard to Iceland's balance of payments and to stabilise the króna exchange rate. On 14 March 2017, Rules no. 200/2017 on Currency Exchange took effect, granting a general exemption from the restriction set forth in the Act on Foreign Exchange and effectively lifting the capital controls that had previously been in place. The new rules are expected to remain in effect while the Icelandic Parliament prepares a legislative bill to formally amend the Act on Foreign Exchange, thereby lifting the capital controls by law. Certain limitations on derivative transactions involving króna will continue to remain in effect, and speculative trades involving króna will continue to remain prohibited.

The Icelandic economy enjoyed a period of non-stop robust growth from 2011. until year-end 2019. Consumption, investment and exports have all grown at a brisk pace and there is a turnaround in the development of real wages and real residential house prices, which have been rising considerably in the period. After a period of inflation remaining under the Central Bank of Iceland's inflation target between Q1 2014 and Q1 2018, inflation temporarily increased somewhat above the target as the ISK depreciated and domestic cost pressures remained considerable. In response, the Central Bank of Iceland increased its policy rate by 0.25 percentage points in Q4 2018. However, inflation has since subsided below the inflation target, allowing the CBI to decrease its policy rate to counter a cooling economy.

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

⁴ Sources: This chapter was compiled by Islandsbanki Research based on information from hagstofa.is, sedlabanki.is and oecd.org. No facts have been omitted which would render the reproduced information inaccurate or misleading.

13. THE ICELANDIC HOUSING MARKET

A relatively typical price bubble formed in the Icelandic housing market around the middle of the last decade, fuelled by easier access to credit, a rapid increase in real wages and expectations of further property value increases. The economy experienced a vast upswing during this period, which was driven by, among other things, the newly found freedom on the financial market. A large quantity of residential housing was built during this period because the market prices of residential property considerably outweighed building costs.

Historically, a large proportion of Icelandic households have owned the houses they have lived in, i.e. around four out of five. The rental market, on the other hand, has been relatively small when compared to many other economies. Ownership has been encouraged with public subsidies on mortgage rates in the form of both government guarantees on the financing of the principal lenders' mortgage loans and rebates. Icelandic households have placed a rather large proportion of their savings into residential property. The majority of mortgage loans were CPI-indexed, but during the upswing a growing number of loans were also exchange rate-linked, as households sought to finance the purchases of their homes with the lower interest rates on foreign currencies. This made Icelandic households rather vulnerable to fluctuations in housing prices, as well as the exchange rate of the Icelandic króna and inflation. When the price bubble burst, capital rapidly shrank and repayments on loans as a percentage of disposable income suddenly soared. This has been a large part of the problem that the Icelandic economy has had to contend with since the currency and banking crisis erupted in 2008.

One of the distinguishing features of the Icelandic housing market has long been that decreases in real value are caused more by inflation than changes in nominal prices. Thus business in this market contracted substantially at the same time as the Icelandic upswing came to an end, the currency depreciated and inflation soared. From this point of view, developments in the aftermath of 2008 crash were not unlike previous downturns in the history of the Icelandic economy. The real decrease in residential property value, which measured at 36% in Q1 2010 from when prices were at their peak at the end of 2008, is a result of the inflation that occurred during this period.

The housing market went through a turnaround in 2010 and real and nominal housing prices started to rise somewhat. Moreover, turnover on the housing market picked up. There were a number of reasons for this. Firstly, real wages increased, as did expectations that the bottom of the recession had been reached. Secondly, the demand was driven by expectations regarding the development of housing prices, since housing prices seemed to be rising again. Thirdly, the debt problems of households were tackled with debt forgiveness and debt restructuring. In parallel with this, blockages at both the supply and demand end of the housing market have been cleared, which may partly explain the increase in turnover. This revaluation process is not over and will continue to characterise the housing market in the years ahead. From Q1 2010 to Q1 2018 housing prices increased by 55% in real terms. More recently, the real prices have risen more moderately and mostly in line with real wage increases.

The real prices of residential housing are at a historical high, having exceeded their 2007 levels. Housing prices in proportion to wages have risen considerably until recently and are above long-term average. Even so, average household debt has not increased as a share of GDP and remains at considerably lower levels than a decade ago.

14. 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 Covered Bonds to be issued under the Programme. They may not apply to certain classes of person such as dealers. Prospective holders of Covered 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 Covered Bonds provided the Covered 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 Covered Bonds issued under the Programme with the Directorate of Internal Revenue in Iceland to exempt the Covered 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 Covered Bonds.

In the event that the Issuer is required to withhold tax then the provisions of Condition 9 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 Covered 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 Covered Bonds if, at the time of the death of the holder or the transfer of the Covered Bonds, such holder or transferor is not a tax resident of Iceland.

ICELANDIC TAX RESIDENTS

Beneficial owners of the Covered 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 Covered Bonds which is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder.

15. DOCUMENTS ON DISPLAY

For the life of this Base Prospectus, the following documents are available for viewing at the Issuer premises at Hagasmári 3, 201 Kópavogur, Iceland and at the Issuer's website <https://www.islandsbanki.is/en/landing/about/investor-relations>

- i. The Base Prospectus, dated 29 June 2020
- ii. All issued Final Terms.
- iii. The Issuer's Articles of Association.
- iv. The Consolidated Financial Statements of the Issuer for the years 2018 and 2019, together with the
- v. audit reports prepared therewith.
- vi. 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 Covered Bonds or any change in the condition of the Issuer which is material in the context of the Programme or the issue of Covered 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 Covered Bonds. Furthermore, the Issuer will, in connection with the listing of the Covered Bonds on NASDAQ Iceland, so long as any Covered 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 Covered Bonds to be listed on NASDAQ Iceland.

16. 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 2018 (including the auditors' report thereon)
- (II) the audited consolidated financial statements of the issuer for the financial year ended 31 December 2019 (including the auditors' report thereon)
- (III) sections 4, 5, 6, 7 and 9 of the issuer's pillar 3 report: risk and capital management 2019

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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