

**Landsbankinn hf.**  
**(incorporated in Iceland as a limited liability company)**  
**ISK 30,000,000,000**  
**Debt Issuance Programme**

Under this ISK 30,000,000,000 Debt Issuance Programme (the “**Programme**”), Landsbankinn hf., (the “**Issuer**” and “**Landsbankinn**”) may from time to time issue Debt Securities (the “**Debt Securities**”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Debt Securities issued under the Programme may be issued in uncertificated and dematerialised book entry form cleared through the Icelandic Securities Depository the “**ISD System Debt Securities**” and the “**ISD**” respectively) or any other clearing system as decided by the Issuer (together the “**VS System Debt Securities**”). Bonds issued under the Programme may also be issued in bearer form (“**Bearer Bonds**”) or registered form (“**Registered Bonds**”). Bills issued under the Programme will only be issued in uncertificated book entry form cleared through the ISD or any other clearing system as decided by the Issuer.

The maximum aggregate nominal amount of all Debt Securities from time to time outstanding under the Programme will not exceed ISK 30,000,000,000 (or its equivalence in other currencies calculated as described herein), subject to increase as described herein. The Debt Securities may be issued on a continuing basis to one or more of the Dealers specified under the section *Overview of the Programme* and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Debt Securities being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Debt Securities.

An investment in Debt Securities issued under the Programme involves certain risks. Prospective investors should refer to the factors described in the section entitled *Risk Factors* in this Base Prospectus for a discussion of risk factors to be considered in connection with an investment in the Debt Securities.

This Base Prospectus dated 5 May 2015 (the “**Base Prospectus**”) has been approved by the Financial Supervisory Authority, Iceland (the “**FME**”), in its capacity as competent authority under the Act on Securities Transactions, No. 108/2007 (the “**Act on Securities Transactions**”) as a base prospectus for the purposes of Article 5(4) of Directive 2003/71/EC (the “**Prospectus Directive**”) and Article 45 of the Act on Securities Transactions for the purpose of giving information with regard to the issue of Debt Securities under the Programme.

Applications may be made for new series of Debt Securities issued under the Programme to be admitted to trading on a regulated market, for the purposes of Directive 2004/39/EC (the “**MiFID**”) which has been implemented in Iceland through the Act on Securities Transactions and Act on Stock Exchanges, No. 110/2007, within 12 months of the date of this Base Prospectus.

An application will be submitted to NASDAQ OMX Iceland hf. (“**Nasdaq Iceland**”) for Debt Securities issued under the Programme to be admitted to trading on the regulated market of Nasdaq Iceland, for the purposes of MiFID. The Issuer may list the Debt Securities on additional markets. The Programme also provides that the Issuer may issue Debt Securities that will not be admitted to trading on any market.

Notice of the aggregate nominal amount of Debt Securities, interest (if any) payable in respect of the Debt Securities, the issue price of the Debt Securities and any other terms and conditions not contained herein which are applicable to each Tranche (as defined in the section *Terms and Conditions of the Debt Securities*) of Debt Securities will be set out in the final terms (the “**Final Terms**”), which for the purposes of that Tranche only, completes the terms and conditions of the Debt Securities issued under the Programme (the “**Terms and Conditions**” and “**Conditions**”). Final Terms, with respect to Debt Securities admitted to trading on a regulated market, will be published on the Issuer’s website, [www.landsbankinn.is](http://www.landsbankinn.is).

The Debt Securities 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, the Debt Securities may not be offered, sold or delivered within the United States or to a U.S. person.

The Issuer may decide that Debt Securities may be issued in a form not contemplated by the Terms and Conditions of the Debt Securities 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 Debt Securities.



**Landsbankinn hf.**

**The date of the Base Prospectus is 5 May 2015**

This Base Prospectus, dated 5 May 2015, constitutes a base prospectus for the purposes of Article 5 of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the “**Prospectus Directive**”) and Article 45 of the Act on Securities Transactions and relevant regulations thereto. This Base Prospectus and copies of Final Terms relating to the Debt Securities which are admitted to trading on a regulated market will be available on the website of the Issuer, [www.landsbankinn.is](http://www.landsbankinn.is). Investors can request printed copies of the Base Prospectus, free of charge, at the Issuer’s registered office at Austurstræti 11, 155 Reykjavík, Iceland.

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 section entitled *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 Debt Securities as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Debt 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 Debt Securities (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 Debt Securities, should purchase any Debt Securities. Each investor contemplating purchasing any Debt Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither the Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Debt Securities constitutes an offer or invitation by or on behalf of the Issuer to any person to subscribe for or to purchase any Debt Securities.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Debt Securities 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 Debt Securities may be restricted by law in certain jurisdictions. The Issuer does not represent that this Base Prospectus may be lawfully distributed, or that any Debt Securities 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 Debt Securities or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Debt Securities 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 Debt Securities may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Debt Securities. The Issuer accepts no liability to any person in relation to the distribution of this Base Prospectus in any jurisdiction. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Debt Securities in the United States, the European Economic Area (the “**EEA**”) and Japan.

This Base Prospectus may be passported in accordance with the provisions of the Prospectus Directive into other jurisdictions within the EEA.

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 Debt Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer.

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

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 *Terms and Conditions of the Debt Securities - 1. Definitions*, in the section *Important Information - Abbreviations and definitions* or throughout this Base Prospectus.

The Debt Securities may not be a suitable investment for all investors and each potential investor in the Debt Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Debt Securities, the merits and risks of investing in the Debt Securities and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Debt Securities and the impact the Debt Securities will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Debt Securities, including Debt Securities with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Debt Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for legislative, economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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## OVERVIEW OF THE PROGRAMME

The following is a brief overview (the “**Overview**”) and it should be read in conjunction with the rest of this Base Prospectus, any supplements thereto, including any information incorporated by reference, and read together with the Final Terms. This Overview constitutes a general description of the Programme for the purposes of Art. 22.5(3) of Commission Regulation (EC) No. 809/2004, implementing the Prospectus Directive.

Words and expressions defined in the section *Terms and Conditions - 1. Definitions*, in the section *Important Information - Abbreviations and definitions* or throughout this Base Prospectus shall have the same meanings in this Overview.

**Description:** ISK 30,000,000,000 Debt Issuance Programme.

### 1. THE PARTIES

**Issuer:** Landsbankinn hf., Reg. No. 471008-0280, registered office at Austurstræti 11, 155 Reykjavík, Iceland.

The Issuer operates pursuant to the provisions of the Act on Financial Undertakings, No. 161/2002, the Act on Public Limited Companies, No. 2/1995 and the Act on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., No. 125/2008.

The Issuer is a leading Icelandic financial institution with total assets of ISK 1,098 billion at the end of 2014. The Issuer offers a full range of financial services in the Icelandic financial service sector with a total of 35 branches and outlets across the country.

**Arranger:** Landsbankinn hf., or any successor arranger appointed as such.

**Dealers:** Landsbankinn hf., or any successor or additional dealer appointed as such.

**ISD Agent:** Landsbankinn hf., or any successor agent appointed as such.

**Fiscal and Transfer Agent:** Landsbankinn hf., or any successor agent appointed as such.

### 2. KEY FEATURES

**Risk Factors:** There are certain factors that may affect the Issuer’s ability to fulfil its obligations under Debt Securities issued under the Programme. These are set out in the section *Risk Factors* and include the exposure of the Issuer to credit risk, market risk, operational risk and liquidity risk. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Debt Securities issued under the Programme. These are also set out in the section *Risk Factors* and include certain risks relating to the structure of particular Series of Debt Securities and certain market risks.

**Certain Restrictions:** The offer or sale of the Debt Securities may be restricted by law in certain jurisdictions. There are restrictions on the distribution of this Base Prospectus and the offer or sale of Debt Securities in the United States, the EEA and Japan. Persons into whose possession this Base Prospectus or any Debt Securities may

come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of the Debt Securities.

The Issuer does not represent that this Base Prospectus may be lawfully distributed, or that any Debt Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction.

**Programme Size:**

The maximum aggregate nominal amount of all Debt Securities from time to time outstanding under the Programme will not exceed ISK 30,000,000,000 (or its equivalent in other currencies) outstanding at any time. The Issuer may increase the size of the Programme. Such an increase is subject to an authorisation by the Issuer's Board of Directors.

**Status of the Debt Securities:**

The Debt Securities are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

**Terms of the Debt Securities:**

The terms of the Debt Securities will be set out in the Terms and Conditions of the Debt Securities, as completed by the applicable Final Terms.

**Currencies:**

The Debt Securities may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.

**Issue Price:**

Debt Securities may be issued on a fully-paid basis and at an Issue Price which is at par or at a discount to, or premium over, par.

**Denomination of Debt Securities:**

The Debt Securities will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Debt Security 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, and save that the minimum denomination of each Debt Security admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive will be EUR 100,000 (or if the Debt Securities are denominated in a currency other than euro, the equivalent amount in such currency).

**Maturities:**

The Debt Securities will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities 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 Issuer or the

relevant Specified Currency. Debt Securities in the form of Bills will have a maximum final maturity of 13 months when issued.

**Form of Debt Securities:**

The Debt Securities will be issued in bearer form, registered form or in the case of VS System Debt Securities, uncertificated book entry form.

The Debt Securities may take the form of an Inflation Linked Annuity Bond, an Inflation Linked Equal Principal Payment Bond (including a Bond with one payment of principal on Maturity Date), a Fixed Rate Bond, a Floating Rate Bond, an Instalment Bond, a Zero Coupon Bond, a Bill or a combination of the foregoing, depending upon the interest basis and redemption/payment basis shown in the applicable Final Terms.

**Interest:**

Debt Securities may take the form of Inflation Linked Annuity Bonds, Inflation Linked Equal Principal Payment Bonds, Fixed Rate Bonds, Floating Rate Bonds, Zero Coupon Bonds and Bills (that do not bear interest).

Interest periods, rates of interest and the terms of and/or amounts payable on redemption may differ depending on the Debt Securities being issued and such terms will be specified in the applicable Final Terms.

**Inflation Linked Annuity Bonds:**

Inflation Linked Annuity Bonds pay an Annuity Amount on such date or dates as decided by the Issuer and set out in the Final Terms. Calculation of Principal Payments, Interest Payments and Index Ratio are as set out in the Final Terms.

**Inflation Linked Equal Principal Payment Bonds:**

Inflation Linked Equal Principal Payment Bonds pay an Equal Payment Amount on such date or dates as decided by the Issuer and set out in the Final Terms. Calculation of Principal Payments, Interest Payments, Principal Amount Outstanding and Index Ratio are as set out in the Final Terms.

**Fixed Rate Bonds:**

Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

**Floating Rate Bonds:**

Floating Rate Bonds will bear interest at a rate determined:

- (a) 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 2006 ISDA Definitions (as published by ISDA and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Series); or
- (b) on the basis of the Reference Rate set out in the applicable Final Terms.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of

Floating Rate Bonds.

Floating Rate Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both.

Interest on Floating Rate Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

**Instalment Bonds:**

Instalment Bonds will be redeemed in Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.

**Zero Coupon Bonds:**

Zero Coupon Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.

**Bills:**

Bills may be issued at a discount to their nominal amount and will not bear interest. Bills will have a maximum final maturity of 13 months when issued.

**Redemption:**

The applicable Final Terms will indicate either that the relevant Debt Securities cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Debt Securities will be redeemable at the option of the Issuer and/or the Debt Security Holders. The terms of any such redemption, including notice periods, any relevant conditions and relevant redemption dates and prices will be indicated in the applicable Final Terms.

**Redenomination:**

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may redenominate the Debt Securities in any Specified Currency. The relevant provisions applicable to such redenomination are in Condition 4 (Redenomination).

**Distribution:**

The Debt Securities may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

**Listing:**

An application will be submitted to Nasdaq Iceland for Debt Securities issued under the Programme to be admitted to trading on the main market of Nasdaq Iceland, the regulated market of Nasdaq Iceland, for the purposes of MiFID. The Issuer may list the Debt Securities on additional regulated markets. The Programme also provides that the Issuer may issue Debt Securities that will not be admitted to trading on any market.

The applicable Final Terms will state whether or not the relevant Debt Securities are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

**Rating:**

Series of Debt Securities issued under the Programme may be rated or unrated and this will be stated in the applicable Final Terms. If a Series of Debt Securities is rated, the name of the

credit agency, the rating and a brief explanation of the meaning of the rating will be disclosed in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Use of Proceeds:**

The net proceeds of each issue of Debt Securities issued under the programme will be for general funding purposes of the Issuer or other if stated in the Final Terms.

**Clearing systems:**

Debt Securities issued under the Programme will be cleared through the ISD, Euroclear, Clearstream and/or any other clearing system as specified in the Final Terms.

**Taxation:**

All payments in respect of the Debt Securities will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8 (Taxation). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8 (Taxation), be required to pay additional amounts to cover the amounts so deducted.

**Events of Default:**

The Debt Securities contain Events of Default provisions as provided for in Condition 10 (Events of Default) entitling Debt Security Holders to demand redemption by the Issuer if one or more of the events described in Condition 10 (Events of Default) will occur and be continuing.

**Governing law:**

The Debt Securities, the Coupons and the Talons (other than ISD System Debt Securities) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The ISD System Debt Securities will be governed by, and construed in accordance with Icelandic law.

## RISK FACTORS

The following factors may affect the ability of Landsbankinn hf., Reg. No. 471008-0280, Austurstræti 11, 155 Reykjavík, Iceland (the “**Issuer**” and “**Landsbankinn**”) to fulfil its obligations under the Debt Securities issued under the Programme. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which are material for the purpose of assessing the market risks associated with Debt Securities issued under the Programme are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Debt Securities issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Debt Securities may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out in other sections in this Base Prospectus and draw their own conclusions prior to making any investment decision.

### **RISKS RELATING TO THE ISSUER, INCLUDING ITS BUSINESS AND THE ABILITY OF THE ISSUER TO FULFIL ITS OBLIGATIONS UNDER THE DEBT ISSUANCE PROGRAMME**

As a result of its business activities, the Issuer is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. Failure to control these risks could result in material adverse effects on the Issuer’s business, financial condition and operating results.

#### ***The Issuer’s financial results are significantly affected by general economic and other business conditions in Iceland and globally***

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.

The Issuer’s business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing depend on customer confidence, employment trends, state of the economy and market interest rates at each time. As the Issuer currently conducts most of its business in Iceland, its performance is influenced by the level and cyclical nature of business activity in Iceland, which is in turn affected by both domestic and international economic and political events. There can be no assurance that a weakening in the Icelandic economy will not have a material effect on the Issuer’s future financial results.

In addition, market perceptions and reports regarding the Icelandic economy or its performance may influence general economic and business conditions in Iceland due to the small size of the Icelandic economy. These perceptions and reports may have an adverse effect on the Issuer’s business, financial condition and results of operations.

The Issuer’s retail and corporate banking business may be affected during recessionary conditions, as there may be less demand for loan products or certain customers may face financial problems and the Issuer may experience higher loan defaults. The impact of the economy and business climate on the credit quality of borrowers and counterparties can affect the recoverability of loans and amounts due from counterparties. Interest rate increases may also impact the demand for mortgages and other loan products and credit quality. The Issuer’s investment banking, securities trading, asset management and private banking services, as well as its investments in, and sales of products linked to, financial assets, will be affected by several factors, such as the liquidity of global financial markets, the level and volatility of equity prices and interest rates, investor

sentiment, inflation and the availability and cost of credit, which are related to the economic cycle. These conditions may have an adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer operates in a competitive market and increased competition by Icelandic or foreign banks could increase downward pressure on interest rate margins. The Issuer operates in a market which has changed rapidly in recent years, with increased competition. The main competitors are Arion Bank hf., Íslandsbanki hf., MP banki hf. and the Icelandic Housing Financing Fund (the "**HFF**"). There is always a risk of new entrants to the market, foreign or domestic, or for smaller competitors to merge and increase their strength. Such competition could develop in individual market sectors, or in the market as a whole. The Issuer has a high market share, which it intends to maintain. The Issuer makes every effort to ensure that its product range, service and prices are competitive, and must constantly monitor its competitors and their offerings. However, there is always a risk that the Issuer could lose its competitive edge and that new products could fail to meet the demands of the market or compete with competitors' products. All of the above could undermine the Issuer's income generation and may have an adverse effect on the Issuer's business, financial condition and results of operations.

***Icelandic State Financial Investments is the largest shareholder of the Issuer. This may affect the Issuer and its business***

As at the date of this Base Prospectus, the largest shareholder of the Issuer is the Icelandic State Financial Investments (the "**ISFI**") which holds a 97.9 per cent. shareholding on behalf of the Icelandic State Treasury. The Icelandic Parliament has authorised the Minister of Finance and Economic Affairs to sell all of the Icelandic State Treasury's shares in the Issuer which are in excess of 70 per cent. of the Issuer's total share capital, subject to proposals from the ISFI.

In certain areas Icelandic legislation provides for special rules that are relevant for the Issuer due to the fact that the Icelandic State has the majority of shareholdings in the Issuer. These rules do not apply for the Issuer's main competitors as they are not majority owned by the Icelandic State. These rules may impose heavier regulatory burden on the Issuer compared to its competitors and thus have a negative impact on the Issuer's competitive position. These rules are provided for in Article 79(a) of the Act on Companies No. 2/1995 (remuneration policy excludes the Issuer's Chief Executive Officer ("CEO")), Article 6 of the Act on the Icelandic National Audit Office No. 86/1997 (the Issuer's auditor is the National Audit Office), Article 1 of the Act on the Senior Civil Servant's Board No. 47/2006 (the Senior Civil Servant's Salary Board determines the remuneration of the Issuer's CEO), Article 2 of the Information Act No. 140/2012 (the Issuer is subject to the Act but can obtain a temporary exemption from falling under the scope of the Act), and Article 14 of the Act on Public Archives No. 77/2014 (the Issuer is subject to the Act).

***Although economic growth has returned in recent years, the Issuer is vulnerable to a range of economic risks that face the Icelandic banking system***

In early October 2008, the Icelandic economy experienced a serious banking crisis when the three large commercial banks, Glitnir banki hf., Landsbanki Íslands hf. and Kaupthing Bank hf. (together the "**Old Banks**"), were taken into special resolution regimes on the basis of Act No. 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. passed by the Icelandic Parliament. Since then, the Icelandic economy and the financial system have taken a number of steps forward. Economic growth has been quite robust compared to other developed countries in recent years.

The economic upswing and improved private sector financial conditions are reflected in the position of Icelandic banks, with good returns on equity and total assets, declining levels of non-performing loans and rising capital ratios. Banking system liquidity has remained strong and capital ratios of the three largest Icelandic commercial banks are strong and well above the FME's required minimum.

Even though progress has been made and the financial stability of the Icelandic banks has strengthened, the following should be taken into account.

- *Removal of capital controls.* In November 2008, the Central Bank of Iceland (the “**Central Bank**”) introduced capital controls. Their main objective was to prevent capital flight from Iceland and devaluation of the Icelandic króna (the “**ISK**”) which would have had a large negative impact on debt levels of large parts of Icelandic households and corporates with foreign denominated and Consumer Price Index (the “**CPI**”) linked debt. These capital controls are now being relaxed in accordance with a capital controls liberalisation strategy established in March 2011. Even though capital controls are being relaxed, no deadline or firm future date has been established as to when they will be lifted completely. Should the capital controls be removed too quickly, it could lead to rapid and severe depreciation of the domestic currency resulting in increased inflation and through that have a negative impact on index-linked loans to households. Such depreciation would also cause disruption to the Icelandic economy and financial system resulting in lower consumption and a big strain on customers with foreign currency loans. The Icelandic banking system is largely funded by deposits. By lifting the capital controls, a large chunk of these deposits could be withdrawn putting a stress on the Icelandic banking system as a whole. The Central Bank has emphasised that lifting the controls will be done with great care and without putting financial stability at risk.
- *Possible depreciation of the ISK.* Even though the existence of the capital controls decreases the risk of a sharp depreciation of the ISK, lifting of the capital controls and other risk factors can put pressure on the ISK. The Icelandic export sector is not very diversified and large parts of Icelandic exports are in only three major export sectors: aluminium, seafood and tourism. Negative shocks which would decrease export revenues in any of those sectors could have a big impact on the balance of payments and put pressure on the ISK.
- *The deposits funding of the Icelandic banks.* A large part of Icelandic banks’ funding comes from deposits. In October 2008, the Icelandic government stated that all deposits in banks domiciled in Iceland were guaranteed by the state. Even though this statement has never been entered into law by the Icelandic Parliament, the statement has probably had some effect on deposits. Should the statement be withdrawn, this could have an impact on the funding and the business of the Icelandic banks.

In addition to the risk factors above, there are other economic risk factors facing the Icelandic banking system such as the effects of the sovereign debt crisis in Europe and instability or deterioration of the international financial markets.

***The restructuring of the Icelandic banking system involves risk that could materially affect the Issuer***

The Issuer, Íslandsbanki hf. and Arion Bank hf. (together the “**New Banks**”) are the three largest commercial banks in Iceland and were established after the banking crisis in 2008. The Issuer can be differentiated from the other two banks by its ownership, as the Issuer is 97.9 per cent. owned by the ISFI.

The Icelandic banking system is small and the New Banks have limited opportunities for growth in the near term. It is also unlikely that the New Banks will grow through international operations in the near future. The New Banks could also be adversely affected if other developments in the Icelandic economy or in world affairs result in further slowing of growth in Iceland’s economy.

In addition, the guarantee by the Icelandic Government of deposits in domestic commercial and savings banks that has been in place since October 2008 has never been enacted into law by the Icelandic Parliament, and the basis of this guarantee is an announcement from the Prime Minister’s Office of 6 October 2008 stating that deposits in domestic commercial and savings banks and their branches in Iceland will be fully covered. This announcement has since been repeated by subsequent governments and the European Free Trade Association (“**EFTA**”) Surveillance Authority has not objected to the guarantee under the European EEA State Aid rules to date. It is assumed that the blanket guarantee will be gradually lifted when the banking market both domestic and foreign has stabilised. However, a sudden lifting of the guarantee, with or without regulatory intervention, could have an impact on deposit holders and the outflow of deposits held by the Issuer.

The occurrence of any of the factors described above could seriously undermine Iceland's economy and confidence in the banking system in Iceland and could have a material adverse effect on the Issuer's business, financial condition and operating results.

#### *Icelandic laws and rules on foreign exchange - capital controls*

On 28 November 2008, the Icelandic Parliament passed Act No. 134/2008, amending the Act on Foreign Exchange No. 87/1992, as amended (the "**Foreign Exchange Act**"), granting the Central Bank powers to intervene in the currency market with the view of stabilising the foreign exchange rate of the ISK. For this purpose, the Central Bank issued new Rules on Foreign Exchange No. 1082 of 28 November 2008 which were codified with the adoption of Act No. 127/2011 in 2011 amending the Foreign Exchange Act. The Foreign Exchange Act has since then been amended four times, one amendment Act in March 2012, two amendments in March 2013 and one in May 2014. The general regime on the capital controls is set out in Articles 13 of the Foreign Exchange Act. The Foreign Exchange Act is supplemented by the Rules on Foreign Exchange No. 565/2014 ("**Rules on Foreign Exchange**").

The Foreign Exchange Act restricts the outflow of foreign currency from Iceland except in the case of a payment for goods and services. All financial transactions leading to currency outflow are prohibited unless explicitly permitted. More specifically, these rules include provisions restricting certain transactions, including lending and borrowing between resident and non-resident parties, as well as currency-derivatives of any kind and the acquisition by domestic parties of financial instruments denominated in foreign currency. Furthermore, these rules make it compulsory for residents to "repatriate" all of their foreign currency.

The Foreign Exchange Act provides for several general exceptions. Commercial banks are provided with a general exemption from certain provisions of the Foreign Exchange Act and, consequently, the capital controls. Accordingly, commercial banks, savings banks and credit institutions operating under a FME licence are exempt from restrictions on borrowing and lending between national and foreign parties, the restriction on assuming liability for payments between national and foreign parties, and the requirement to repatriate all foreign currency.

In addition to the general exemptions, the Foreign Exchange Act provides for specific exemptions from the restrictions under the legislation, subject to the Central Bank's approval. An application for any such exemptions must be made to the Central Bank and the estimated process time of such applications is approximately eight weeks.

However, in the case of the winding-up, bankruptcy or insolvency of the Issuer, the exemptions from the Foreign Exchange Act may not apply and, therefore, restrictions will be effected in respect of payments of foreign currency due under the Debt Securities, whether by reason of the Foreign Exchange Act, the Act on Bankruptcy No. 21/1991 (the "**Bankruptcy Act**") or applicable provisions under the Act on Financial Undertakings, No. 161/2002 (the "**Act on Financial Undertakings**") which may effectively prohibit the outflow of foreign currency from Iceland.

Subject to the preceding paragraph, the payment by the Issuer of interest on the relevant Interest Payment Date and of principal on the relevant Maturity Date will, therefore, be exempt from the restrictions of the Foreign Exchange Act under the general exemption. However, it is not clear whether the general exemption covers prepayments and, therefore, whether it covers the payment of an Early Redemption Amount or an Optional Redemption Amount under the Debt Securities.

The amendments made to the Foreign Exchange Act in March 2012 by Act No. 17/2012 imposed further restrictions on the outflow of foreign currency. This involved two amendments to the capital controls regime, among others, in response to a perceived increase in circumvention of the currency controls. Preceding these amendments, an investor could change its interests in the principal amortisation and indexation payments under a CPI indexed annuity bond into foreign currency and transfer such payments out of the economy. This legislation removed the previous exemption provided for such payments which are now subject to the general

capital controls regime, meaning that only interest payments remain within the exemption. Furthermore, the wide exemptions for payments by the winding-up committees of the failed Icelandic banks to creditors were removed and are now subject to the Central Bank's approval.

Two additional amendments were made to the Foreign Exchange Act in March 2013. Amendments by Act No. 16/2013 implemented certain changes to the currency control regime, including the removal of the expiration date from the Foreign Exchange Act. Moreover, these amendments imposed limits on the exemptions which the Central Bank can apply and the extent to which these may now be subject to prior consultation with the relevant ministry. These limits primarily relate to financial institutions or legal entities under the control of the FME through winding-up proceedings or legal entities with a balance sheet exceeding ISK 400 billion and where the transaction may have a substantial effect on the debt position of the economy or concerns ownership of a commercial bank. Amendments by Act No. 35/2013 primarily related to general exemptions and enhanced authorisations in favour of the Central Bank. Both of these amendments to the Foreign Exchange Act enhanced the Central Bank's surveillance of foreign exchange, including in relation to payments of interest, indexation, dividends and contractual maturities. The Central Bank also received authorisation to collect certain information, which may extend to any relevant third party, and to impose fines.

The Foreign Exchange Act was further amended on 16 May 2014 with the enactment of Act No. 67/2014. With this amendment act, three changes were made to the Foreign Exchange Act. The first change limits the definition of dividend within the meaning of the Foreign Exchange Act. The second change clarifies what shall be considered to be a contractual payment within the meaning of Article 13(j) of the Foreign Exchange Act. The third change introduces a new provision that provides that a legal person may be fined for violations of the Foreign Exchange Act and rules set on its basis regardless of whether the violation is derived from negligent or intentional acts by the management or employees of the legal person.

On 25 March 2011, the Central Bank announced a new strategy for the gradual removal of the remaining capital controls in phases, each of which is subject to conditions. The three conditions for lifting of controls include: macroeconomic stability, an adequate level of foreign reserves and a sound financial system.

The above currency controls constitute protective measures under Article 43 of the Agreement on the EEA (the "**EEA Agreement**") and have as such been notified to the European Free Trade Association Standing Committee under the procedures provided for in Protocol 18 of the EEA Agreement in conjunction with Protocol 2 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (the "**Surveillance and Court Agreement**"). Following a referral by the District Court of Reykjavík, the Court of Justice of the European Free Trade Association States (the "**EFTA Court**") issued a reasoned opinion on 14 December 2011, whereby the EFTA Court ruled that it had competence according to the EEA Agreement and the Surveillance and Court Agreement to review the rules on currency restrictions, *inter alia*, in light of the general principle of proportionality. The EFTA Court further declared that at the time in question the rules in question were proportionate. However, this ruling of the EFTA Court does not preclude further scrutiny of the above currency controls by the relevant EEA institutions at any time.

Prospective investors must therefore consider the risk of further changes to the above currency controls and the impact this may have on an investment in the Debt Securities.

***Should one or more of the Issuer's counterparties fail to fulfil its obligations, it may result in material adverse effects on the Issuer's business, financial condition and results of operations***

Granting of credit is the Issuer's major source of income and credit risk is the Issuer's most significant risk factor. Credit risk is defined as the risk that a party to a financial instrument, be it a client, customer or market counterparty will cause a financial loss to the Issuer by failing to fulfil its obligations.

Adverse changes in the credit quality of the Issuer's customers and counterparties or a general deterioration in Icelandic or global economic conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of the Issuer's assets and require an increase in the Issuer's provision for bad and

doubtful debts and other provisions. Specific issues and events where credit risk could adversely affect revenues in 2015 and subsequent years include but are not limited to:

- *Concentration of loan portfolio in certain sectors could adversely affect the Issuer.* The Issuer's loan portfolio is relatively concentrated in key sectors. These are households, fisheries, construction and real estate companies. Downturns in these sectors that would influence customers' ability to meet their obligations may have an adverse effect on the Issuer's business, financial condition and results of operations.
- *Deterioration of economic conditions could increase the required loan impairment for the Issuer.* Higher unemployment rate, reduced personal disposable income levels and increased personal and corporate insolvency rates may reduce customers' ability to repay loans. This, in addition to depressed asset valuations could have an impact on the adequacy of the Issuer's loss reserves and future impairment charges.

***The Issuer is exposed to a range of market risks, the most significant being equity, interest rate, foreign exchange and indexation risks***

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk arises from open positions in currency, equity and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, credit spreads, foreign exchange rates and equity prices.

Changes in interest rate levels, inflation, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios.

- *Increased volatility in the equity markets.* The Issuer's equity risk comes from both proprietary and securities trading for a third party. Elevated uncertainty in the financial markets could lead to increased volatility in the equity markets. This could lead to a devaluation of equities and investment funds held by the Issuer and have an adverse effect on the Issuer's business, financial condition and results of operations.
- *A major portion of the Issuer's assets and liabilities are interest-related.* The Issuer's interest rate risk arises from the impact of interest rate changes on the Issuer's assets and liabilities, since a major portion of the Issuer's assets and liabilities are interest-related in one manner or another. The Issuer's limited access to capital markets could have a negative effect on the Issuer's revenues as it may be unable to correct interest rate imbalances between assets and liabilities, based on the timing of interest rate reset or maturity. For example risks can arise if there are fixed and variable interest rate items in the same maturity bracket; this may lead to open interest rate positions on the assets or liabilities side. This could then affect the Issuer's profitability. The Issuer may also be limited in his ability to adjust interest rates applied to customers due to competitive pressures.

*Increased volatility in the foreign exchange markets.* The Issuer's foreign exchange risk arises from exposure to unanticipated changes in the exchange rate between currencies and limitations to mitigate the foreign exchange risk due to capital controls. Increased volatility in the foreign exchange markets could have an adverse effect on the Issuer's business, financial condition and results of operations.

The Issuer follows Rules No. 950/2010 on Foreign Exchange Balances, as set by the Central Bank (the "**Rules on Foreign Exchange Balances**"). The Rules on Foreign Exchange Balances stipulate that an institution's foreign exchange balance (whether long or short) must always be within 15 per cent. of its capital base, in each currency and for all currencies combined.

Uncertainty regarding currency denomination in the Issuer's loan portfolio in 2014 has not been fully resolved. As explained in the section *About the Issuer – Litigation*, there is litigation pending concerning these currency denominations that the Icelandic courts have not passed judgment on yet.

Due to capital controls, the Issuer's ability to mitigate the risk from ISK related currency fluctuations is limited. However, the Issuer has taken various measures to decrease its overall currency risk and expects future currency risk levels to be within acceptable limits.

- *Imbalance in CPI indexed assets and liabilities.* The Issuer's indexation risks arise from a considerable imbalance in its CPI indexed assets and liabilities. CPI indexation risk is the risk that the fair value or future cash flows of CPI indexed financial instruments may fluctuate due to changes in the Icelandic CPI. The majority of the Issuer's mortgage loans and consumer loans are indexed to the CPI and the Issuer is therefore exposed to inflation risk. In the case of deflation in the CPI, there could be a corresponding impact on the balance sheet and loss to the Issuer.

***The Issuer is exposed to liquidity risk. 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***

Liquidity risk is the risk that the Issuer will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from maturity mismatch in financial liabilities and assets. The Issuer's liquidity management policy is built on international standards on liquidity risk measurements developed by the Basel Committee on Banking Supervision (the "**Basel Committee**") e.g. the Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**") and it also applies measurements that best suit the operating environment of the Issuer.

The Issuer follows rules No. 1031/2014 on Liquidity Ratios, as set by the Central Bank (the "**Rules on Liquidity Ratios**"). The Rules on Liquidity Ratios are based on the LCR developed by the Basel Committee.

The Central Bank also sets rules No. 1032/2014 on Funding Ratios, which the Issuer follows. The Rules on Funding Ratios are based on the NSFR developed by the Basel Committee.

***The Issuer is exposed to refinancing risk. The inability of the Issuer to refinance its outstanding debt could have a negative impact on the Issuer's business***

The Issuer is predominantly funded by customer deposits, liabilities due to financial institutions, borrowing and share capital. The Issuer aims at diversifying its funding profile by issuing debt securities in the domestic and international markets. The inability of the Issuer to refinance its outstanding debt in the future, at the right time and at a favourable interest rate could affect the Issuer's business.

***Operational risks are inherent in the Issuers business activities and are typical of comparable businesses***

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and business rules, equipment failure, natural disasters or the failure or inadequacy of internal processes or systems or external systems; for example, those of the Issuer's suppliers or counterparties.

The Issuer has in place and maintains necessary rules and working procedures and keeps them accessible to all employees on the Issuer's intranet. It is intended to ensure that key information on work processes is available in one place. However, there is no guarantee that mistakes will not be made which might have a material impact on the Issuer's business.

Both current and former employees of the Issuer can damage the Issuer if they infringe its rules either intentionally or through negligence. While it is difficult to evaluate the damage in each instance, the loss can be financial and/or damage the Issuer's reputation.

The Issuer could suffer a loss as a result of criminal actions, such as a bank robbery, fraud, money laundering or embezzlement. All of these risk factors could cause the Issuer extensive damage and affect its performance.

***The Issuer is exposed to the risk of breach of security or functionality of its information systems that could have materially adverse effects on the Issuer's business***

The Issuer's information systems ("IT systems") comprise a major operational risk, both with regard to their functioning and accessibility. The Issuer's IT systems are varied and in many instances depend upon co-operating partners. Various kinds of external attacks, viruses, denial of service attacks or other types of attacks on the Issuer's computer systems could disrupt the Issuer's operations. The Issuer has in place specific disaster recovery and business continuity plans, including backup sites. It is not entirely possible, however, to eliminate operational risk arising from unexpected events.

***Failure to manage compliance risk could adversely affect the Issuer's business***

Compliance is one of the Issuer's support and risk management functions. It is intended to assist in managing the Issuer's 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 as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice.

Compliance emphasises issues such as market abuse and fraud prevention, anti-money laundering, codes of ethics, avoidance of conflicts of interest and ensuring best practice. The Issuer's Compliance Officer ensures that the Issuer's rules on securities trading and insider dealing are followed, and that the Issuer's operations comply with the Act on Securities Transactions, Act No. 64/2006 on Actions to Combat Money Laundering and Terrorist Financing (the "**Act on Actions to Combat Money Laundering and Terrorist Financing**") and other relevant legislation and regulations.

There is however always the risk that the Issuer could suffer if the above-mentioned rules are not followed.

***The Issuer's future success depends, in part, on its ability to attract, retain and motivate qualified and experienced banking and management personnel***

Competition for personnel with relevant expertise is significant, due to the relatively small number of available qualified individuals. Failure to attract and retain senior management and key employees could have a material adverse effect on the Issuer's business.

The Issuer's majority owner is the Icelandic government and the Issuer's remuneration policy is determined by the owner. The ability of the Issuer to attract and retain competent personnel could be adversely affected by this.

***Damage to the Issuer's image could adversely affect its operation***

The image and reputation of financial enterprises are among their most valuable assets. The risk of damage to the Issuer's image or reputation is present whenever it is the subject of discussion. Damage to its image or reputation could prompt the Issuer's customers to direct their business elsewhere. This could have a very negative impact on the Issuer's business. Such damage could result, for instance, from business mistakes, violations of laws or regulations, errors of judgement and poor service or products offered.

***Environmental disasters, natural catastrophes and acts of war could have a negative impact on the Issuer's revenues and on-going operation***

Although natural catastrophes and environmental disasters could threaten the Issuer's ability to maintain its operations, attempts are made to limit this risk by ensuring the security of critical equipment, its location and distribution between risk areas. The Issuer also has in place specific disaster recovery and business continuity plans.

***The Issuer's financial statements are based in part on assumptions and estimates, which, if inaccurate, could lead to future losses***

The preparation of financial statements requires the Issuer's management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Estimates and assumptions involve a substantial risk which could result in material adjustments to the carrying amounts of assets and liabilities during the next financial year.

***The Issuer's insurance coverage may not adequately cover all losses***

The Issuer has taken a conscious decision to insure itself against specific risks. The Issuer holds all mandatory insurance coverage, including fire insurance and mandatory vehicle insurance, plus comprehensive vehicle insurance. The Issuer also holds insurance policies provided for in collective bargaining agreements with the Confederation of Icelandic Bank and Finance Employees, such as life and accident insurance, and insurance stipulated by other wage contracts as applicable. In addition, the Issuer has taken out liability insurance against third-party claims, insurance on moveable property and professional liability insurance for its auditors and directors' and officers' liability insurance for the Issuer's directors and senior management. The Issuer also carries insurance against computer crime and professional indemnity coverage. In addition, money transportation is insured in accordance with the interests at stake in each instance. It should be borne in mind, however, that, despite the insurance policies carried by the Issuer, there is no guarantee that the Issuer will be fully compensated should it need to lodge claims. If the Issuer did submit claims under its policies, the premiums it pays could be expected to increase in the future. The Issuer's insurance policies are subject to the terms and conditions of the applicable policies.

***The Issuer may be exposed to risks that are either not identified or inadequately appraised by present risk management methods***

The Issuer has developed and implemented principles, procedures and rating methods for the monitoring and identification of risks. Nevertheless, even with these monitoring systems in place it is not possible to completely eradicate the Issuer's exposure to risks of various kinds which may not be identified or anticipated. Unanticipated or incorrectly quantified risk exposures could have a material adverse effect on the Issuer's operation. Information regarding the Issuer's risk management is further described in the section *Description of the Issuer – Risk management framework*.

***Legal risk***

The Issuer's business operations are governed by laws and regulations and are subject to regulatory supervision. The Issuer is regulated by the FME. The Issuer's operating licence is subject to compliance with laws and regulations governing the Issuer and its operations, and any breach of those laws or regulations may result in severe fines, liability for damages and/or the revocation of the Issuer's licence.

The Issuer is subject to a number of laws, regulations, administrative actions and policies governing the provision of financial services in Iceland. Any changes to current legislation might affect the Issuer's operations and its results of operations. Although the Issuer works closely with regulators and continually monitors its legal position, future changes in regulations, fiscal or other policies can be unpredictable and are beyond the Issuer's control.

The Issuer will at any time be involved in a number of court proceedings, which is considered normal due to the nature of the business undertaken. Should any proceedings be determined adversely to the Issuer, this could have a material adverse effect on its results. For further information on litigation see the section *Description of the Issuer – Litigation*.

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

The new international regulatory framework for banks, Basel III, has been developed and includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. In December 2010, the Basel Committee issued the first version of the Basel III framework and a revised version was issued in June 2012. On 26 June 2013, the European Parliament and Council adopted a legislative package (“**CRD IV**”) for the implementation of the Basel III framework in the European Union (the “**EU**”) and to strengthen the regulation of the banking sector. CRD IV replaces the current Capital Requirements Directives 2006/48/EC and No. 2006/49/EC with Directive 2013/36/EU (the “**CRD IV Directive**”) and Regulation (EU) No. 575/2013 (the “**CRR**”). The global implementation plan of the framework extends throughout 2018. The Icelandic Parliament issued a Parliamentary bill on 25 February 2015 as part of the implementation of CRD IV in Iceland. Implementation by the Icelandic Parliament of CRD IV in Iceland is unknown.

The Ministry of Finance and Economic Affairs has formed a committee to implement CRD IV in Iceland. The timeframe for the implementation has not yet been published.

The introduction of new rules in Iceland reflecting CRD IV and other changes to capital adequacy and liquidity requirements imposed on the Issuer could result in existing tier 1 and tier 2 securities ceasing to count towards the Issuer's regulatory capital, either at the same level as at 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 financial condition and results of operations and may also have other effects on the Issuer's financial performance and on the pricing of the Debt Securities, both with or without the intervention by regulators or the imposition of sanctions. Prospective investors in the Debt Securities should consult their own advisers as to the consequences of the implementation of CRD IV in Iceland.

***The Council of the European Union has adopted proposals for a bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive and its impact on the Issuer is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Debt Securities***

On 6 May 2014, the Council of the EU adopted a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the “**BRRD**”), which was intended to be implemented by the relevant member states by 1 January 2015. Iceland, Liechtenstein, Norway and Switzerland are members of the EFTA and Iceland, together with Liechtenstein and Norway (the “**EEA EFTA States**”), is also a party to the EEA Agreement by which the EEA EFTA 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 BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contains four resolution tools and powers which may be used alone or in combination where an institution is considered as failing or likely to fail: (i) sale of business - which enables resolution authorities to direct the sale of the firm 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 firm to a “bridge institution” (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to a bridge institution or one or more asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down; and (iv) bail-in - which gives resolution authorities the power to write down the claims of

unsecured creditors of a failing institution and to convert unsecured debt claims to equity (subject to certain parameters as to which liabilities would be eligible for the bail-in tool).

An institution will be considered as failing or likely to fail when: (i) it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; (ii) when its assets are, or are likely in the near future to be, less than its liabilities; (iii) when it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) when it requires extraordinary public financial support (except in limited circumstances).

The BRRD was applied by EU member states from 1 January 2015 except for the bail-in tool which is to be applied from 1 January 2016. It is unknown when the directive will be implemented in Iceland.

The powers set out in the BRRD impact how credit institutions and investment firms are managed, as well as, in certain circumstances, the rights of creditors. There can be no assurance that, if implemented in Iceland, its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of Debt Security Holders, the price or value of their investment in the Debt Securities and/or the ability of the Issuer to satisfy its obligations under the Debt Securities.

### ***Changes in tax laws or in their interpretation could harm the Issuer's business***

The Issuer's results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, changes in corporate tax rates and the refusal of tax authorities to issue or extend advanced tax rulings.

In December 2010, the Icelandic Parliament passed 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 financial institutions excluding tax liabilities in excess of ISK 50 billion at the end of the year. Non-financial subsidiaries are exempt from this tax. There can be no assurance that the levy will not be further increased. Any such increase could have a material adverse effect on the financial condition of the Issuer.

In June 2009, the Icelandic Parliament adopted an amendment to the Income Tax Act No. 90/2003 (the "ITA") as a result of which payments of Icelandic sourced interest by an Icelandic debtor, such as the Issuer, to a foreign creditor, including holders of bonds, who are not Icelandic is taxable in Iceland and can be subject to withholding tax at the rate of 10 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Icelandic Inland Revenue that an exemption applies, such as the existence of a relevant double taxation treaty, and in such case the provisions of the double tax treaty will apply. 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 the ISD, Euroclear Bank S.A/N.V., Luxembourg ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream**"), within a member state of the Organization for Economic Co-operation and Development ("**OECD**"), the EEA, a founding member state of EFTA or the Faroe Islands.

In December 2011, the Icelandic Parliament passed 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, without consideration to joint taxation and transferable losses.

### ***Abnormal pricing as a consequence of capital controls***

The currency controls described in the section *Icelandic laws and rules on foreign exchange - currency controls* have the implication that domestic parties, primarily investors, are prohibited from transferring their funds and investing outside of the Icelandic market. Consequently, they are confined to and must focus their investments on Iceland, which entails various risks, including a risk for abnormal pricing and financial bubbles occurring within several sectors of the Icelandic market. This applies both to investments in shares of listed and unlisted companies, investment funds, various other financial instruments and real-estate (primarily commercial) and may have a negative impact on the Issuer's business.

### ***Iceland's national implementation of EEA rules may be inadequate in certain circumstances***

Iceland is a member state of the EEA and is therefore obligated to implement certain EU instruments with EEA relevance, including legislation relating to financial markets. 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 these instruments and the Icelandic courts barred from applying them, unless Icelandic legislation may be interpreted in accordance with the EEA rules. As a result, holders of Debt Securities issued or to be issued by the Issuer (the "**Debt Security Holders**") in some circumstances may experience different legal protections than they would expect as holders of securities issued by the banks in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation.

## **FACTORS THAT ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH THE DEBT SECURITIES ISSUED UNDER THE PROGRAMME**

### **Risks related to the structure of a particular issue of Debt Securities**

A wide range of Debt Securities may be issued under the Programme. A number of these Debt Securities may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Debt Securities:

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

An optional redemption feature of Debt Securities is likely to limit their market value. During any period when the Issuer may elect to redeem Debt Securities, the market value of those Debt Securities generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Debt Securities when its cost of borrowing is lower than the interest rate on the Debt Securities. 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 Debt Securities 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.

#### ***If the Issuer has the right to convert the interest rate from a fixed rate to a floating rate or vice versa, this may affect the secondary market and the market value of the Bonds concerned***

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 specified in the applicable Final Terms ("**Fixed Rate Bonds**") or Bonds which bear interest at a floating rate as set out in Condition 5.4 ("**Floating Rate Bonds**") may bear interest at a rate that converts from a fixed rate to a floating rate or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer

converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Bonds may be less favourable than then prevailing spreads on comparable Floating Rate Bonds tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

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

## **Risks relating to the Debt Securities**

***The Debt Securities are unsecured and do not have the benefit of a negative pledge provision***

The Debt Securities will be unsecured and do not have the benefit of a negative pledge provision. If the Issuer defaults on the Debt Securities, or in the event of a bankruptcy, liquidation or reorganisation, then, to the extent that the Issuer has granted security over its assets, the assets that secure those obligations will be used to satisfy the obligations thereunder before the Issuer could sell or otherwise dispose of those assets in order to make any payment on the Debt Securities. As a result of the granting of such security, there may only be limited assets available to make payments on the Debt Securities in such circumstances. In addition, there is no restriction on the issue by the Issuer of other similar securities that do have the benefit of security, which may impact on the market price of its securities, such as the Debt Securities, that are unsecured.

***In the event of winding-up of the Issuer, claims of Debt Security Holders will be subordinated to the Issuer's depositors. Deposits have priority to other debts of the Issuer including the Debt Securities issued under the Programme.***

Conforming to Article 101 of the Act on Financial Undertakings, the claims of senior ranking unsecured debt instruments, such as the Debt Securities issued by the Issuer are subordinated to the claims of certain depositors. Should the Issuer enter into winding-up proceedings, it is possible that there may not be sufficient assets in the resulting estate to pay the claims of Debt Security Holders in full or at all after the claims of those depositors have been paid. The Issuer is predominantly funded by deposits and according to Act No. 98/1998, on Deposit guarantees and Investor Compensation Scheme the Investor's Guarantee Fund assumes the depositors claim in the event that payment is effected from the Investor's Guarantee Fund. In the event of bankruptcy, liquidation, winding-up or reorganisation or other similar measures of the Issuer, such claim assumed by the Investor's Guarantee Fund ranks ahead of claims of other creditors of the Issuer, including the Debt Securities issued under the Programme

## **Risks related to Debt Securities generally**

Set out below is a description of material risks relating to the Debt Securities generally:

***The Debt Securities are obligations of the Issuer only***

The Debt Securities will constitute obligations of the Issuer only. An investment in the Debt Securities involves a reliance on the creditworthiness of the Issuer. The Debt Securities are not guaranteed by any other natural or legal person.

In addition, an investment in the Debt Securities involves risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Debt Securities.

***The terms of the Debt Securities contain provisions, which may permit their modification without the consent of all investors***

The Terms and Conditions contain provisions for calling meetings of Debt Security Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Debt Security Holders, including Debt Security Holders who did not attend and vote at the relevant meeting and Debt Security Holders who voted in a manner contrary to the majority.

***No gross-up***

Under the Terms and Conditions, all payments in respect of the Debt Securities will be made without deduction for or on account of withholding taxes imposed by the Republic of Iceland (“**Iceland**”) or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law, in which case such deduction will be made by the Issuer.

In the event that any such withholding or deduction is required by law, the Terms and Conditions require the Issuer to pay additional amounts in respect of such withholding or deduction subject to customary exceptions see *Condition 8 (Taxation)*. If withholding or deduction arises as a result of one of the circumstances described in paragraphs (a) to (g) of Condition 8, the Issuer will not be required to pay such additional amounts and affected investors will receive interest payments net of such withholding. If, however, the Issuer is required to pay additional amounts, it will have the option under Condition 7.3 to redeem the relevant Debt Securities early.

Paragraph (f) of Condition 8 (Taxation) deals with Article 3 of ITA (as amended by Act No. 70/2009), which imposes withholding tax on payments of Icelandic sourced interest to foreign bondholders at a rate of 10 per cent., unless exemptions are available to the relevant bondholders in their home countries or under a double taxation treaty with Iceland.

***Withholding under the EU Savings Directive***

EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the “**Savings Directive**”), requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entities established in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

The Council of the EU has adopted a Directive 2014/48/EU (the “**Amending Savings Directive**”) which will, when implemented, amend and broaden the scope of the Savings Directive described above. The Amending Savings Directive will expand the range of payments covered by the Savings Directive, in particular, to include additional types of income payable on securities and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other directive implementing the conclusions of the Economic and Financial Affairs Council (the “**ECOFIN Council**”) meeting of 26-27 November 2000 on the taxation of savings income or any law

implementing or complying with, or introduced in order to conform to such directive, neither the Issuer nor any principal paying agent or any other paying agent appointed as such (the “**Paying Agent**”) nor any other person would be obliged to pay additional amounts with respect to any Debt Security as a result of the imposition of such withholding tax. Furthermore, once the Amending Savings Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Debt Securities may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

Investors who are in any doubt as to their position should consult their professional advisers.

#### *U.S. Foreign Account Tax Compliance Withholding*

Whilst the Debt Securities are in global form and held within Euroclear or Clearstream, in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, the Foreign Account Tax Compliance Act (“**FATCA**”), will affect the amount of any payment received by the Euroclear or Clearstream (see *Taxation - Foreign Account Tax Compliance Act*). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Debt Security Holders should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer’s obligations under the Debt Securities are discharged once it has paid the common depository for Euroclear and Clearstream (the “**Common Depository**”) or common safekeeper for Euroclear or Clearstream (the “**Common Safekeeper**”) (as bearer of the Debt Securities) and the Issuer has therefore no responsibility for any amount thereafter transmitted through Euroclear and Clearstream and custodians or intermediaries. To the extent any such amount is subject to FATCA withholding an investor may, therefore, receive a lesser amount than would otherwise be the case.

#### *The value of the Debt Securities could be adversely affected by a change in law or administrative practice*

The Debt Securities, the Coupons and the Talons (other than ISD System Debt Securities) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The ISD System Debt Securities will be governed by, and construed in accordance with Icelandic law. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic or English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Debt Securities affected by it.

#### *Investors who purchase Bonds in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Bonds are subsequently required to be issued*

In relation to any issue of Bonds which have denominations consisting of a minimum specified denomination as specified in the applicable Final Terms (the “**Specified Denomination**”) plus one or more higher integral

multiples of another smaller amount, it is possible that such Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a holder of such Bonds, who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive Bonds in definitive form (“**Definitive Bonds**”) in respect of such holding (should Definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to a Specified Denomination.

If such Bonds in definitive form are issued, Debt Security Holders should be aware that Definitive Bonds which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Tax exemptions from withholding may not be available if Definitive Bonds are required to be issued***

The Icelandic statutory exemption from withholding only applies to Debt Securities held through a securities depository in an OECD state, an EU state, an EFTA state or the Faroe Islands. If Bonds in definitive form are issued, Debt Security Holders should be aware that the tax exemption may not be available. However, the Issuer will be required to pay the necessary additional amounts under Condition 8 (Taxation) in such circumstances to cover any resulting amounts deducted.

***Reliance on Euroclear and Clearstream procedures***

Bonds (other than VS System Debt Securities) issued under the Programme may be represented on issue by one or more global Bonds representing the whole principal amount of the issue (“**Global Bonds**”) that may be delivered to a Common Depository or Common Safekeeper for Euroclear and Clearstream. Except in the circumstances described in each Global Bond, investors will not be entitled to receive Bonds in definitive form. Each of Euroclear and Clearstream and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Bond held through it. While the Bonds are represented by a Global Bond, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Bonds are represented by Global Bonds, the Issuer will discharge its payment obligation under the Bonds by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Bond must rely on the procedures of the relevant clearing system and its participants to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Bonds.

Holders of beneficial interests in Global Bonds will not have a direct right to vote in respect of the Bonds so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

**Risks related to the market generally**

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***The secondary market generally***

Debt Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Additionally, the market places concerned may be closed, or temporary restrictions may be imposed. Therefore, investors may not be able to sell their Debt Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Debt Securities that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the

investment requirements of limited categories of investors. These types of Debt Securities generally would have a more limited secondary market and more price volatility than conventional debt securities.

#### ***Lack of liquidity in the secondary market***

There can be no assurance that a secondary market for any of the Debt Securities will develop, even if the Debt Securities will be listed or admitted to trading on any market.

The Issuer could enter into a market making agreement with a third party with an obligation to submit bid and ask offers in the relevant Debt Securities on a daily basis. Such an agreement would always be subject to a maximum amount relatively small in relation to the size of each Series of the Debt Securities.

Illiquidity may have a severely adverse effect on the market value of the Debt Securities.

#### ***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 Debt Securities involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Debt Securities. Investments in Floating Rate Debt Securities will involve a risk of interest rate changes.

#### ***Trading in the clearing systems***

In relation to any issue of Bonds which have a minimum denomination and are tradable in the clearing systems in amounts above such minimum denomination, should Definitive Bonds be required to be issued, a holder of such Bonds who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of Definitive Bonds unless and until such time as his holding becomes an integral multiple of the minimum denomination.

#### ***Judicial considerations may restrict certain investments***

The investment activities of certain investors are subject to rules and regulations and/or review or regulation by certain authorities. Each potential investor should consult his legal advisers or responsible supervisory authority in order to determine whether and to what extent the investor has the opportunity to invest in the Debt Securities.

#### ***Credit ratings may not reflect all risks***

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Debt Securities. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Debt Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 on Credit Rating Agencies (the “**CRA Regulation**”) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (“**ESMA**”) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

## IMPORTANT INFORMATION

### AUTHORISATION

The establishment of the Programme and the issue of Debt Securities have been duly authorised by a resolution of the Board of Directors of the Issuer dated 12 March 2015.

### THE SIZE OF THE PROGRAMME

The maximum aggregate nominal amount of all Debt Securities from time to time outstanding under the Programme will not exceed ISK 30,000,000,000 (or its equivalence in other currencies as calculated below), subject to increase. An increase of the size of the Programme is subject to an authorisation of the Issuer's Board of Directors.

For the purpose of calculating the ISK equivalent of the aggregate nominal amount of Debt Securities issued under the Programme from time to time:

- (a) The ISK equivalent Debt Securities denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Debt Securities, described under Condition 2 (Form, Denomination and Title)) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Debt Securities or on the preceding day on which commercial banks and foreign exchange markets are open for general business in Iceland, in each case on the basis of the spot rate for the sale of the ISK against purchase of such Specified Currency in the Reykjavík foreign exchange market quoted by any bank selected by the Issuer on the relevant day of calculation;
- (b) Subject to any existing legal or regulatory restrictions in Iceland, the ISK equivalent of Bonds adjusted for inflation ("**Inflation Linked Bonds**") shall be calculated in the manner specified above by reference to the original nominal amount on issued of such Bonds.

### ISSUER'S STATEMENT

The Board of Directors and CEO of Landsbankinn hf., Reg. No. 471008-0280, registered office at Austurstræti 11, 155 Reykjavík, 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, 5 May 2015

On behalf of the Board of Directors



Tryggvi Pálsson

Chairman of the Board of Directors

On behalf of Landsbankinn hf.



Steinþór Pálsson

Chief Executive Officer

## **STATUTORY AUDITOR**

The National Audit Office, Skúlagata 57, 105 Reykjavík, Iceland, has been the Issuer's statutory auditor for the financial years 2013 and 2014. The National Audit Office is authorized to outsource part of its assignments and outsourced the audit of Landsbankinn hf. to KPMG ehf., registered office at Borgartún 27, 105 Reykjavík, Iceland for the financial years 2013 and 2014. The Issuer's statutory auditor has not resigned, been removed or not re-appointed during that period. Helgi F. Arnarson and Sigríður Helga Sveinsdóttir were the auditors on behalf of KPMG ehf. for the financial years 2013 and 2014. They are members of the Institute of State Authorized Public Accountants in Iceland.

The Issuer's Annual General Meeting held on 18 March 2015 elected the National Audit Office as the Issuer's statutory auditor for the financial year 2015. The National Audit Office has outsourced the audit of the Issuer for the financial year 2015 to Grant Thornton endurskoðun ehf., Suðurlandsbraut 20, 108 Reykjavík, Iceland. Davíð Arnar Einarsson and Sturla Jónsson are the auditors on behalf of Grant Thornton endurskoðun ehf. They are members of the Institute of State Authorized Public Accountants in Iceland.

In accordance with Art. 90 of the Act on Financial Undertakings, an auditor of a financial undertaking shall be elected for a five year term and the same auditor or audit firm shall not be re-elected until five years have passed from the term previously concluded. KPMG ehf. had audited the Issuer for five years at the end of the financial year 2014.

## **DOCUMENTS INCORPORATED BY REFERENCE**

This Base Prospectus should be read and construed in conjunction with the following information, which has been published on the Issuer's website or are published simultaneously with this Base Prospectus and have been filed with the FME and shall be incorporated by reference in, and form a part of this Base Prospectus.

- The audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2014, together with the audit report thereon;

<http://www.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2014-EN.pdf>

- The audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2013, together with the audit report thereon;

<http://www.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2013-EN.pdf>

## **DOCUMENTS ON DISPLAY**

For the period of 12 months following the date of this Base Prospectus copies of the following documents are available for viewing on the Issuer's website, [www.landsbankinn.is](http://www.landsbankinn.is) and at the Issuer's registered office at Austurstræti 11, 155 Reykjavík, Iceland:

- The Issuer's Articles of Association.
- This Base Prospectus, dated 5 May 2015.
- The Audited Consolidated Financial Statements of the Issuer for the years 2013 and 2014 together with the audit reports prepared therewith.

- 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.
- All issued Final Terms and any future Final Terms, supplements to this Base Prospectus and any other documents incorporated into this Base Prospectus by reference.

### **THIRD PARTY INFORMATION**

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

### **LISTING AND VALIDITY OF THIS BASE PROSPECTUS**

This Base Prospectus is valid until no more of the Debt Securities concerned are issued in a continued or repeated manner.

Applications may be made for new series of Debt Securities issued under the Programme to be admitted to trading on a regulated market, for the purposes of MiFID which has been implemented in Iceland through the Act on Securities Transactions and Act on Stock Exchanges, within 12 months of the date of this Base Prospectus.

An application will be submitted to Nasdaq Iceland for Debt Securities issued under the Programme to be admitted to trading on the main market of Nasdaq Iceland, the regulated market of Nasdaq Iceland, for the purposes of MiFID. The Issuer may list the Debt Securities on additional regulated markets. The Programme also provides that the Issuer may issue Debt Securities that will not be admitted to trading on any market.

### **SUPPLEMENTS TO THIS BASE PROSPECTUS**

Following the publication of this Base Prospectus one or more supplements may be prepared by the Issuer and approved by the FME in accordance with Article 16 of the Prospectus Directive and Article 46 of the Act on Securities Transactions. 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 Debt Securities or any change in the condition of the Issuer which is material in the context of the Programme or the issue of Debt Securities, 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 Debt Securities.

### **ABBREVIATIONS AND DEFINITIONS**

Act on Actions to Combat Money Laundering and Terrorist Financing

Act No. 64/2006 on Actions to Combat Money Laundering and Terrorist Financing.

Act on Financial Undertakings	Act No. 161/2002 on Financial Undertakings.
Amending Directive	Directive 2014/48/EU amending Directive on taxation of savings income in the form of interest payments No. 2003/48/EC.
Amending Savings Directive	Directive 2014/48/EU amending Directive 2003/48/EC on taxation of savings income in the form of interest payments (Savings Directive).
Bankruptcy Act	Bankruptcy Act No. 21/1991.
Base Prospectus	This Base Prospectus dated 5 May 2015 and issued by Landsbankinn.
Basel Committee	The Basel Committee on Banking Supervision.
Capacent	Capacent ehf., Reg. No. 550910-0630, Borgartún 27, 105 Reykjavík, Iceland.
Central Bank	The Central Bank of Iceland.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
CRA Regulation	Regulation (EC) No. 1060/2009 on Credit Rating Agencies (as amended).
CRD and CRD IV	Capital Requirements Directive 2013/36/EU.
CRR	Capital Requirements Regulation (EU) No. 575/2013.
CSR	Corporate Social Responsibility.
EAD	Exposure of Default.
ECOFIN	Economic and Financial Affairs.
EEA	European Economic Area.
EEA Agreement	The Agreement on the European Economic Area (EEA) which entered into force in 1 January 1994.
EFTA	European Free Trade Association; the International free trade organization of Iceland, Norway, Switzerland and Lichtenstein.
Employee Shareholders	Current and former employees of the Issuer that are shareholders in the Issuer.
ESMA	The European Securities and Markets Authority.
FATCA	The U.S. Foreign Account Tax Compliance Act.
FFI	A foreign financial institution as defined in FATCA.
Foreign Exchange Act	The Act on Foreign Exchange No. 87/1992.
FSÍ	Framtakssjóður Íslands.
GDP	Gross Domestic Product.

HFF	Icelandic Housing Financing Fund.
HR	Human resources.
ICAAP	Internal Capital Adequacy Assessment Process.
Ice.	Icelandic.
Iceland	Republic of Iceland.
IFRS	International Financial Reporting Standards.
IRS	The U.S. Internal Revenue Service.
ISFI	The Icelandic State Financial Investments.
IT	Information Technology.
ITA	The Income Tax Act No. 90/2003.
LBI hf.	LBI hf., formerly Landsbanki Íslands hf., Reg. No. 540291-2259, Álfheimar 74, 104 Reykjavík Iceland.
LCR	Liquidity Coverage Ratio.
LGD	Loss Given Default.
MiFID	Markets in Financial Instruments Directive No. (2004/39/EC).
NSFR	Net Stable Funding Ratio.
OECD	Organisation for Economic Co-operation and Development.
PD	Probability of Default.
Rules on Foreign Exchange	The Central Bank's Rules on Foreign Exchange, No. 565/2014.
Rules on Foreign Exchange Balances	The Central Bank's Rules on Foreign Exchange Balances No. 950/2010.
RWA	Risk-Weighted Assets.
S&P	International rating agency Standard & Poor's.
Savings Directive	Directive 2003/48/EC, on taxation of savings income in the form of interest payments.
SME	Small and Medium sized Enterprises.
SREP	Supervisory Review and Evaluation Process.
Supreme Court	The Supreme Court of Iceland.
UCITS	Undertakings for Collective Investments in Transferable Securities.
Q	Quarter.

## APPLICABLE FINAL TERMS

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

[Date]

**Landsbankinn hf.**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Debt Securities]**

**Under the ISK [30,000,000,000]**

**Debt Issuance 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 Debt Securities set forth in the Base Prospectus dated 5 May 2015 and any supplements if applicable. This document constitutes the Final Terms of the Debt Securities described herein for the purposes of Article 5(4) of the Prospectus Directive, as amended (which includes the amendments made by Directive 2010/73/EU) [and Article 45 of Act on Securities Transactions] 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 Directive. Full information on the Issuer and the offer of the Debt Securities is only available on the basis of the combination of these Final Terms and the Base Prospectus and any supplements, if applicable. A copy of said Base Prospectus and any supplements are available for viewing at the issuer's website, [www.landsbankinn.is](http://www.landsbankinn.is).

1. **Issuer:** Landsbankinn hf.
2.
  - i. Series Number: [ ]
  - ii. Tranche Number: [ ]

*(If fungible with an existing Series, details of that Series, including the date on which the Debt Securities become fungible)*
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:**
  - i. Specified Denominations: [ ]

*(Note – where Bearer Bonds with multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:*

*”€100,000 and integral multiples of [€1,000] in excess thereof up to and including €199,000. No Bonds in definitive form will be issued with a denomination above €199,000.”)*

*(N.B. If an issue of Debt Securities is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €100,000 minimum denomination is not required.)*

ii. Calculation Amount: [ ]

*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*

**7.**

i. Issue Date: [ ]

ii. Interest Commencement Date: [Date/Not Applicable]

**8.**

Maturity Date: [Specify date]

**9.**

Interest basis to 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]

**11. Change of interest basis or redemption/payment basis:**

[Specify details of any provision for change of Debt Securities into another interest basis or redemption/payment basis/Not Applicable]

**12. Investor Put/Issuer Call:**

[Investor Put/Issuer Call/Not Applicable]

*(If applicable further particulars specified in paragraphs 23 and 24)*

**13. Status of the Debt Securities:**

Senior

- 14. Approval for Issuance of the Debt Securities:** Date of Board approval for issuance of Debt Securities obtained:  
[Date/ Not Applicable]  
*(N.B. Only relevant where Board (or similar) authorization is required for the particular Tranche of Debt Securities)*
- 15. Method of Distribution:** [Syndicated/Non-syndicated]
- 16. Calculation Agent:** [Issuer/(specify other)]

**PROVISIONS RELATING TO INFLATION LINKED ANNUITY BONDS**

- 17. Inflation Linked Annuity Bonds:** [Applicable/Not Applicable]  
*(if not applicable, delete the remaining subparagraphs of this paragraph)*
- i. Rate(s) of Interest to Maturity Date: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
- ii. Number of Interest Payment Dates: [ ]
- iii. Interest Payment Date(s): [[ ] day(s) in the month(s) of [ ] in each year up to and including the Maturity Date]. First Interest Payment Date being [ ].  
*(Amend appropriately in the case of irregular coupons)*
- iv. Day Count Fraction: [Actual/Actual (ICMA)][Actual/Actual][Actual/365][Actual 365/(Fixed)][Actual/365(Sterling)][Actual/360][30/360]  
[360/360][Bond Basis][30E/360][Eurobond Basis]
- v. Principal Repayment(s): An amount calculated by the Issuer on each Interest Payment Date by multiplying the nominal amount on the Issue Date with the Index Ratio and with the factor A, which is calculated according to the following formula:

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

where,

A = Principal repayment factor

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

c = The rate of interest of the relevant bond

f = The number of interest payments per year

n = Number of Interest Payment Dates

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

vi. Interest Payment(s):

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

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

where,

I<sub>k</sub> = Interest repayment factor for period k

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

c = The rate of interest of the relevant bond

f = The number of interest payments per year

n = Number of Interest Payment Dates

k = the number of payments that have already been made

(k=0 on the Issue Date, k=1 on the first Interest Payment Date, k=n on the last Interest Payment Date, etc.)

vii. Payment(s):

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

viii. 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<sub>t</sub>** 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<sub>M-1</sub> = 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 in i) or ii) below is lower than the Base Index, the Reference Index shall equal the Base Index.

And

**Base Index** means [*value of index*], being the value of the CPI on [*reference date*].

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

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

## PROVISIONS RELATING TO INFLATION LINKED EQUAL PRINCIPAL PAYMENT BONDS INCLUDING BONDS WITH ONE PAYMENT OF PRINCIPAL ON MATURITY DATE

### 18. Inflation Linked Equal Principal [Applicable/Not Applicable]

#### Payment Bonds:

*(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 arrears
- ii. Number of Interest Payment Dates: [ ]
- iii. Interest Payment Date(s): [[ ] day(s) in the month(s) of [ ] in each year up to and including the Maturity Date]. First Interest Payment Date being [ ].  
*(Amend appropriately in the case of irregular coupons)*
- iv. Number of Principal Payment Dates: [ ]
- v. Principal Payment Date(s): [On each Interest Payment Date/Maturity Date]
- vi. Day Count Fraction: [Actual/Actual (ICMA)][Actual/Actual][Actual/365][Actual 365/(Fixed)][Actual/365(Sterling)][Actual/360][30/360]

[360/360][Bond Basis][30E/360][Eurobond Basis]

- vii. Principal Repayment(s): An amount calculated by the Calculation Agent on each Principal Payment Date by multiplying the Principal Amount Outstanding on the Issue Date with the Index Ratio and dividing with the Number of Principal Payment Dates.
- viii. Interest Payment(s): Interest is calculated on each Interest Payment date as the Principal Amount Outstanding on each Interest Payment Date multiplied with the Rate of Interest and, the appropriate Day Count Fraction.
- ix. Payment(s): On each Interest Payment Date the sum of the relevant Principal Repayment and the Interest Payment.
- x. 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<sub>t</sub>** means the Principal Amount Outstanding on the relevant Interest Payment Date.

**PAO<sub>t-1</sub>** means the Principal Amount Outstanding on the preceding Interest Payment Date.

**PR<sub>t-1</sub>** means the Principal Repayment on the preceding Interest Payment Date.

**IR<sub>t</sub>** means the Index Ratio on the relevant Interest Payment Date.

**IR<sub>t-1</sub>** means the Index Ratio on the preceding Interest Payment Date (Issue Date for the first Interest Payment Date).

- xi. 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<sub>t</sub>** 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<sub>M-1</sub>** = CPI value published by Statistics Iceland in the month preceding month M

**CP<sub>M-2</sub>** = CPI value published by Statistics 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 [value of index], being the value of the CPI on [reference date]. 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 Reference Index immediately prior to such substitution.

## PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 19. Fixed Rate Bond Provisions:** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- i. Rate(s) of Interest to Maturity Date: [ ] per cent. per annum [payable[annually/semi-annually/quarterly] in arrears]
  - ii. Interest Payment Date(s): [[ ] day(s) in the month(s) of [ ] in each year up to and including the Maturity Date]. First Interest Payment Date being [ ].  
*(Amend appropriately in the case of irregular coupons)*
  - iii. Day Count Fraction: [Actual/Actual (ICMA)][Actual/Actual][Actual/365][Actual 365/(Fixed)][Actual/365(Sterling)][Actual/360][30/360]  
[360/360][Bond Basis][30E/360][Eurobond Basis]
  - iv. Other terms relating to the [None/give details]

method of calculating interest  
for Fixed Rate Bonds:

- 20. Floating Rate Bond Provisions:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- i. Specified Period(s)/Specified Interest Payment Dates: []  
*(NB: Specify the Specified Period(s)/Specified Interest Payment Date(s))*
- 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. Screen Rate Determination [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- 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 TARGET2 System if EURIBOR or euro LIBOR) and second Reykjavik Business Day of each interest period if REIBOR*  
*(NB: Specify the Interest Determination Date(s))*
- Relevant Screen Page: []  
*(Give details)*
- vi. ISDA Determination: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- Floating Rate Option: []
- Designated Maturity: []
- Reset Date: []

- vii. Other determination: [Applicable/Not Applicable]  
(If applicable, give details)
- viii. Margin(s) to Maturity Date: [+/-] [ ] per cent. per annum
- ix. Minimum Rate of Interest: [[ ] per cent. per annum/Not Applicable]
- x. Maximum Rate of Interest: [[ ] per cent. per annum/Not Applicable]
- xi. Day Count Fraction: [Actual/Actual (ICMA)][Actual/Actual][Actual/365][Actual 365/(Fixed)][Actual/365 (Sterling)] [Actual/360]  
[30/360][360/360][Bond Basis][30E/360][Eurobond Basis]
- xii. Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Bonds, if different from those set out in the Terms and Conditions: [Applicable/Not Applicable]
- xiii. Maximum Interest Amount: [Applicable/Not Applicable]
- 21. Zero Coupon Bond Provisions:** [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- i. Accrual Yield: [ ] per cent. per annum
- ii. Reference Price: [ ]
- iii. Any other formula/basis of determining amount payable: [ ]
- iv. Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.8b) and 7.12 apply/specify other]
- 22. Bill Provisions:** [Applicable/Not Applicable]  
(If not applicable, delete the remaining subparagraphs of this paragraph)
- i. Discount yield: [ ] per cent. per annum
- ii. Reference Price: [ ]
- iii. Any other formula/basis of determining amount payable: [ ]
- iv. Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7.8.c) and 7.12 apply/specify other]

## PROVISIONS RELATING TO REDEMPTION

- 23. Issuer Call:** [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- i. Optional Redemption Date(s): [ ]
- ii. Optional Redemption Amount of each Debt Security and method, if any, of calculation of such amount(s): [[ ] per Debt Security of [ ] Specified Denomination]  
 [Condition 7.8 applies]  
 [Specify formula]
- iii. Early Redemption Amount: [As set out in Condition 7.8]
- iv. Redeemable in part: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining Subparagraphs of this paragraph)*
- Minimum Redemption Amount: [ ]
- Maximum Redemption Amount: [ ]
- v. Notice period (if other than as set out in the Terms and Conditions): [ ]
- 24. Investor Put:** [Applicable/Not Applicable]  
*(If applicable specify details.)*
- 25. Final Redemption Amount of each Debt Security:** [ ] per Debt Security of [ ] Specified Denomination/specify other/see Appendix]/[Not Applicable]
- 26. Early Redemption Amount of each Debt Security payable on redemption and/or the method of calculating the same (if required or if different from that set out in Condition 7.8 (a):** [ ]

#### GENERAL PROVISIONS APPLICABLE TO THE DEBT SECURITIES

- 27. New Global Note:** [Yes/No]
- 28. Form of Debt Securities:** [VS System Debt Securities/ISD System Debt Securities]  
 [Bearer Bonds  
 Temporary Bearer Global Bond exchangeable for a Permanent Bearer Global Bond which is exchangeable for Definitive Bonds [on 60 days' notice given at any time/only after an Exchange Event]  
 [Temporary Bearer Global Bond exchangeable for Definitive

Bonds on and after the Exchange Date]

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

[Registered Bond

Regulation S Global Bonds [ ] nominal amount) registered in the name of a common depository for Euroclear and Clearstream,/a common safekeeper for Euroclear and Clearstream]]

- 29. 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)*
- 30. Talons for future Coupons or Receipts to be Attached to Definitive Bonds (and dates on which such Talons mature):** [Yes/No]  
*(If yes, give details)*
- 31. Details relating to Partly Paid Debt Securities:** amount of each payment comprising the Issue Price and date on which each payment is to be made and consequence of failure to pay, including any right of the Issuer to forfeit the Debt Securities and interest due on late Payment: [Not Applicable/give details].  
*(N.B.: a new form of Temporary Bearer Global Bond and/or Permanent Bearer Global Bond may be required for Partly Paid issues)*
- 32. Details relating to Instalment Bonds:**
- i. Instalment Amount(s): [Not Applicable/give details]
- ii. Instalment Date(s): [Not Applicable/give details]
- 33. 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))*
- 34. 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" according to the Commission Delegated Regulation (EU) no. 486/2012 and consequently trigger the need for supplements to the Base Prospectus under Article 16 of the Prospectus Directive.)*

## DISTRIBUTION

35.

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

ii. Stabilizing Manager (if any): [Not Applicable/give names]

36. **If non-syndicated, name of relevant Dealer** [ ]

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

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[*Relevant third party information*] has been extracted from [specify source]. 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 [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By: .....

*Duly authorized*

## **PART B – OTHER INFORMATION**

### **1. LISTING**

- i. Listing: [Nasdaq Iceland/other (*specify*)/None]
- ii. Admission to trading: [Application has been made for the Debt Securities to be admitted to trading on [Nasdaq Iceland/other (*specify*)]/[Not Applicable.]

### **2. RATING**

[Not Applicable/The Debt Securities 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 Debt Securities of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### **3. NOTIFICATION**

[Applicable/Not Applicable]

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

The [FME] [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 Directive.

### **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 Debt Securities has an interest material to the issue. – *Amend as appropriate if there are other interests*]

*(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

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

- i. Use of proceeds: [For general funding purposes of the Issuer/*specify other*]

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

**6. YIELD** (*Fixed Rate Bonds Only*)

Indication of yield: [Not Applicable/specify]

*(Note: The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.)*

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

[Not Applicable/Details of historic [LIBOR/EURIBOR/REIBOR/other] rates can be obtained from [Give details].]

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

*[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]*

*[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.]*

*(When completing the above paragraphs, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] / [does not intend to provide post-issuance information]

**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 (together with the address of each such clearing system) and the relevant identification number(s): [Not Applicable/give name(s) and number(s)/ISD. The Issuer shall be entitled to obtain certain information from the register maintained by the ISD for the purpose of performing its obligations under the issue of ISD System Debt Securities. The ISD Agent shall be entitled to obtain such information as is required to perform its duties under the Terms and Conditions of the Debt Securities and rules and regulations of, and applicable to, the ISD.]
- iv. Delivery: Delivery [against/free of] payment

v. Names and addresses of additional Paying Agent(s) (if any): [Applicable/Not Applicable/give details]

vi. Intended to be held in a manner which would allow Eurosystem eligibility: [Yes][No]

*[Note that the designation “Yes” simply means that the Bonds are intended upon issue to be deposited with Euroclear or Clearstream as common safekeeper and does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.]*

*(include this text if “Yes” selected in which case the Bonds must be issued in/NGN form)*

## TERMS AND CONDITIONS OF THE DEBT SECURITIES

*The following are the Terms and Conditions of the Debt Securities which will be incorporated by reference into each Global Bond (as defined below) and each Definitive Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Definitive Bond will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Bond and Definitive Bond. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Debt Securities. Reference should be made to the Condition "Form of the Debt Securities" for a description of the content of Final Terms which will specify which of such terms is to apply in relation to the relevant Debt Securities.*

The Debt Securities are debt securities issued by Landsbankinn hf. (the "**Issuer**") and will be issued in compliance with any applicable legal or regulatory restrictions including the rules on foreign exchange issued by the Central Bank of Iceland, and any reference to currencies other than ISK and related expressions shall be construed as taking effect subject to such restrictions being lifted.

This Debt Security is one of a Series (as defined below) of Debt Securities issued by the Issuer.

References herein to the Debt Securities shall be references to the Debt Securities of this Series and shall include:

(a) in relation to any Debt Securities represented by a global Bond (a "**Global Bond**"), units of the lowest denomination specified in the relevant Final Terms (the "**Specified Denomination**") in the currency specified in the relevant Final Terms (the "**Specified Currency**");

(b) any Definitive Bonds in bearer form ("**Bearer Bonds**") issued in exchange for a Global Bond in bearer form; and

(c) any Definitive Bonds in registered form ("**Registered Bonds**") (whether or not issued in exchange for a Global Bond in registered form); and

(d) any Debt Securities issued in uncertificated book entry form cleared through the Icelandic Securities Depository or VP Lux (the "**VS System Debt Securities**"). VS System Debt Securities are in dematerialised form. Any references in these Terms and Conditions (the "**Conditions**") to Receipts, Coupons and Talons shall not apply to VS System Debt Securities and no Global or Definitive Bonds will be issued in respect of VS System Debt Securities.

The Final Terms for this Debt Security (or the relevant provisions thereof) are set out in Part A of the Final Terms which are (except in the case of VS System Debt Securities) attached to or endorsed on this Debt Security which supplement these Conditions. References to the "**applicable Final Terms**" are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) which are (except in the case of VS System Debt Securities) attached to or endorsed on this Debt Security and (in the case of the VS System Debt Securities) which are deposited with the ISD or VP Lux. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) to the extent implemented in the relevant Member State of the European Economic Area and including any relevant implementing measure in the relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Interest bearing Definitive 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 the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bonds repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Bonds do not have Receipts, Coupons or Talons attached on issue.

Any reference to “**Debt Security Holders**” or to “**holders**” or to “**Investor(s)**” in relation to any Debt Securities shall mean the holders of the Bonds (in the case of Bearer Bonds), the persons in whose name the Bonds are registered (in the case of Registered Bonds), the persons who are for the time being shown in the records of the ISD or VP Lux as the holders of the Debt Securities (in the case of VS Debt Securities), and shall, in relation to any Bond represented by a Global Bond and any VS Debt Security, be construed as provided below. Any reference herein to “**Receiptholders**” shall mean the holders of the Receipts and any reference herein to “**Couponholders**” shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, “**Tranche**” means Debt Securities which are identical in all respects (including as to listing and admission to trading on a Regulated Market) and “**Series**” means a Tranche of Debt Securities together with any further Tranche or Tranches of Debt Securities which (i) are expressed to be consolidated and form a single series and (ii) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the Final Terms are available for viewing on the Issuer’s website, [www.landsbankinn.is](http://www.landsbankinn.is), save that, if this Debt Security is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms can only be obtained by the Debt Security Holder at the registered offices of the Issuer and such Debt Security Holders must produce evidence satisfactory to the Issuer as to its holding of such Debt Securities.

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

## **1. DEFINITIONS**

*Interpretation:* In these Conditions:

- Debt Securities and Debt Security Holders shall be deemed to include references to Coupons and Coupon-holders, respectively, where relevant;
- If Talons are specified in the relevant Final Terms as being attached to the Bonds at the time of issue, references to Coupons shall be deemed to include references to Talons;
- If Talons are not specified in the relevant Final Terms as being attached to the Bonds at the time of issue, references to Talons are not applicable;
- Any reference to principal shall be deemed to include Final Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 8 (Taxation), any premium payable in respect of a Debt Security and any other amount in the nature of principal payable pursuant to these Conditions;
- Any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 8 (Taxation) and any other amount in the nature of interest payable pursuant to these Conditions;
- If an expression is stated in this 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 Debt Securities;

- VS System Debt Securities are in dematerialised form, and any references in these Terms and Conditions to Coupons and Talons shall not apply to VS System Debt Securities and no Global or Definitive Bonds will be issued in respect thereof;
- If the Debt Securities are Zero Coupon Bonds or Bills, references to Coupons and Couponholders are not applicable; and
- Where the word “including” appears in these Conditions the words “without limitation” shall be deemed to be inserted immediately afterwards.
- Any use of terminology or other words, in the singular or plural shall be deemed to be interchangeable unless the context otherwise requires.

<b>2010 PD Amending Directive</b>	Directive 2010/73/EU, amending the Prospectus Directive (Directive 2003/71/EC).
<b>Accrual Period</b>	In accordance with Condition 5.6(c)(i), the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date.
<b>Accrual Yield</b>	In relation to Zero Coupon Bonds, the meaning given in the applicable Final Terms.
<b>Act on Securities Transactions</b>	The Icelandic Act on Securities Transactions No. 108/2007 which came into effect 1 November 2007, as amended ( <i>Ice. “Lög um verðbréfavíðskipti 108/2007”</i> ).
<b>Additional Business Centre</b>	The meaning (if any) given in the applicable Final Terms.
<b>Additional Financial Centre</b>	The meaning (if any) given in the applicable Final Terms.
<b>Agency Agreement</b>	Shall mean the agency agreement (if any) to be entered into between the Issuer, Fiscal Agent and other agents.
<b>Amortised Face Amount</b>	The meaning given in Condition 7.8(b).
<b>Annuity Amount</b>	The meaning given in Condition 6.1(a).
<b>Annuity Bonds</b>	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.
<b>Applicable Final Terms</b>	The form of Final Terms (Part A of the Final Terms or the relevant provisions thereof) which will be completed for each Tranche of Debt Securities issued under the Programme.
<b>Bearer Bonds</b>	Bonds issued in bearer form.
<b>Bills</b>	Debt Securities that are offered and sold at a discount to their nominal amount and will not bear interest. Bills will have a maximum final maturity of 13 months when issued. Bills will only be issued in uncertificated book entry form cleared through the ISD,

	VP LUX or any other clearing system as decided by the Issuer and will be in dematerialised form, Bills will not be issued in definitive form.
<b>Bonds</b>	Debt Securities bearing interest, but not excluding Zero Coupon Bonds, issued or to be issued by the Issuer under the Programme.
<b>Business Day</b>	The meaning in Condition 5.6(a).
<b>Business Day Convention</b>	In respect of a Tranche of Debt Securities, either the Specified Periods or the Interest Payments Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Conditions 5.6(b).
<b>Calculation Agent</b>	The meaning (if any) given in the applicable Final Terms.
<b>Clearstream</b>	Clearstream Banking société anonyme, 42 Avenue JF Kennedy, L-1855, Luxembourg, or its successors.
<b>Code</b>	The United States Internal Revenue Code of 1986.
<b>Common Depositary</b>	The common depositary for Euroclear and Clearstream or its successors.
<b>Common Safekeeper</b>	The common safekeeper for Euroclear and Clearstream or its successors.
<b>CPI</b>	The consumer price indexation, as calculated by Statistics Iceland in accordance with Act on Price Indexation No. 12/1995 ( <i>Ice. "Lög um vísitölu neysluverðs nr. 12/1995"</i> ) and published monthly in the Legal Gazette in Iceland ( <i>Ice. "Lögbirtingablaðið"</i> ) or its successors.
<b>Couponholders</b>	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons).
<b>Coupons</b>	Interest coupons expressing the amount payable by way of interest in respect of Definitive Bonds.
<b>Day Count Fraction</b>	The meaning given in Condition 5.6(b).
<b>Dealer</b>	Any dealer appointed by the Issuer (if any).
<b>Debt Security</b>	Debt securities issued or to be issued by the Issuer under the Programme, including Bonds and Bills. All Debt Securities issued under the Programme may be issued in uncertificated and dematerialised book entry form cleared through the Icelandic Securities Depository (" <b>ISD Debt Securities</b> " and the " <b>ISD</b> " respectively) or any other clearing system as decided by the Issuer (together " <b>VS System Debt Securities</b> "). Additionally Bonds issued under the Programme may be issued in bearer form (" <b>Bearer Bonds</b> ") or registered form (" <b>Registered Bonds</b> "). Bills issued under the Programme will only be issued in uncertificated book entry form cleared through the ISD or any other clearing system as

decided by the Issuer.

<b>Debt Security Holders</b>	The holders for the time being of the Debt Securities issued or to be issued by the Issuer including holders of Bonds and Bills. In the case of Bearer Bonds, the holders of the Bonds, in the case of Registered Bonds the persons in whose name the Bonds are registered and in the case of VS System Debt Securities the persons who are for the time being shown in the records of the ISD or VP Lux as the holders of the Debt Securities. Debt Security Holders shall be deemed to include references to Coupons and Coupon-holders, respectively, where relevant.
<b>Definitive Bonds</b>	Debt Securities in definitive form, bearing interest, but not excluding Zero Coupon Bonds, issued or to be issued by the Issuer under the Programme.
<b>Designated Account</b>	Means the account maintained by a holder with a Designated Bank and identified as such in the Registered Bond Register.
<b>Designated Bank</b>	Means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.
<b>Designated Maturity</b>	The meaning given in the ISDA Definitions.
<b>Determination Date</b>	The meaning given in the applicable Final Terms.
<b>Determination Period</b>	The meaning given in Condition 5.6(d).
<b>Directors</b>	The directors for the time being of the Issuer as defined in the Icelandic Act No. 2/1995, on Limited Liability Companies ( <i>Ice. "Lög um hlutafélög nr. 2/1995"</i> ).
<b>Discount Yield</b>	In relation to Bills, the meaning given in the applicable Final Terms.
<b>Distribution Compliance Period</b>	The period that ends 40 days after completion of the distribution of each Tranche of Debt Securities, as certified by the relevant Dealer.
<b>Early Redemption Amount</b>	The amount calculated in accordance with Condition 7.8.
<b>Equal Payment Amount</b>	The meaning given in Condition 6.1(b).
<b>EU</b>	The European Union.
<b>EURIBOR</b>	Euro-zone inter-bank offered rate.
<b>Euroclear</b>	Euroclear Bank S.A./N.V., 1, Boulevard du Roi Albert II B - 1210 Brussels, Belgium, or its successors.
<b>Exchange Date</b>	The date when interests in a Temporary Bearer Global Bond will be exchanged either for interests in a Permanent Bearer Global Bond or, where specified in the applicable Final terms, for Definitive Bearer Bonds.

<b>Exchange Event</b>	The meaning given in Condition 2 (Form, Denomination and Title) in the section on Bearer Bonds.
<b>Exchange Notice</b>	The meaning given in Condition 4. (iv).
<b>Final Redemption Amount</b>	The meaning given in the applicable Final Terms.
<b>Final Terms</b>	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 Debt Securities and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Debt Securities are the Terms and Conditions of the Debt Securities as completed, amended and/or replaced by the relevant Final Terms.
<b>Financial Indebtedness</b>	As defined in Condition 10 of the Terms and Conditions.
<b>Fiscal Agent</b>	Landsbankinn hf., or any successor agent appointed as such.
<b>Fixed Rate Bonds</b>	Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer as specified in the applicable Final Terms and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
<b>Floating Rate</b>	The meaning given in the ISDA Definitions.
<b>Floating Rate Convention</b>	The meaning given in Condition 5.6(b)(i).
<b>Floating Rate Bonds</b>	Bonds which bear interest at a rate determined: <ul style="list-style-type: none"> <li>(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</li> <li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer, or as set out in the applicable Final Terms.</li> </ul>
<b>FME</b>	The Financial Supervisory Authority, Iceland ( <i>Ice. "Fjármálaeftirlitið"</i> ).
<b>Following Business Day Convention</b>	The meaning given in Condition 5.6(b)(ii).
<b>Global Bonds</b>	Bonds issued in bearer form, held in a clearing system in the form of a single Bond representing the whole principal amount of the issuance. While in global form the Bond can be a Temporary Bearer Global Bond and a Permanent Bearer Global Bond.
<b>Index Ratio</b>	The meaning given in the applicable Final Terms.

<b>Inflation Linked Annuity Bonds</b>	Bonds that pay an Annuity Amount adjusted for inflation on such date or dates as decided by the Issuer and set out in the Final Terms.
<b>Inflation Linked Equal Principal Payment Bonds</b>	Bonds, including Bonds with one payment of principal on Maturity Date, that pay an Equal Payment Amount adjusted for inflation on such date or dates as decided by the Issuer and set out in the Final Terms.
<b>Instalment Amounts</b>	In respect of Instalment Bonds, each amount specified as such in the applicable Final Terms.
<b>Instalment Bonds</b>	Bonds which will be redeemed in Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.
<b>Instalment Dates</b>	In respect of Instalment Bonds, each date specified as such in the applicable Final Terms.
<b>Interest Amount</b>	The amount of interest payable on the Floating Rate Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 5.4(d) or the amount of interest payable on Inflation Linked Annuity Bonds or Inflation Linked Equal Payment Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Conditions 5.1 and 5.2 respectively.
<b>Interest Commencement Date</b>	In the case of interest-bearing Bonds, the date specified in the applicable Final Terms from (and including) which interest will accrue in respect of the relevant Bonds.
<b>Interest Determination Date</b>	In respect of Floating Rate Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms.
<b>Interest Payment</b>	The meaning given in the applicable Final Terms.
<b>Interest Payment Date</b>	In respect of Fixed Rate Bonds, Inflation Linked Annuity Bonds and Inflation Linked Equal Payment Bonds, the meaning given in the applicable Final Terms and in respect of Floating Rate Bonds the meaning given in Condition 5.4(a).
<b>Interest Period</b>	In accordance with Condition 5.6(e) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
<b>Investor</b>	The holders for the time being of the Debt Securities.
<b>Investor Put</b>	If specified as applicable in the applicable Final Terms, the provision by which the Investor may redeem a Series of Debt Securities in accordance with Condition 7.5.
<b>ISD</b>	The Icelandic Securities Depository hf. Reg.No. 500797-3209, with its registered office at Laugavegur 182, 105 Reykjavík ( <i>Ice. "Verðbréfaskráning Íslands"</i> ).

<b>ISD System Debt Securities</b>	Shall mean Debt Securities issued in a dematerialised, uncertified book entry form cleared through ISD.
<b>ISDA</b>	International Swaps and Derivatives Association, Inc.
<b>ISDA Definitions</b>	The meaning given in Condition 5.4(b).
<b>ISDA Determination</b>	If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Bonds is to be determined in accordance with Condition 5.4(b).
<b>ISDA Rate</b>	The meaning given in Condition 5.4(b).
<b>ISK or Icelandic Krona or krónur</b>	The lawful currency of the Republic of Iceland.
<b>ICMA</b>	International Capital Markets Association.
<b>Issue Date</b>	Each date on which the Issuer issues a Tranche of Debt Securities under the Programme, as specified in the applicable Final Terms.
<b>Issue Price</b>	The price, generally expressed as a percentage of the nominal amount of the Debt Securities, at which a Tranche of Debt Securities will be issued.
<b>Issuer</b>	Landsbankinn hf., Reg.No. 471008-0280, having its registered office at Austurstræti 11, 155 Reykjavík, Iceland.
<b>Issuer Call</b>	If specified as applicable in the applicable Final Terms, the provision by which the Issuer may redeem a Series of Debt Securities in accordance with Condition 7.4.
<b>Landsbankinn</b>	Landsbankinn hf., Reg.No. 471008-0280, having its registered office at Austurstræti 11, 155 Reykjavík, Iceland.
<b>LIBOR</b>	London inter-bank offered rate
<b>Margin</b>	As specified in the applicable Final Terms (if any).
<b>Maturity Date</b>	As specified in the applicable Final Terms.
<b>Maximum Rate of Interest</b>	In respect of a Floating Rate Bond, the percentage rate per annum (if any) specified in the applicable Final Terms.
<b>Maximum Redemption Amount</b>	The amount specified as such in the applicable Final Terms.
<b>Member State</b>	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.
<b>Minimum Rate of Interest</b>	In respect of Floating Rate Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms.
<b>Minimum Redemption Amount</b>	The amount specified as such in the applicable Final Terms.

<b>Modified Following Business Day Convention</b>	The meaning given in Condition 5.6(b)(iii).
<b>Nasdaq Iceland</b>	The main market of NASDAQ OMX Iceland hf., Reg.No. 681298-2829, with its registered office at Laugavegur 182, 105 Reykjavík.
<b>Optional Redemption Amount</b>	The meaning (if any) given in the applicable Final Terms.
<b>Optional Redemption Date</b>	The meaning (if any) given in the applicable Final Terms.
<b>Partial Redemption</b>	If the Issuer redeems part and not all of the Principal Amount Outstanding of Debt Securities. The redemption proceeds shall be applied rateably across the Debt Securities and the Principal Amount Outstanding on the Debt Securities shall be reduced by the level of that redemption.
<b>Paying Agents</b>	The Principal Paying Agent and any other paying agent appointed (if any).
<b>Payment Day</b>	The meaning given in Condition 6.8.
<b>Permanent Bearer Global Bond</b>	A Global Bond in bearer form that can be exchanged for a Temporary Bearer Global Bond. The bearer of a Permanent Bearer Global Bond is the Common Depository.
<b>Preceding Business Day Convention</b>	The meaning given in Condition 5.6(b)(iv).
<b>Principal Amount Outstanding</b>	The meaning given in Condition 5.6(f).
<b>Principal Paying Agent</b>	The Issuer, Landsbankinn hf.
<b>Programme</b>	Debt Issuance programme established by the Issuer. The maximum aggregate nominal amount of all Debt Securities from time to time outstanding under the Programme will not exceed ISK 30,000,000,000 (or its equivalence in other currencies calculated as described herein), subject to increase as described herein.
<b>Prospectus Directive, PD Directive</b>	Directive 2003/71/EC ( <i>Ice. "Tilskipun Evrópuþingsins og Ráðsins 2003/71/EB"</i> ) as amended (which includes the amendments made by Directive 2010/73/EU) to the extent implemented in the relevant Member State of the European Economic Area and including any relevant implementing measure in the relevant Member State.
<b>Prospectus Regulation</b>	Commission Regulation (EC) No. 809/2004 as amended.
<b>Put Notice</b>	The meaning given in Condition 7.5.
<b>Rate of Interest</b>	In respect of a Series of interest-bearing Bonds, the rate of interest payable from time to time in respect of such Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms.
<b>Receipts</b>	Receipts for the payment of instalments of principal other than the final instalment attached on issue to Definitive Bonds repayable in

	instalments.
<b>Receiptholders</b>	The holders of Receipts (which expression shall, unless the context otherwise requires, include the holders of the Talons).
<b>Redeemed Debt Securities</b>	The meaning given in Condition 7.4.
<b>Record Date</b>	The meaning given in Condition 6.5.
<b>Redenomination Currency</b>	The meaning given in Condition 4(v).
<b>Redenomination Date</b>	A date, specified in a notice to Debt Security Holders, the Receiptholders and the Couponholders, when redenomination of Debt Securities will come into effect.
<b>Reference Price</b>	In respect of a Zero Coupon Bond and Bills, the meaning given in the applicable Final Terms.
<b>Reference Rate</b>	In respect of Floating Rate Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms.
<b>Registrar</b>	Any registrar to be appointed in accordance with an Agency Agreement (if any).
<b>Registered Bond Register</b>	Register of holders of the Registered Bonds maintained by the Registrar.
<b>Registered Bond</b>	Means Bonds issued in registered form.
<b>Regulated Market</b>	Means a medium for the exchange of goods or services over which a government body exerts a level of control.
<b>Regulation S</b>	Regulation S under the US Securities Act.
<b>Regulation S Global Bonds</b>	Global Bonds offered and sold in reliance on Regulation S.
<b>REIBOR</b>	Reykjavík Inter Bank Offered Rate.
<b>Relevant Date</b>	The meaning given in Condition 8 (Taxation).
<b>Relevant Screen Page</b>	In respect of Floating Rate Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms.
<b>Reset Date</b>	The Meaning given in the ISDA Definitions.
<b>Screen Rate Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Bonds is to be determined in accordance with Condition 5.4(b).
<b>Selection Date</b>	The meaning given in Condition 7.4.
<b>Series</b>	A Tranche of Debt Securities together with any further Tranche or Tranches of Debt Securities which (i) are expressed to be consolidated and form a single series and (ii) have the same terms

and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

<b>Specified Currency</b>	Subject to any applicable legal or regulatory restrictions, 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.
<b>Specified Denomination</b>	In respect of a Series of Debt Securities, the denomination or denominations of such Debt Securities as specified in the applicable Final Terms.
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Bonds, the meaning (if any) given in the applicable Final Terms.
<b>Subsidiary</b>	Means an entity from time to time of which the Issuer (i) has direct or indirect control or (ii) 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.
<b>Sub-Unit</b>	The meaning given in Condition 5.6(g).
<b>Talons</b>	Talons for further Coupons in respect of interest-bearing Definitive Bonds.
<b>TARGET2 System</b>	The meaning given in Condition 5.6(a).
<b>Tax Jurisdiction</b>	The meaning given in Condition 8 (Taxation).
<b>Temporary Bearer Global Bond</b>	A Global Bond in bearer form which will initially represent the Bearer Bond of each Tranche.
<b>Terms and Conditions or Conditions</b>	The terms and conditions of the Debt Securities.
<b>Tranche</b>	Issues of Debt Securities which are identical in all respects (including as to listing and admission to trading on a Regulated Market)
<b>Transfer Agent</b>	Landsbankinn hf., or any successor agent appointed as such.
<b>US Securities Act</b>	U.S. Securities Act of 1933, as amended.
<b>VS System Debt Securities</b>	Means Debt Securities issued in uncertificated book entry form cleared through the ISD or VP Lux and/or, in relation to any Tranche of Debt Securities, any other clearing system as may be specified in the relevant Final Terms (as the case may be).
<b>VP LUX</b>	Means VP Lux S.à.r.l., 32, Boulevard Royal, L-2449 Luxembourg, or its successors.

<b>Zero Coupon Bonds</b>	Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.
<b>€, Euro, EUR or euro</b>	The currency of the European economic monetary union.
<b>£ or Sterling</b>	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.
<b>\$, U.S.\$, U.S. Dollars, US Dollars or USD</b>	The lawful currency for the time being of the United States of America.

## 2. FORM, DENOMINATION AND TITLE

The Debt Securities will be issued in bearer form (“**Bearer Bonds**”), registered form (“**Registered Bonds**”) or, in the case of VS System Debt Securities, uncertificated book entry form, as specified in the applicable Final Terms, and, in the case of Definitive Bonds, in the Specified Currency and the Specified Denomination(s) and (other than VS System Debt Securities) serially numbered. Debt Securities of one Specified Denomination may not be exchanged for Debt Securities of another Specified Denomination and Bearer Bonds may not be exchanged for Registered Bonds and *vice versa*. Neither Bearer Bonds nor Registered Bonds may be exchanged for VS System Debt Securities and *vice versa*.

The Debt Securities may take the form of an Inflation Linked Annuity Bond, an Inflation Linked Equal Principal Payment Bond including a Bond with one payment of principal on Maturity Date, a Fixed Rate Bond, a Floating Rate Bond, an Instalment Bond, a Zero Coupon Bond, a Bill or a combination of any of the foregoing, depending upon the interest basis and redemption/payment basis shown in the applicable Final Terms.

### **Bearer Bonds**

Each Tranche of Bonds issued in the form of Bearer Bonds will initially be represented by a Temporary Bearer Global Bond or, if so specified in the applicable Final Terms, a Permanent Bearer Global Bond without Coupons, Receipts or Talons which will:

- (i) if the Global Bonds are intended to be issued in a new global note form (“**NGN**”), 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 (the “**Common Safekeeper**”); and
- (ii) if the Global Bonds are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depository for Euroclear and Clearstream (the “**Common Depository**”).

Interests in the Temporary Bearer Global Bond will be exchanged either for interests in a Permanent Bearer Global Bond or, where specified in the applicable Final Terms (subject to such notice period as is specified in the Final Terms), for Definitive Bearer Bonds on or after the date (the “**Exchange Date**”) which is the later of (i) 40 days after the Temporary Bearer Global Bond is issued and (ii) 40 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, as the case may be, to the effect that the beneficial owner of such Bonds is not a U.S. person or other person who has purchased such Bonds for resale to, or on behalf of, U.S. persons and Euroclear and/or Clearstream, as the case may be, and has given a like certification (based on the certification it has received) to the Fiscal Agent.

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

The applicable Final Terms will specify that either (i) a Permanent Bearer Global Bond will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Bonds with, where applicable, Receipts, Coupons and Talons attached upon not less than 60 days' written notice from Euroclear and (or Clearstream, (acting on the instructions of any holder of an interest in such Permanent Bearer Global Bond) to the Fiscal Agent as described therein or (ii) a Permanent Bearer Global Bond will be exchangeable (free of charge), in whole but not in part, for Definitive Bearer Bonds with, where applicable, Receipts, Coupons and Talons attached only upon the occurrence of an Exchange Event as described therein. **"Exchange Event"** means (i) the Issuer has been notified that either Euroclear or Clearstream, 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 Debt Security Holders is available or, unless otherwise specified in the applicable Final Terms, (ii) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 8 (Taxation) which would not be required were the Bonds represented by the Permanent Bearer Global Bond in definitive bearer form and a certificate to such effect signed by two Directors has been given to the Fiscal Agent. The Issuer will promptly give notice to Debt Security Holders 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, (acting on the instructions of any holder of an interest in such Permanent Bearer Global Bond) or the Debt Security Holders 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 Debt Security Holder requesting exchange. Any such exchange shall occur not later than 30 days after the date of receipt of the first relevant notice by the Fiscal Agent.

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

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

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

### **Registered Bonds**

Registered Bonds of each Tranche of 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 Certificate which will be deposited with a common depository or common safekeeper, for Euroclear and Clearstream and registered in the name of a common nominee of Euroclear and Clearstream or in the name of a common nominee of Euroclear and Clearstream or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms. Prior to expiry of the Distribution Compliance Period applicable to each Tranche of Bond, beneficial interests in a Regulation S Global Bond may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in this Condition 2 (Form, Denomination and Title) and may not be held otherwise than through Euroclear or Clearstream and such Regulation S Global Bond will bear a legend regarding such restrictions on transfer.

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

Payments of principal and interest (if any) and any other amount on the Registered Bonds in definitive form will be made on the relevant payment date to the persons shown on the Registered Bond 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 the principal of, interest (if any) and any other amount on, the Registered Global Bonds will be made to the registered holder of the Registered Global Bonds. None of the Issuer, any Paying Agent and the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Registered Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Interests in a Registered Global Bonds will be exchangeable (free of charge), in whole but not in part, for Definitive Registered Bonds without receipts, coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, Exchange Event means that (i) in the case of Bonds registered in the name of a nominee for a Common Depository for Euroclear and Clearstream the Issuer has been notified that both Euroclear and Clearstream, have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or such case, no successor clearing system is available) or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds represented by the Registered Global Bond in definitive form. The Issuer will promptly give notice to Debt Security Holders 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, or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Bond) may give notice to the Registrar requesting such 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 Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

### **Transfer of Interest**

For so long as any of the Debt Securities are Bonds represented by a Bearer Global Bond held by Euroclear and/or Clearstream, or so long as a Registered Global Bond is held by Euroclear, Clearstream or a nominee therefor or so long as the Debt Security is a VS Systems Debt Security, each person who is for the time being shown in the records of Euroclear and/or Clearstream, the ISD or VP Lux, as the case may be, as the holder of a particular nominal amount of such Debt Securities (in which regard any certificate or other document issued by Euroclear, Clearstream, or its nominee, the ISD or VP Lux as to the nominal amount of such Debt Securities 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 Debt Securities for all purposes other than (in the case only of Debt Securities not being VS System Debt Securities) with respect to the payment of principal or interest on the Debt Securities, for which purpose, the bearer of the relevant Global Bearer Bond, or the registered holder of a Registered Global Bond shall be treated by the Issuer, the Fiscal Agent and any other Paying Agent as the holder of such Bonds in accordance with and subject to the terms of the relevant Global Bond (and the expressions “Debt Security Holder” and “holder of Debt Securities” and related expressions shall be construed accordingly).

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

Beneficial interests in a Registered Global Bond may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such beneficial interest in another Registered Global Bond. No beneficial owner of an interest in a Registered Global Bond will be able to exchange or transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, in each case to the extent applicable. Transfers of beneficial interests in Registered Global Bonds will be effected by Euroclear or Clearstream, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in

such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Bonds in definitive form or for a beneficial interest in another Registered Global Bond only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, as the case may be, and in accordance with the terms and conditions specified in an Agency Agreement.

A Registered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders thereof must (i) surrender the Registered Bond for registration of the transfer of the Registered Bond (or the relevant part of the Registered Bond) at the specified office of any Transfer Agent, with the form of transfer thereof in writing and (ii) complete and deposit such other certification as may be required by the relevant Transfer Agent (if any) and (b) the relevant Transfer Agent (if any) must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Subject as provided above, the relevant Transfer Agent (if any) has agreed within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent (if any) is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office as the relevant transferee may request, a new Registered Bond in definitive form of a like aggregate nominal amount to the Registered Bond transferred. In the case of the transfer of part only of the Registered Bond in definitive form, a new Registered Bond in respect of the balance of the Registered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Bond to a transferee in the United States or who is a U.S. person will only be made upon receipt by the Registrar of a written certification substantially in the form set out in an Agency Agreement, amended as appropriate, copies of which are available from the specified office of any Transfer Agent (if any), from the transferor of the bond or beneficial interest therein to the effect that such transfer is being made pursuant to the US Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Each Tranche of VS System Debt Securities will be issued in uncertificated and dematerialised book entry form. Legal title to the VS Systems Debt Securities will be evidenced by book entries in the records of ISD or VP LUX. Title to the VS System Debt Securities will pass by registration in the register between the direct accountholders at the ISD or VP Lux in accordance with the rules and procedures of the ISD and VP Lux. The person evidenced (including any nominee) as a holder of the VS System Debt Securities shall be treated as the holder of such VS System Debt Securities for the purposes of payment of principal and interest on such VS System Debt Securities. Settlement of sale and purchase transactions in respect of VS System Debt Securities in the ISD or VP LUX will take place in accordance with market practice at the time of the relevant transaction.

Title to the VS System Debt Securities will pass by registration in the registers between the direct accountholders at the ISD or VP LUX.

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

Title to the Bearer Bonds, Receipts and Coupons will pass by delivery. The Issuer may deem and treat the bearer of any Bearer Bond, Receipt or Coupon as the absolute owner thereof (whether or not overdue and

notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

### **3. STATUS OF THE DEBT SECURITIES**

The Debt Securities are direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### **4. REDENOMINATION**

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Debt Security Holders, the Receiptholders and the Couponholders, but after at least 30 days' prior notice to the Debt Security Holders in accordance with Condition 11 (Notices), elect that, with effect from the Redenomination Date specified in the notice, the Debt Securities shall be redenominated in any Specified Currency.

The election will have effect as follows:

- (i) the Debt Securities shall be deemed to be redenominated into a Specified Currency in the denomination of euro 0.01 (or equivalent in the Specified Currency) or as applicable to other Specified Currency with a principal amount for each Debt Security equal to the principal amount of that Debt Security in the Specified Currency, converted into euro or other Specified Currency at the spot rate for such conversion on the day that the relevant redenomination occurs, provided that, if the Issuer determines, that the 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 Debt Security Holders, the stock exchange (if any) on which the Debt Securities may be listed of such deemed amendments;
- (ii) save to the extent that an Exchange Notice has been given in accordance with Condition 4(iv) below, the amount of interest due in respect of the Debt Securities will be calculated by reference to the aggregate principal amount of Debt Securities presented for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01 (or equivalent in the Specified Currency) or as applicable in the relevant Specified Currency;
- (iii) if Definitive Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of relevant Debt Securities in the denomination of euro 100,000 (or equivalent in other currencies) and/or such higher amounts as the Fiscal Agent (in the case of Debt Securities other than VS System Debt Securities) or the Issuer (in the case of VS System Debt Securities) may determine and notify the Debt Security Holders and any remaining amounts less than euro 100,000 (or equivalent in other currencies) shall be redeemed by the Issuer and paid to the Debt Security Holders in euro in accordance with Condition 6; and (ii) in the case of Debt Securities which are not relevant Debt Securities, in the denominations of euro 1,000, 10,000, 100,000 (or equivalent in other currencies) and (but only to the extent of any remaining amount less than euro 1,000 (or equivalent in other currencies) or such smaller denominations as the Fiscal Agent may approve) euro 0.01 (or equivalent in other currencies) and such other denomination as the Fiscal Agent (in the case of Bonds other than VS System Debt Securities) or the Issuer (in the case of VS System Debt Securities) shall determine and notify to the Debt Security Holders;

- (iv) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Bonds) will become void with effect from the date on which the Issuer gives notice (the “**Exchange Notice**”) that replacement euro-denominated Debt Securities, 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 Debt Securities and Receipts so issued will also become void on that date although those Debt Securities and Receipts will continue to constitute valid exchange obligations of the Issuer. New redenominated Debt Securities, Receipts and Coupons will be issued in exchange for Debt Securities, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent (in the case of Debt Securities other than VS System Debt Securities) or the Issuer (in the case of VS System Debt Securities) may specify and as shall be notified to the Debt Security Holders 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 Debt Securities;
- (v) after the Redenomination Date, all payments in respect of the Debt Securities, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in the redenomination currency;
- (vi) if the Debt Securities are Fixed Rate Bonds, Inflation Linked Annuity Bonds or Inflation Linked Equal Principal Payment Bonds, and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-Unit of the relevant Specified Currency, half of any such Sub-Unit being rounded upwards or otherwise in accordance with applicable market convention;
- (vii) if the Bonds are Floating Rate Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- (viii) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Fiscal Agent (in the case of Debt Securities other than VS System Debt Securities), and as may be specified in the Exchange Notice, to confirm it to conventions then applicable to instruments denominated in euro.

## **5. INTEREST**

### **5.1 Interest on Inflation Linked Annuity Bonds**

Each Inflation Linked Annuity Bond bears interest 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 Sub-Unit of the relevant Specified Currency. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

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

### **5.2 Interest on Inflation Linked Equal Principal Payment Bonds**

Each Inflation Linked Equal Principal Payment Bond, bears interest 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

Sub-Unit of the relevant Specified Currency. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

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

### **5.3 Interest on Fixed Rate Bonds**

Each Fixed Rate Bond bears interest 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 Sub-Unit of the relevant 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 applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-Unit of the relevant Specified Currency, half of any such Sub-Unit being rounded upwards or otherwise in accordance with applicable market convention.

### **5.4 Interest on Floating Rate Bonds**

#### **a) Interest Payment Dates**

Each Floating Rate Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrears on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an Interest Payment Date) which falls the number of months, or other period specified as the Specified Period in the applicable Final Terms, after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

#### **b) Rate of Interest**

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

- (i) ISDA Determination for Floating Rate Bonds

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), ISDA Rate for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent or other person specified in the applicable Final Terms under any interest rate swap transaction if the Principal Paying Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and

as amended and updated as at the Issue Date of the first Tranche of the Bonds (the ISDA Definitions), and under which:

- A. the Floating Rate Option is as specified in the applicable Final Terms;
- B. the Designated Maturity is the period specified in the applicable Final Terms; and
- C. 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.

(ii) Screen Rate Determination for Floating Rate Bonds

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- A. the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- B. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (Iceland time, in the case of REIBOR, London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Issuer. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Issuer for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

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

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

If the applicable Final Terms for a Floating Rate Bond specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms for a Floating Rate Bond specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**d) Determination of Rate of Interest and calculation of Interest Amounts**

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

the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-Unit of the relevant Specified Currency, half of any such Sub-Unit being rounded upwards or otherwise in accordance with applicable market convention.

**e) Maximum Interest Amounts**

If the applicable Final Terms specifies a Maximum Interest Amount for any Interest Period, in the event that the Interest Amount in respect of such Interest Period determined in accordance with the provisions of paragraph (d) above is greater than such Maximum Interest Amount, the Interest Amount for such Interest Period shall be such Maximum Interest Amount.

**f) Certificates to be final**

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

## **5.5 Accrual of interest**

Each Interest bearing Bond (or in the case of the redemption of part only of Bonds, that part only of such Bonds) will cease to bear interest (if any) from the date of its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue in accordance with these Conditions. In the event of non-payment of a Zero Coupon Bond, interest will accrue as provided in Condition 7.12.

- a) The Bonds shall bear interest from (and including) the Maturity Date to the relevant Interest Payment Date after the Maturity Date on which the Bonds are redeemed. In that event, interest shall be payable on those Bonds at the rate determined in accordance with Condition 5.6 (b) on the Principal Amount Outstanding of the 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 be no later than the Maturity Date;
- b) The rate of interest payable from time to time under Condition 5.6(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 Zero Coupon Bonds, for the purposes of this Condition (5.5) the Principal Amount Outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

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

- a) In these 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 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 Reykjavík and any Additional Business Centre) or (B) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "TARGET2 System") is open.

b) If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in any case where Specified Periods are specified in accordance with Condition 5.4 (a), the Floating Rate Convention, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) 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 within 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 (ICMA)* is specified in the applicable Final Terms:

- (i) in the case of Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period (as defined in Condition 5.6(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming that interest was to be payable in respect of the whole year; or
- (ii) in the case of Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

if *Actual/365* is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by

366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

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

if *Actual/365 (Sterling)* is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

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

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

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

- d) Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).
- e) Interest Period means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
- f) Principal Amount Outstanding means, in respect of a Debt Security except an Inflation Linked Annuity Bond and an Inflation Linked Equal Payment Bond, on any day the principal amount of that Debt Security on the Issue Date less principal amounts (if any) received by the holder of such Debt Security in respect thereof on or prior to that day. In respect of an Inflation Linked Annuity Bond and an Inflation Linked Equal Payment Bond, the meaning given in the applicable Final Terms.
- g) Sub-Unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

## **6. PAYMENTS**

### **6.1 Payments in respect of Inflation Linked Bonds**

- a) Payments in respect of Inflation Linked Annuity Bonds

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

b) Payments in respect of an Inflation Linked Equal Principal Payment Bond

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

## **6.2 Method of payment**

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

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

Payments will be subject in all cases to any (i) fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of this Condition 6 (Payments) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreement thereunder, any official interpretation thereof, or (without prejudice to the provisions of Condition 8 (Taxation)) any law implementing an intergovernmental approach thereto.

## **6.3 Presentation of Definitive Bonds, Receipts and Coupons**

Payments of principal in respect of Definitive Bearer Bonds will (subject as provided below) be made in the manner provided in Condition 6.2 (Method of payment) only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Definitive Bonds, and payments of interest in respect of Definitive 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, 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 and its possessions)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 6.2 (Method of payment) only against presentation and surrender (or, in the case of partial payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 6.2 (Method of payment) only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Definitive Bearer Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Bond presented for payment of the relevant instalment together with the Definitive Bearer Bond to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Bonds and Inflation Linked Bonds in definitive bearer form 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 10 years after the Relevant Date (as defined in Condition 8 (Taxation) ) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9 (Prescription) or, if later, 5 years (4 years in the case of ISD system Debt Securities) from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Bond or Inflation Linked Bonds 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.

Upon the date on which any Floating Rate Bond in definitive 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.

If the due date for redemption of any Definitive Bearer Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Bearer Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Bonds.

#### **6.4 Payments in respect of Bearer Global Bond**

Payments of principal and interest (if any) in respect of Bonds represented by any Bearer Global Bond will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Bonds and otherwise in the manner specified in the relevant Bearer Global Bond, where applicable, against presentation or surrender, as the case may be, of such Bearer Global Bond at the specified office of any Paying Agent outside the United States. A record of each payment, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Bond either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, as applicable.

#### **6.5 Payments in respect of Registered Bonds**

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Bond appearing in the register of holders of the Registered Bonds maintained by the Registrar (the “**Registered Bond Register**”) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream are open for business) before the relevant due date, and (ii) where in definitive form at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Bonds held by a holder is less than U.S. \$250,000 (or its equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, (“**Designated Account**”) means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Registered Bond Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the

Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Bond appearing in the Registered Bond Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the “**Record Date**”) at his address shown in the Registered Bond Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Bond.

Holders of Registered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Bond as a result of a cheque posted in accordance with this Condition 6.5 (Payments in respect of Registered Bonds) arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Bonds.

None of the Issuer or the Paying Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## **6.6 General provisions applicable to payments**

The holder of a Global Bond shall be the only person entitled to receive payments in respect of Bonds represented by such Global Bond and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream as the beneficial holder of a particular nominal amount of Bonds represented by such Global Bond must look solely to Euroclear or Clearstream, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Bond.

Notwithstanding the foregoing provisions of this Condition 6.6 (General provisions applicable to payments), if any amount of principal and/or interest in respect of Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Bonds will be made at the specified office of a Paying Agent in the United States if:

- a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bonds in the manner provided above when due;
- b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

## **6.7 Payments in respect of VS System Debt Securities**

Payments of principal and interest in respect of VS System Debt Securities will be made to the Debt Security Holders shown in the relevant records of the ISD, VP LUX, Clearstream or Euroclear (as the case may be) in accordance with and subject to the rules and regulations from time to time governing the ISD, VP LUX, Euroclear or Clearstream (as the case may be).

## **6.8 Payment Day**

If the date for payment of any amount in respect of any Debt Security, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to any interest or other payment in respect of any such delay. For these purposes, (“**Payment Day**”) means any day which (subject to Condition 9 (Prescription)) 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:
  - (i) the case of Bonds in definitive form only, the relevant place of presentation;
  - (ii) Reykjavik; and
  - (iii) any Additional Financial Centre specified in the applicable Final Terms; and
- b) 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 (if other than the place of presentation, Reykjavik and any Additional Financial Centre) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

## **6.9 Interpretation of principal**

Any reference in these Conditions to principal in respect of the Debt Securities shall be deemed to include, as applicable:

- a) any additional amounts which may be payable with respect to principal under Condition 8 (Taxation);
- b) the Final Redemption Amount of the Debt Securities;
- c) the Early Redemption Amount of the Debt Securities;
- d) the Optional Redemption Amount(s) (if any) of the Debt Securities;
- e) in relation to Debt Securities redeemable in instalments, the Instalment Amounts;
- f) in relation to Zero Coupon Bonds and Bills, the Amortised Face Amount (as defined in Conditions 7.8 b) and 7.8 c); and
- g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Debt Securities.

## **7. REDEMPTION AND PURCHASE**

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

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

### **7.2 Final Redemption**

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

### **7.3 Redemption for Tax Reasons**

Subject to Condition 7.8 (Early Redemption Amounts) the Debt Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Debt Security is not a Floating Rate Bond, Inflation Linked Annuity Bond or a Inflation Linked Equal Principal Payment Bond) or on any Interest Payment Date (if this Debt Security is either a Floating Rate Bond or Inflation Linked Bonds), on giving not less than 30 nor more than 60 days' notice to the ISD or VP LUX and, in accordance with Condition 11 (Notices), the Debt Security Holders (which notice shall be irrevocable), if:

- a) on the occasion of the next payment due under the Debt Securities, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (Taxation) as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 8 (Taxation)) or any change in the application or official interpretation of such laws or regulation, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Debt Securities; and
- b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Debt Securities then due.

Prior to the publication of any notice of redemption pursuant to Condition 7.8 (Early Redemption Amounts), the Issuer shall deliver to the Fiscal Agent to make available at its specified office to the Debt Security Holders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled 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 (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Debt Securities redeemed pursuant to this Condition 7.3 (Redemption for Tax Reasons) will be redeemed at their Early Redemption Amount referred to in Condition 7.8 (Early Redemption Amounts) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **7.4 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than 15 nor more than 30 days' notice to the Debt Security Holders in accordance with Condition 11

(Notices) (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Debt Securities then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) 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 Debt Securities, the Debt Securities to be redeemed (“**Redeemed Debt Securities**”) will (i) in the case of Redeemed Debt Securities by Definitive Bonds, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Bonds by a Global Bond, be selected 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 (iii) in the case of VS System Debt Securities, be selected in accordance with the rules of the ISD or any other relevant clearing systems (as the case may be), in each case not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). In the case of Redeemed Bonds by Definitive Bonds, a list of the serial numbers of such Redeemed Bonds will be published in accordance with Condition 11 (Notices) not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Bonds represented by Definitive Bonds shall bear the same portion to the aggregate nominal amount of all Redeemed Bonds as the aggregate nominal amount of definite Bonds outstanding bears to the aggregate nominal amount of the Bonds outstanding, in each case on the Selection Date. No exchange of the relevant Debt Securities will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 7.4 (Redemption at the opting of the Issuer (Issuer Call)) and notice to that effect shall be given by the Issuer to the Debt Security Holders in accordance with Condition 11 (Notices) at least five days prior to the Selection Date.

## **7.5 Redemption at the option of the Debt Security Holders (Investor Put)**

If Investor Put is specified in the applicable Final Terms, upon the holder of any Debt Security giving the Issuer in accordance with Condition 11 (Notices) not less than 15 nor more than 30 days’ notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Debt Security on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Bonds may be redeemed under this Condition in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Debt Security the holder of this Debt Security must, if this Debt Security is a Bond in Definitive form and held outside Euroclear and Clearstream, deliver, at the specified office of any Paying Agent (in the case of Bearer Bonds) or the Registrar (in the case of Registered Bonds) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a “**Put Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 7.5 (Redemption at the option of the Debt Security Holder (Investor Put)) and, in the case of Registered Bonds, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Bonds so surrendered is to be redeemed, an address to which a new Registered Bond in respect of the balance of such Registered Bonds is to be sent subject to and in accordance with the provisions of Condition 2 (Form, Denomination and Title). If this Bond is in definitive bearer form, the Put Notice must be accompanied by this Bond or evidence satisfactory to the Paying Agent concerned that this Bond will, following delivery of the Put Notice, be held to its order or under its control.

If the Debt Security is a Bond represented by a Global Bond or is in definitive form and held through Euroclear or Clearstream, to exercise the right to require redemption of this Bond the holder of this Bond must, within the notice period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, (which may include notice being given on his instruction by Euroclear or Clearstream, or any Common Depositary for them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear and Clearstream, from time to time and, if this Bond is represented by a Global Bond, at the same time present or procure the presentation of the relevant Global Bond to the Agent for notation accordingly.

If the Debt Security is an VS System Debt Security, to exercise the right to require redemption of this Debt Security the holder of this Debt Security must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of the ISD or VP LUX from time to time. Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, or, in the case of ISD System Debt Securities, the ISD given by a holder of any Debt Security pursuant to this paragraph shall be irrevocable.

## **7.6 Redemption due to illegality or invalidity**

If the Debt Securities become illegal and/or invalid, the Debt Securities 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 Debt Security Holders (which notice shall be irrevocable).

Debt Securities redeemed pursuant to this Condition 7.6 (Redemption due to illegality or invalidity) will be redeemed at their Early Redemption Amount referred to in Condition 7.8 (Early Redemption Amounts) together (if appropriate) with interest accrued (and, if this is an Inflation Linked Annuity Bond or an Inflation Linked Equal Principal Payment Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms) to (but excluding) the date of redemption.

## **7.7 Certification**

The publication of any notice of redemption pursuant to Condition 7.8 (Early Redemption Amounts) shall include a certificate signed by authorised personnel 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 Debt Security Holders, Receiptholders and Couponholders.

## **7.8 Early Redemption Amounts**

For the purpose of Condition 7.3 (Redemption for Tax Reasons) and Condition 10 (Events of Default), each Debt Security will be redeemed at an amount (the “**Early Redemption Amount**”) calculated as follows:

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

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

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

<sup>y</sup> is a fraction the numerator of which equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Debt Securities 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.

- c) in the case of Bills, at the Amortised Face Amount calculated in accordance with the following formula:

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

where:

**RP** means the Reference Price;

**DY** means the Discount Yield expressed as a decimal; and

<sup>y</sup> is a fraction the numerator of which 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 Bills to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Bills become due and repayable and the denominator of which is 360), or on such other calculation basis as may be specified in the applicable Final Terms.

## 7.9 Instalments

Instalment Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 7.8 (Early Redemption Amounts).

## 7.10 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Debt Securities (provided that, in the case of Definitive Bonds, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Debt Securities may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or Registrar for cancellation.

## 7.11 Cancellation

All Debt Securities which are redeemed or surrendered for cancellation pursuant to Condition 7.10 (Purchases) will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Debt Securities so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and in the case of VS System Debt Securities shall be deleted from the records of the ISD, VP LUX or any other relevant clearing system (as the case may be) and cannot be reissued or resold.

## **7.12 Late Payment on Zero Coupon Bonds and Bills**

If the amount payable in respect of Zero Coupon Bonds or Bills upon redemption of any such Zero Coupon Bond or Bill pursuant to Conditions 7.2, 7.3, 7.4 or 7.5 above or upon its becoming due and repayable as provided in Condition 10 (Events of Default) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Bonds or Bills shall be the amount calculated as provided in Condition 7.8 (b) and 7.8 (c) respectively as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Bond or Bill becomes due and payable were replaced by references to the date which is the earlier of:

- a) the date on which all amounts due in respect of such Zero Coupon Bond or Bill have been paid; and
- b) five days after the date on which the full amount of the monies payable in respect of such Zero Coupon Bond or Bill has been received by the Fiscal Agent and notice to that effect has been given to the Debt Security Holders in accordance with Condition 11 (Notices).

## **8. TAXATION**

All payments of principal and interest in respect of the Debt Securities and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Debt Securities or 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 Debt Securities 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 Debt Security or Coupon:

- a) presented for payment in Iceland; or
- b) the holder who is liable for such taxes or duties in respect of such Debt Security or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Debt Security or Coupon; or
- c) presented for payment more than 30 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 presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 6.8 (Payment Day)); 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 No. 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting relevant Debt Security or Coupon to another Paying Agent in a Member State of the European Union: or
- f) where such withholding or deduction is required to be made based on provisions of the Act on Withholding of Public Levies at Source No. 45/1987, as amended, the Act on Withholding of Tax on Financial Income No. 94/1996, as amended, and Article 3 of the **ITA**, and any other legislation, laws or regulations, replacing or supplementing the same.

As used herein:

“**Tax Jurisdiction**” means Iceland or any political subdivision or any authority thereof or therein having power to tax; and

the “**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 Fiscal 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 due given to the Debt Security Holders in accordance with Condition 11 (Notices).

## 9. PRESCRIPTION

The Debt Securities, Receipts and Coupons (other than ISD System Debt Securities) will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and 5 years (in the case of interest) after the Relevant Date (as defined in Condition 8 (Taxation)). The ISD System Debt Securities will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and 4 years (in the case of interest) after the Relevant Date (as defined in Condition 8 (Taxation)).

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6.3 (or any Talon which would be void pursuant to Condition 6.3 (Presentation of Definitive Bonds, Receipts and Coupons)).

## 10. EVENTS OF DEFAULT

If any one or more of the following events (each an “**Event of Default**”) shall occur and be continuing:

- a) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Debt Securities or any of them and the default continues for a period of five days in the case of principal and 10 days in the case of interest; or
- b) if the Issuer fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Debt Security Holder on the Issuer of notice requiring the same to be remedied; or
- c) if (i) any Financial Indebtedness (as defined below) of the Issuer becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any originally applicable grace period; (iii) any security given by the Issuer for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Issuer in making any payment due under any guarantee and/or indemnity given by it in relation to any Financial Indebtedness of any other person, provided that the aggregate nominal amount of any such Financial Indebtedness of the Issuer in the case of (i), (ii) and/or (iii) above, and/or amount of Financial Indebtedness in relation to which such guarantee and/or indemnity of the Issuer has been given in the case of (iv) above, is at least €25,000,000 (or its equivalent in any other currency); or
- d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution; or
- e) if the Issuer ceases or threatens to cease to carry on the whole or substantially all of its business (save in each case for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

- f) if (A) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to all or substantially all of the undertaking or assets of the Issuer, or an encumbrance takes possession of all or substantially all of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of the undertaking or assets of the Issuer and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- g) if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

then any Debt Security Holder may, by written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare any Debt Security held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

In respect of this Condition 10 (Events of Default) Financial Indebtedness means any indebtedness for or in respect of:

Means any indebtedness for or in respect of:

- (a) borrowed money;
- (b) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;
- (a) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by a member of the Issuer and its consolidated subsidiaries, taken as a whole which is cash collateralised);
- (b) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with International Financial Reporting Standards (“IFRS”), be treated as a finance or capital lease;
- (c) receivables sold or discounted (otherwise than on a non-recourse basis);
- (d) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial or economic effect of a borrowing and which, for the avoidance of doubt, includes any transaction that is required to be classified and accounted for as borrowings, for financial reporting purposes in accordance with IFRS;
- (e) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account); or
- (f) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

all as more particularly defined in the Agency Agreement (if any).

## 11. NOTICES

### *(a) Bonds other than VS System Debt Securities*

All notices regarding the Bearer Bonds will be deemed to be validly given if published (a) in a leading Icelandic language daily newspaper of general circulation in Reykjavík and (b) if and for so long as the Bearer Bonds are admitted to trading on the regulated market of the Nasdaq Iceland and listed on the Official List of the Nasdaq Iceland, and/or on the Nasdaq Iceland website ([www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com)). The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer 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 or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Registered Bond Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Bonds are (a) admitted to trading on the regulated market of the Nasdaq Iceland and listed on the Official List of the Nasdaq Iceland., and/or the Nasdaq Iceland website ([www.nasdaqomxnordic.com](http://www.nasdaqomxnordic.com)), or (b) listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any Definitive Bonds are issued, there may, so long as any Global Bonds representing the Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream for communication by them to the Debt Security Holders and, in addition, for so long as any Debt Securities are listed on a stock exchange or are admitted to trading by a relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of that stock exchange. If not day is specified, any such notice shall be deemed to have been given to the Debt Security Holders on the day which the said notice was given to Euroclear and/or Clearstream.

### *(b) VS System Debt Securities*

All notices regarding VS System Debt Securities 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 VS System Debt Securities 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. Where the Debt Securities are VS System Debt Securities, the Issuer can additionally at its own discretion obtain information from the ISD, VP LUX, or any other clearing system as decided by the Issuer, on the Debt Security Holders in order to send notices to each Debt Security Holder directly.

### *(c) Notices given by Debt Security Holders*

Notices to be given by any Debt Security Holders shall be in writing and given by lodging the same, together (in the case of any Debt Security in definitive form) with the relative Debt Security or Debt Securities, with the Fiscal Agent (in the case of Bearer Bonds) or the Registrar (in the case of Registered Bonds). Whilst any of the Debt Securities are represented by a Global Bond, such notice may be given by any Debt Security Holder to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, as the case may be, may approve for this purpose.

## **12. MEETINGS OF DEBT SECURITY HOLDERS AND MODIFICATION**

### *(a) Bonds other than VS System Debt Securities*

An Agency Agreement will contain provisions for convening meetings of the Debt Security Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Debt Securities, the Receipts, the Coupons or any of the provisions of an Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Debt Security Holders holding not less than 10 per cent. in nominal amount of the Debt Securities for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Debt Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Debt Security Holders whatever the nominal amount of the Debt Securities so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Debt Securities, the Receipts or the Coupons (including modifying the date of maturity of the Debt Securities or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Debt Securities or altering the currency of payment of the Debt Securities, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Debt Securities for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Debt Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Debt Securities shall be binding on all the Debt Security Holders, whether or not they are present at the meeting, and on all Receipt holders or Coupon holders.

The Fiscal Agent and the Issuer may agree, without the consent of the Debt Security Holders, Receiptholders or Coupon holders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Debt Securities, the Receipts, the Coupons or of an Agency Agreement which is not prejudicial to the interests of the Debt Security Holders; or
- (b) any modification of the Debt Securities, the Receipts, the Coupons or of an Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Any such modification shall be binding on the Debt Security Holders, the Receiptholders and the Couponholders and any such modification shall be notified to the Debt Security Holders in accordance with Condition 11 (Notices) as soon as practicable thereafter.

### *(b) VS System Debt Securities*

The Issuer may, in its capacity as ISD Agent, convene meetings of the holders of VS System Debt Securities to consider any matter affecting their interests, including sanctioning by a majority of votes a modification of the VS System Debt Securities. Such a meeting may be convened by the Issuer or by the holders of not less than 10 per cent. of the Voting VS System Debt Securities. For the purpose of this Condition, Voting VS System Debt Securities means the aggregate nominal amount of the total number of VS System Debt Securities not redeemed or otherwise deregistered in the ISD or VP Lux, less the VS System Debt Securities owned by the Issuer, any party who has decisive influence over the Issuer or any party over whom the Issuer has decisive influence.

The quorum at a meeting for passing a resolution is one or more persons holding at least one half of the Voting VS System Debt Securities or at any adjourned meeting one or more persons being or representing holders of Voting VS System Debt Securities whatever the nominal amount of the VS System Debt Securities so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the VS System Debt Securities (including modifying the date of maturity of the VS System Debt Securities or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the VS System Debt Securities or altering the currency of payment of the VS System Debt

Securities), the quorum shall be one or more persons holding or representing not less than two-thirds in aggregate nominal amount of the Voting VS System Debt Securities for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in aggregate nominal amount of the Voting VS System Debt Securities. A resolution passed at any meeting of the holders of VS System Debt Securities shall be binding on all the holders, whether or not they are present at such meeting. If and whenever the Issuer has issued and has outstanding VS System Debt Securities of more than one Series, (i) a resolution which affects the VS System Debt Securities of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the holders of the VS System Debt Securities of that Series; (ii) a resolution which affects the VS System Debt Securities of more than one Series but does not give rise to a conflict of interest between the holders of VS System Debt Securities of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the VS System Debt Securities of all the Series so affected; and (iii) a resolution which affects the VS System Debt Securities of more than one Series and gives or may give rise to a conflict of interest between the holders of the VS System Debt Securities of one Series or group of Series so affected and the holders of the VS System Debt Securities of another Series or group of Series so affected shall be deemed to have been duly passed only if it is duly passed at separate meetings of the holders of the VS System Debt Securities of each Series or group of Series so affected.

The Issuer, in its capacity as ISD Agent, may in certain circumstances, without the consent of the holders of the VS System Debt Securities, make decisions binding on all holders relating to the Conditions which are not in its opinion, materially prejudicial to the interests of the holders of the VS System Debt Securities. The Issuer shall consider the interest of the holders of VS System Debt Securities while making such decisions.

### **13. FURTHER ISSUES**

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

#### **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Debt Securities under the English Contracts (Rights of Third Parties) Act 1999.

### **14. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

#### **Governing Law**

The Debt Securities, the Coupons and the Talons (other than ISD System Debt Securities) and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The ISD System Debt Securities will be governed by, and construed in accordance with Icelandic law.

#### **Jurisdiction**

The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Debt Securities, Coupons or Talons (other than ISD System Debt Securities) and accordingly any legal action or proceedings arising out of or in connection with any Debt Securities, Coupons or Talons

(“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of the courts of England and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the holders of the Debt Securities, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

The Issuer irrevocably agrees that any dispute arising out of the ISD System Debt Securities shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (Ice. “*Héraðsdómur Reykjavíkur*”) and legal action taken may be proceeded with in accordance with the Act on Civil Procedure No. 91/1991 (Ice. “*Lög um meðferð einkamála*”), Chapter 17.

### **Service of Process**

The Issuer irrevocably appoints the Embassy of Iceland, London as its agent in England to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify holders of such appointment in accordance with Condition 11 (Notices). Nothing shall affect the right to serve process in any manner permitted by law.

# TAXATION

## ICELAND

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of the Debt Securities to be issued under the Programme. They may not apply to certain classes of person such as dealers. Prospective holders of the Debt Securities to be issued under this Base Prospectus 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

Natural and legal persons that are not residents in Iceland and receive interest payments from Iceland are as a general principle considered to have limited tax liability in Iceland according to Article 3(8) of the ITA and are as such subject to 10 per cent. income tax on interest payments. The tax liability applies both to interest payment as such but also to capital gains on the bonds, since such gains are taxed in Iceland as interest payments. The abovementioned Article 3(8) of the ITA provides nevertheless for certain tax exemptions.

Article 3 (8) of the ITA states:

*“All entities who receive interest income in this country from bank deposits, securities- or investment funds, debentures or other claims or financial contracts, as noted in item 3, section C of Article 7, shall pay income tax on such income. This provision neither applies to interest paid by the Central Bank of Iceland in its own name or on behalf of the Treasury nor to interest paid to foreign states, international institutions or other public entities that are exempt from taxation in their country of domicile. This provision does not apply to interest income from bonds issued by Financial Undertakings as defined in point 1. of the 1st. Paragraph of Article 4 of Act No. 161/2002, On Financial Undertakings, and Energy Undertakings as defined in Act No. 50/2005, on Taxation on Energy Undertakings. Under the conditions that the bonds must be issued by a Securities Depository in a member state of the Organization for Economic Co-operation and Development (OECD), a member state of the European Economic Area or a founding member of EFTA or in the Faroe Islands and the trading must not be covered by the provisions of Article 13. b – 13. n of the Act No. 87/1992, on Foreign Exchange. This provision does not apply if a double-taxation agreement that Iceland has concluded with a foreign country states that a withholding tax on interest shall not be retained. The Minister of Finance is authorised to issue a regulation that further specifies the implementation of this provision.*

See also Regulation No. 630/2013.

Individuals are not subject to taxation on interest income up to ISK 125,000 or lower per year. Additionally, a non-Icelandic tax resident may be exempt from such taxation of interest, by virtue of a Double Taxation Treaty that the Government of Iceland has concluded with the Government of the home state of the non-Icelandic tax resident, which provides for relief from double taxation. In such circumstances, the taxable person (the recipient of the interest payments) must apply for such exemption to the Directorate of Internal Revenue by filing an application (form RSK 5.42) for exemption from such withholding. If an application is not made prior to such withholding, a tax refund for the withholding tax can be claimed through the same channels (form RSK 5.43).

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 Debt Securities if, at any time of the death of the holder or the transferee of the Debt Securities, such holder or transferor is not a resident of Iceland.

## **Icelandic tax residents**

Beneficial owners of the Debt Securities residing 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 20 per cent. tax on the interest paid to the holders of Debt Securities which is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder. As with non-Icelandic tax residents, Icelandic tax residents do not pay tax on interest payments of up to ISK 125,000 per year.

## **FATCA**

### **Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (“**FATCA**”) impose a new reporting regime and potentially a 30% withholding tax with respect to (i) certain payments from sources within the United States and gross proceeds from U.S. debt and equities and (ii) “foreign passthru payments” (a term not yet defined) to (x) any non-U.S. financial institution (a “foreign financial institution”, or “**FFI**” (as defined by FATCA)) that neither becomes a “**Participating FFI**” by entering into an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide the IRS with certain information in respect of its account holders and investors nor is otherwise exempt from or in deemed compliance with FATCA and (y) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of the relevant Participating FFI (a “**Recalcitrant Holder**”). The Issuer is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to “**foreign passthru payments**” (a term not yet defined) by a Participating FFI no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Debt Securities characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the “**grandfathering date**”, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Debt Securities characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Debt Securities are issued before the grandfathering date, and additional Debt Securities of the same series are issued on or after that date, the additional Debt Securities may not be treated as grandfathered, which may have negative consequences for the existing Debt Securities, including a negative impact on market price.

The United States and a number of other jurisdictions have negotiated or announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an “**IGA**”). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a “**Reporting FI**” not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being “**FATCA Withholding**”) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. Iceland is a jurisdiction that has reached Model 1 IGA agreement in substance as of November 30, 2014 but has not yet entered into an IGA with the United States.

The Issuer and financial institutions through which payments on the Debt Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Debt Securities is made is

not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Debt Securities are in global form and held within Euroclear or Clearstream, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Debt Securities by the Issuer, any paying agent and the Common Depository / Common Safekeeper, given that each of the entities in the payment chain between the Issuer and the participants in the Euroclear or Clearstream is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA with the United States will be unlikely to affect the Debt Securities. The documentation expressly contemplates the possibility that the Debt Securities may go into definitive form and therefore that they may be taken out of the Euroclear or Clearstream. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, Definitive Debt Securities will only be printed in remote circumstances. Further, foreign financial institutions in a jurisdiction which has entered into an IGA are generally not expected to be required to withhold under FATCA or an ICA (or any law implementing an IGA) from payments they make.

**FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Any tax discussion herein is not intended to be relied upon, and cannot be relied upon, by prospective investors for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Debt Securities.**

### **The proposed financial transactions tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Debt Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Debt Securities should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Debt Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective Debt Securities Holders are advised to seek their own professional advice in relation to the FTT.

## **EU SAVINGS DIRECTIVE**

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid or secured by a person established within its jurisdiction to (or secured by such a person for the benefit of) an individual resident, or to (or secured for) certain other types of entities established in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise.

The Council of the European Union has adopted an Amending Savings Directive which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Savings Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or secured for) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Savings Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

Investors who are in any doubt as to their position should consult their professional advisers.

# THE ICELANDIC ECONOMY<sup>1</sup>

The Icelandic economy is small. In terms of Gross Domestic Product (“GDP”), it is the smallest economy within the OECD with a total GDP of ISK 1,993 billion in 2014. The population is also small, numbering just under 326 thousand. According to World Bank data, gross national income per capita, measured in terms of purchasing power parities, amounted to nearly 39 thousand USD in 2013, the twenty-second highest in the world and the thirteenth highest among the OECD countries.

Historically, economic prosperity in Iceland has been built largely on abundant marine and energy resources, with investment and services as the main drivers of economic growth. Exports of services, driven by a booming tourist sector, are an increasingly important source of export revenues. Services now account for roughly 47 per cent. of total export revenues, while exports of marine products account for 23 per cent. and exports of aluminium and aluminium products account for 22 per cent.

In 2008, the Icelandic economy entered into a deep recession after a five-year period of robust but unsustainable economic growth. The growth was initially spurred by investments in the aluminium and power sectors, followed by a phenomenal growth of the banking sector accompanied by a credit boom, sustained by easy access to global credit. The growth soon became increasingly imbalanced which was reflected in a rapidly growing current account deficit and mounting inflationary pressures. The recession was triggered by a twin currency and banking crisis in autumn 2008. Domestic demand contracted by nearly 26 per cent. from its peak in 2007 to its trough in 2010.

After a period of austerity measures and restructuring of the financial sector, growth resumed in 2011 as GDP grew by 2.4 per cent.; in 2012, growth continued at 1.3 per cent. Unemployment peaked at 9.3 per cent. in early 2010 but was down to 3.6 per cent. in February 2015, well below the EU average. The exchange rate of the ISK has stabilised significantly after losing almost 50 per cent. of its value against the euro from January 2008 to November 2009. At the end of January 2015, the ISK had appreciated by 24 per cent. since its lowest level November 2009.

Despite a significant trade account surplus, 6.4 per cent. of GDP in 2014, the CA balance was only positive by 3.6 per cent. of GDP that year. Following adjustments for calculated income and expenses of deposit money banks in winding-up the underlying CA surplus is estimated at 5.5 per cent. of GDP in 2014.

Statistics Iceland forecasts an average annual GDP growth of 2.8 per cent. in 2015 to 2018, driven by growing investment and private consumption. Annual CPI inflation in January 2015 measured 0.8 per cent., well below the 2.5 per cent. inflation target of the Central Bank.

## FINANCIAL MARKETS IN ICELAND

### Size of the banking system

Total assets of Icelandic credit institutions, i.e. commercial banks, savings banks and credit undertakings, amounted to ISK 3,076 billion as at 31 December 2013 according to the Central Bank, of which foreign assets were ISK 445 billion, or 14 per cent. The Icelandic financial market is therefore highly exposed to the Icelandic economy.

The total assets of the three largest commercial banks, the Issuer, Íslandsbanki hf. and Arion Bank hf., comprised around 76 per cent. of the total assets of the Icelandic banking system as at 31 December 2013 according to the Central Bank. The proportion of the HFF was 22 per cent.

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<sup>1</sup> Sources: This chapter was compiled by Landsbankinn’s Economic Research Department based on data and information obtained from Statistics Iceland and the Central Bank of Iceland, 24 February 2015.

## **Market participants and supervision**

Icelandic credit institutions are comprised of four commercial banks, eight savings banks and six credit institutions. The financial market also includes eleven securities companies, two securities brokerages and nine management companies of Undertakings for Collective Investment in Transferable Securities (“UCITS”). The HFF, a fully state-owned institution, operates in Iceland and offers financing for residential housing in Iceland.

One stock exchange is operated in Iceland, Nasdaq Iceland, and one securities depository, Verðbréfaskráning Íslands. Nasdaq Iceland operates under Act No. 110/2007, on Stock Exchanges. In 2000, the Iceland Stock Exchange joined NOREX and in 2006, the Iceland Stock Exchange joined the OMX Nordic Exchange.

Icelandic financial markets are supervised by the FME. Entities engaging in financial activities which are subject to licence are regulated by FME, including credit institutions, insurance companies and pension funds. The activities of FME are largely governed by Act No. 87/1998, on the Official Supervision of Financial Operations, and Act No. 98/1999, on the Payment of Cost Due to the Official Supervision of Financial Activities.

The Central Bank is in charge of monetary policy implementation in Iceland and performs a wide range of functions to this end. The main objective of monetary policy is price stability. The activities of the Central Bank are largely governed by Act No. 36/2001, on the Central Bank. The Central Bank imposes a reserve requirement on all the commercial and savings banks. The purpose of this limitation is to ensure that credit institutions have sufficient margin to the reserve requirement account to meet fluctuations in their liquidity positions. Foreign exchange transactions have been subject to capital controls since the banking system collapse in 2008. The Central Bank oversees surveillance of the Rules on Foreign Exchange.

## **Other relevant institutions in the financial market**

Seven other credit institutions are currently operating in Iceland, one investment bank, two payment card companies, two investment funds and an asset financing company and the state-owned mortgage lender the HFF.

The establishment of the mortgage lender HFF was approved at the beginning of 1999. The fund is based on legislation approved by the Icelandic Parliament in June 1998, which was aimed at rationalising the existing state financing system for housing. The HFF was the largest provider of financing for residential housing until the year 2004 when the three major banks in Iceland entered the financing sector for residential housing. Pension funds are an important source of long-term finance in the country and are active in the financial market through their investments activities. These funds invest in domestic bonds, equity capital and in some foreign securities. Membership in a pension fund is obligatory for wage earners and self-employed individuals, in accordance with Act No. 129/1997, on Mandatory Pension Insurance and on the Activities of Pension Funds.

Security houses are operating domestically but their operations were limited after the recession in 2008. Many of them operated mutual funds of various kinds.

Three major insurance companies, Tryggingamiðstöðin hf., Sjóvá-Almennar tryggingar hf. and Vátryggingafélag Íslands hf., which are licensed to operate in Iceland have been active in the financial market through their investment activities in Iceland.

## DESCRIPTION OF THE ISSUER

### OVERVIEW

The Issuer is a leading Icelandic financial institution, offering a full range of financial services in the Icelandic financial service sector with a total of 35 branches and outlets across the country. The Issuer was established on 7 October 2008 as a limited liability company, but the history of its predecessor, LBI hf., dates back to 1886.

The Issuer operates pursuant to the provisions of the Act on Financial Undertakings, No. 161/2002, the Act on Public Limited Companies, No. 2/1995 and the Act on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., No. 125/2008. The Issuer is supervised by the FME.

The Issuer is registered with the Register of Enterprises in Iceland with registration number 471008-0280. The Issuer's registered office is located at Austurstræti 11, 155 Reykjavík, Iceland and its telephone number is: +354 410 4000.

In January 2014, the international rating agency Standard & Poor's ("S&P") assigned its BB+ long-term counterparty credit rating to the Issuer with stable outlook. In October 2014 S&P revised the outlook for the Issuer from stable to positive and affirmed its previous rating. The Issuer's rating is one notch below the sovereign credit rating for Iceland.

In 2014 the Issuer's net interest income was ISK 28.1 billion compared to ISK 34.3 billion in 2013, its operating income was ISK 63.1 billion compared to ISK 65.6 billion in 2013 and profit in 2014 was ISK 29.7 billion compared to ISK 28.8 billion in 2013. As at year-end 2014, the Issuer's total assets were ISK 1,098 billion compared to ISK 1,152 billion at year-end 2013.

Historical financial information in this Base Prospectus is for the period 1 January 2013 to 31 December 2014. Audited Consolidated Financial Statements for the Issuer for the years 2013 and 2014, together with the audit reports thereon, are incorporated by reference into this Base Prospectus.

No material adverse changes in the prospects of the Issuer have occurred since the date of its last published audited financial statements on 31 December 2014.

No significant changes in the financial or trading position of the Issuer have occurred since the end of the last financial period on 31 December 2014.

### RECENT DEVELOPMENTS

On 30 March 2015 Landsbankinn announced the merger of Landsbankinn and the savings bank Sparisjóður Vestmannaeyja. FME decided on the merger based on Temporary Provision VI of the Act on Financial Undertakings. The merger became effective on 29 March 2015 and as of that date Landsbankinn took over all assets and liabilities of Sparisjóður Vestmannaeyja, including customer loans and deposits. All employees of Sparisjóður Vestmannaeyja became the employees of Landsbankinn.

Sparisjóður Vestmannaeyja operated outlets in five locations in Iceland: in Vestmanneyjar, Selfoss, Höfn, Breiðdalsvík and Djúpivogur. Landsbankinn has branches in Selfoss and Höfn and the outlets in these two locations were merged on 27 April 2015. Landsbankinn now operates 35 branches and outlets in Iceland.

At the time of the merger, the initial capital of the Sparisjóður Vestmannaeyja is valued at ISK 332 million. The valuation is subject to possible changes yet cannot fall below ISK 50 million and never exceed ISK 550 million. As compensation for the initial capital of Sparisjóður Vestmannaeyja, the previous owners receive shares in Landsbankinn to the amount of just under 0.15 per cent. of issued share capital in Landsbankinn, with the final amount depending on the value of the initial capital of Sparisjóður Vestmannaeyja.

A shareholders' meeting of Landsbankinn was held on 4 May 2015 agreed to authorise Landsbankinn to allocate own shares as a consideration for the acquisition of other financial undertaking in Iceland or the merger of such company with Landsbankinn.

## **HISTORICAL BACKGROUND**

LBI hf., the Issuer's predecessor, was established by the Icelandic Parliament on 1 July 1886. In establishing LBI hf., the Icelandic Parliament hoped to boost monetary transactions and encourage the country's nascent industries. LBI hf.'s first decades of operation were restricted by its limited financial capacity and it was little more than a building society.

Following the turn of the 20th century, however, Icelandic society progressed and prospered as industrialisation finally made inroads, and LBI hf. grew and developed in parallel to the nation. In the 1920s, LBI hf. became Iceland's largest bank and was made responsible for issuing Iceland's bank bonds. Issuing of bank bonds was transferred to the then newly established Central Bank of Iceland in 1961 and LBI hf. continued to develop as a commercial bank, expanding its branch network in the ensuing decades.

Liberalisation of financial services in Iceland, beginning in 1986, opened up new opportunities which LBI hf. managed to take advantage of, despite some economic adversity. In 1997, LBI hf. was incorporated as a limited liability company, and the ensuing privatisation was concluded in 2003. From 2003 to 2008, LBI hf. operated as a private bank with substantial international activities in addition to its traditional Icelandic operations.

Following the continuous deterioration of the financial markets and the collapse of the Icelandic banking system, the FME took control of LBI hf. on 7 October 2008. The Issuer, wholly owned by the Icelandic State, was established around the domestic deposits and the majority of the Icelandic assets of the old bank. All liabilities and assets not transferred to the Issuer were retained in LBI hf. and a Resolution Committee was appointed to supersede the board of directors of LBI hf.

## **SHAREHOLDERS**

The Issuer's total share capital is ISK 24,000,000,000, of which 23,687,069,037 shares are outstanding. Each share is of the nominal value of one ISK and entitles the owner to one vote at shareholders' meetings.

The Issuer has 1,403 shareholders. The largest shareholder is the ISFI, which manages 23,500,000,000 (97.9 per cent.) shares and voting rights of the National Treasury. The second largest shareholder is the Issuer, which holds 312,930,963 (1.30 per cent.) of its own shares after the delivery of shares to current and former employees of the Issuer. Shares are held by the Issuer to meet income taxes, financial services tax and other salary related expenses as described below. The allocation of shares to current and former employees of the Issuer took place in September 2013 and in February 2014. 1,401 other shareholders that are current and former employees of the Issuer hold 187,069,037 (0.78 per cent.) shares and voting rights in the Issuer.

The Issuer's holding of its own shares is a result of a settlement agreement, between the Issuer, LBI hf. and the Icelandic State dated 15 December 2009. The settlement agreement stipulated that 500,000,000 shares be distributed to the Issuer's former and current employees ("**Employee Shareholders**"). After the allocation of shares, the Issuer holds 1.30 per cent. of its own shares because employees are required to pay income tax on the value of the shares as per normal salary payments. The Issuer retained shares in the amount of the income tax payment required from employees, financial services tax levied on financial undertakings, pension and other salary-linked expenses and paid this amount to the Icelandic State, and pension funds.

The Issuer's Annual General Meeting held 18 March 2015 authorized the Issuer, in accordance with Art. 55 of the Act on Public Limited liability Companies, No. 2/1995, to acquire own shares, up to 10% of nominal value. The minimum and maximum amounts the Issuer is authorised to pay for each share shall be equivalent to the

ratio of equity held by the Issuer's shareholders to share capital as disclosed in the most recent annual or interim financial statement published before the purchase of own shares takes place. This authorisation is valid until the Annual General Meeting of the Issuer in 2016. Allocation by the Issuer of own shares purchased based on this authorisation is subject to approval of a shareholders' meeting.

A shareholders' meeting of Landsbankinn held on 4 May 2015 agreed to authorise Landsbankinn to allocate own shares as a consideration for the acquisition of other financial undertaking in Iceland or the merger of such company with Landsbankinn. As a compensation for the initial capital of Sparisjóður Vestmannaeyja, the previous owners receive shares in Landsbankinn to the amount of just under 0.15 per cent. of issued share capital in Landsbankinn, with the final amount depending on the value of the initial capital of Sparisjóður Vestmannaeyja.

Employee Shareholders are required, according to the terms on which the shares were allocated to them, to retain the shares in the Issuer for at least three years, following allocation. Should the Issuer list its shares on a stock exchange, 60 per cent. of the shares held by each Employee Shareholder may be sold one month following listing. The remaining shares (40 per cent.) may not be sold until three years have elapsed from the date of allocation. During that time, the shares may not be mortgaged or assigned.

The Issuer is not directly or indirectly owned or controlled by others than those listed above.

The Issuer does not know of any arrangements, the operation of which may at a subsequent date result in a change in control of the Issuer.

## ORGANISATIONAL STRUCTURE

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

Principal subsidiaries	Principal area of activity	Ownership interest
Eignarhaldsfélag Landsbankans ehf.	Holding company	100%
Landsbréf hf.	Fund management company	100%
Hömlur ehf.	Holding company for appropriated assets	100%

## STRATEGY

The Issuer's strategy is "Landsbankinn – your financial partner". The strategy sets the agenda for the next five years until 2020. It was reviewed in early 2015 and its strategic aspiration framework is reflected through five dimensions:

They are:

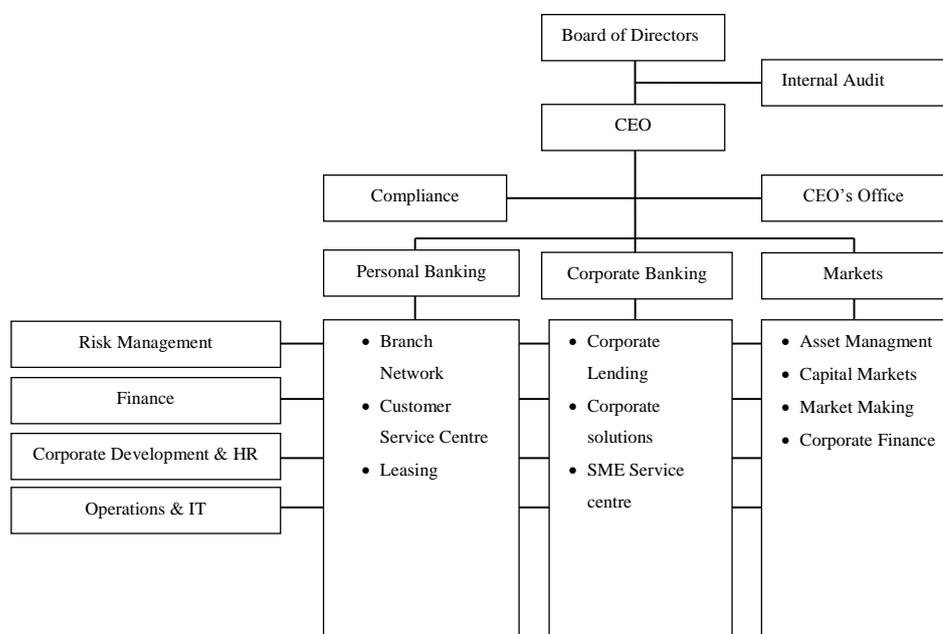
- Customer centric: *"Tailored solutions and mutual relationships"*
- Financially successful: *"Sought after by investors with a reliable yield"*
- Sound and sustainable: *"Secure and stable governance, management, operations and balance sheet"*
- Role model: *"Benefiting society, bank sector, partners and employees in all actions"*
- Continuous improvements: *Bringing fast, reliable and convenient ways of providing service"*

The strategy will be implemented through seven equally important initiatives:

1. Frontline excellence in retail:  
*Retail frontline with full focus on customer centricity including sales and advisory.*
2. Frontline excellence in Corporate and Markets:  
*Collaborative and transparent operations between Corporate and Markets for a holistic view on customers.*
3. Customer centric processes and channel migration:  
*Digital delivery model with increased customer choice through self-service options.*
4. Effective central operations:  
*Collaborative and lean central operations with short internal process time for effective support and decision making regardless of task.*
5. Modernized IT platform:  
*Modernised IT systems that allow for quick response to market needs and support for next generation solutions and technology.*
6. Balance sheet and capital optimization:  
*Optimized balance sheet structure with a clear risk prudency combined with shareholder focus.*
7. Action minded organization focused on implementation and change:  
*A performance culture with defined targets and clear responsibility for results. Empowered and action minded employees.*

## BUSINESS

The organisational chart below illustrates the Issuer's principal operating and support functions as at the date of this Base Prospectus:



### Personal Banking

The Personal Banking division (“**Personal Banking**”) comprises three business units: the Branch Network, the Customer Service Centre and Leasing (vehicle and equipment financing). Personal Banking has two support units: Business Development and Business Solutions.

Personal Banking provides individuals and small and medium-sized enterprises (“SMEs”) in rural areas with general and specialised banking services. Financing of vehicles, equipment and machinery is provided through the Leasing department.

From the beginning of 2014, all services to corporate customers, including SMEs, in the capital region are provided in a Corporate Service Centre, located in the Corporate Banking division of the Issuer’s organisational structure. Nevertheless, most branches still provide basic SME services to ensure customer comfort.

The Issuer operates 35 branches and outlets around Iceland. Its distribution channel strategy is to ensure the provision of personal, economical and value-added banking services to its customers.

Emphasis is placed on providing customers with a diverse range of products. Each branch offers general services and personal advice to individuals. In rural areas, branches provide further service and advice to SMEs. Various self-service options are available throughout the country. In addition, the Issuer’s customers have access to financial services through its Customer Service Centre and online banking system.

At Leifstöð, Iceland’s international airport, travellers are provided with a certain range of targeted financial services.

Among the Issuer’s customers are around 113,000 individuals and around 6,000 SMEs. Its market share is 34 per cent. with respect to retail customers and 33 per cent. with respect to SMEs, according to a survey conducted by Capacent over the year 2014.

## **Corporate Banking**

Corporate Banking (“**Corporate Banking**”) provides comprehensive financial services to large, small and medium size corporate clients and municipalities, as well as tailored services to meet customer specific needs. Corporate Banking also handles corporate and SME’s services in the capital region through a SME’s Center, established in April 2014. Corporate Banking holds a strong position among the largest companies and institutions in Iceland. As at March 2014, according to an annual survey conducted by Capacent, the Issuer’s share of the market in Corporate Banking was around 33.6 per cent.

Corporate Banking comprises four business units and three support units. The business units are split based on sector segmentation; one unit manages relations with contractors, real estate companies, travel service companies and municipalities; the second unit manages relations with industrial companies and companies in trade and service; the third unit manages relations with the Issuer’s larger customers in fisheries and agriculture; the fourth unit manages relations with around 7,000 SMEs in the capital region. Corporate Banking has three support units: Business Support, Credit Assessment and Legal Services.

Business Support is a support unit designed to assist the business units by providing in-depth data analysis and business development solutions.

Credit Assessment is responsible for the preparation of credit rating reports and supervising business cases, which are submitted for credit decisions.

Legal Services, within Corporate Banking, provides legal advice regarding corporate lending and restructuring and is responsible for drafting more complex loan contracts and collateral agreements.

## **Markets**

Markets (“**Markets**”) provides brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and corporate finance services. The division provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Landsbréf ehf. and Horn fjárfestingarfélag ehf., subsidiaries of the Issuer, are a part of Markets. The Markets Division

comprises four departments: Asset Management, Capital Markets, Market Making and Corporate Finance. The Markets Division has one support unit: Business Solutions.

Asset Management offers comprehensive asset management services, including advice in selecting appropriate savings options, and development and management of asset portfolios. The customers of Asset Management are diverse and include individuals, pension funds, institutions, municipalities and companies.

A part of the product offering provided by Asset Management is securities and investment funds run by Landsbréf ehf., an independent subsidiary of the Issuer. In addition, Asset Management has two pension funds under full management, which involves the asset management of securities portfolios, supervising the funds' accounting, registration of pension rights and pension payments.

Asset Management's services also entail the management of asset portfolios by Private Banking Services along with customised management for companies, pension funds, insurance companies, municipalities and charities. Private Banking Services are customised to meet the needs of the Issuer's wealthiest customers. Activities involve the management of customer's asset portfolios in addition to general banking services. Customers can choose between active management of an asset portfolio where the advisers of Private Banking Services manage the assets in accordance with a predetermined investment strategy, or advice on management where the customer manages its own portfolio with the assistance of an adviser.

An Investment Council operates within Asset Management. Its purpose is to form an investment policy for customers' asset portfolios, assess risk and identify risk-mitigating measures, in addition to being a forum for professional discussions on the best rate of return, opportunities on the market and best practice.

Asset Management's incorporates Fund & Pension Advisory Services, which provide the Issuer's customers with advice and services in matters relating to savings, investments and pensions. The department's main customers are general investors involved in securities trading and individuals and companies in relation to pension issues.

Capital Markets handles market transactions in financial instruments, such as bonds, equities, derivatives and foreign currencies for professional clients. Capital Markets also handles the issue and sale of corporate, municipal and national government bonds.

Market Making acts as a market maker for a number of listed securities, as well as the ISK on the interbank market. The role of a market maker is to promote normal price formation and liquidity on the market by submitting offers to buy or sell the asset to which the market making agreement applies at any time, for its own account within a maximum price range.

Corporate Finance provides advisory services to companies and investors, and is focused on services in relation to the restructuring of companies, among other things, through mergers and acquisitions, purchase and sale of companies and advice on project financing. It also advises on and co-ordinates public offerings and listings on stock exchanges, as well as providing services to companies listed on a stock exchange.

Business Solutions is a support unit designed to assist the business units on daily basis and to provide support in business development.

## **Support divisions**

The Issuer has four support divisions: Risk Management, Finance, Corporate Development & Human Resources and Operations & IT.

### ***Risk Management***

The role of the Risk Management Division is to assess and control the Issuer's credit risk, to assess market risk, liquidity risk and operational risk, and monitor these risk factors in the Issuer's operations. The Risk Management Division is responsible for maintenance and analysis of the Issuer's risk assessment systems. The

Division comprises four departments: Credit Management, Market Risk, Operational Risk and Credit Risk & Economic Capital.

The Credit Management department is responsible for risk assessment and veto rights on credit applications from customers with exposures exceeding the credit limits of individual business units and customers who have been classified yellow, orange or red as further described below under “*Description of the Issuer - Risk Management Framework – Credit risk control and monitoring*”. Secondary voting on decisions exceeding the authorisation of the Risk Management Division is referred to the Issuer’s Credit Committee.

The Market Risk Department is responsible for measuring and monitoring market risk, liquidity risk and interest rate risk in the Issuer’s banking book. The Issuer’s banking book is the portfolio of assets, primarily loans the Issuer expects to hold until maturity when the loan is repaid fully; the banking book typically refers to the loans the Issuer underwrites. The Market Risk Department is also responsible for (i) monitoring all derivatives trading the Issuer enters into, both for hedging and trading purposes, (ii) foreign exchange balance monitoring for the Issuer and (iii) providing limit monitoring for pension funds under management by the Issuer. The Market Risk Department is also responsible for comprehensive risk reporting to various departments and committees.

The Operational Risk Department is responsible for ensuring that the Issuer’s operational risks are monitored and that the Issuer implements and maintains an effective operational risk management framework. The department assists the Issuer’s managers with operational risk assessment incidents related to normal operations and operational loss incidents analysis, and oversees continuity plans. The Operational Risk Department leads the work on the Issuer’s certification under the ISO 2701 standard for information security.

The Credit Risk & Economic Capital Department is responsible for providing the Issuer with internal models and credit monitoring systems as well as, related processes to measure and monitor credit risk and economic capital. The Department also supports the implementation of such models and processes within the Issuer. In addition, the Department is responsible for credit risk, economic capital and impairment analysis and reporting within the Issuer.

### ***Finance***

Finance is a division that incorporates both support and profit functions. The division comprises five departments: Treasury, Accounting & Financial Reporting, Budgeting, Legal and Restructuring.

Treasury incorporates the Issuer’s funding, liquidity management, and market making in money markets and determines the Issuer’s internal pricing. Treasury also manages the Issuer’s exchange rate, interest rate and inflation risks, within limits that are set by the Board of Directors. Treasury also handles communications with the Central Bank, domestic and overseas financial institutions, as well as rating agencies. Treasury also manages the Issuer’s interest rate chart.

Accounting & Financial Reporting is responsible for financial accounting and prepares the Issuer’s monthly, quarterly and annual financial statements. Accounting & Financial Reporting registers and discharges cost accounting.

Budgeting manages the Issuer’s budgets. Compilation and dissemination of management information is a key part of the department’s responsibilities. Budgeting also handles analysis and control; it project manages and edits the Issuer’s Internal Capital Adequacy Assessment Process (“**ICAAP**”).

The Issuer’s Legal Department handles legal aspects of the Issuer’s operations. The Legal Department provides the Issuer and its subsidiaries with legal advice, representation in district courts, preparation of cases reviewed by the Complaints Committee on Transactions with Financial Undertakings and preparation of documents and communication with regulators, especially the FME and the Icelandic Competition Authority. The Issuer’s Legal Department handles collection of all payments in arrears owed to the Issuer and the recalculation of exchange rate indexed loans and the correction thereof

Restructuring consists of three units; corporate debt restructuring, Individual debt restructuring (both for over indebted individuals as of those who are unable to service their loans due to illness or humanitarian reasons) and the third unit sells as well cars, equipment, etc. which the bank has repossessed.

### ***Corporate Development & Human Resources***

Corporate Development & Human Resources comprises six departments: Strategic Project Management Office (“**Strategic PMO**”), Human Resources (“**HR**”), the Marketing Department, the Web Department, Customer Relationship Management (“**CRM**”) and Corporate Social Responsibility (“**CSR**”).

The role of the Strategic PMO is to ensure that the Issuer’s activities progress effectively and professionally, guided by the Issuer’s strategy. In addition, Strategic PMO oversees the Issuer’s strategy, which involves conducting reviews, audits and implementation thereof.

HR is responsible for all employee-related issues, such as salary and benefits, recruitment and job development. The Education and Training Department is located within HR.

The Marketing Department is responsible for formulating and implementing the Issuer’s marketing strategy and planning.

The Web Department is responsible for mobile banking and the development and technical maintenance of the intranet and external Internet services, as well as special solutions for the Issuer’s various divisions.

CRM is responsible for development and implementation of Customer Relationship Management in the bank.

CSR is responsible for defining and forming the Issuer’s CSR policy and works towards the implementation of CSR in the Issuer’s daily operations and in its departments and divisions.

### ***Operations & IT***

Operations & IT comprises of five departments: Property, IT, Transaction Services, Loan Administration and Process Improvements.

The Property Department oversees the Issuer’s internal operations, i.e. the operation and maintenance of all its properties, including sale or purchase. The Department is also responsible for employees’ working facilities, purchase of equipment for the Issuer’s operations, internal security and relations with external security facilities and custodial operations.

The IT Department is responsible for developing, operating and advising on the Issuer’s information systems and solutions. The Department oversees all internally developed and third-party software, as well as hardware such as data centres, telephone systems, Automated Teller Machines (ATMs), etc.

Transaction Services provides services to the income divisions of the Issuer and to the Issuer’s customers. Its activities include international transfers, settlement of securities and foreign exchange transactions, fund administration for securities and pension funds and back-office functions for pension savings.

Loan Administration takes care of all administration of loans, such as documentation of loan agreements between the Issuer and its customers and payments of loans. It is also responsible for the registration and storage of original loan documents.

Process Improvements role is to lead change in the Issuers main processes, with main emphasis on straight through processes and reducing waste in processes. The department is also responsible for printing services and administration of the archives.

## Other divisions

### *CEO's Office*

The CEO's Office works closely with the CEO and aids him in his duties. The CEO Office's main responsibilities are to implement the Issuer's strategy, handle internal and external communication, including with institutions, public enterprises and various stakeholders. The CEO's Office manages the activities and decisions of the Issuer's Board of Directors and executive board and provides follow-up.

### *Compliance*

Compliance is an independent unit which reports directly to the CEO. Compliance's main responsibilities are to:

- Monitor and regularly assess the functionality of measures established to maintain relevant policies and procedures designed to detect any risk that the Issuer might fail to fulfil its obligations pursuant to legislation on securities transactions.
- Assist, support and advice management in the fulfilment of their duties. Provide those employees of the Issuer, who are responsible for securities transactions, with the training, advice and assistance necessary to enable them to fulfil the Issuer's obligations in accordance with legislation on securities transactions.
- Enforce provisions of Act on Actions to Combat Money Laundering and Terrorist Financing and make sure that co-ordinated procedures are developed to ensure the correct execution of the above referenced Act.
- Identify, assess and monitor the compliance risks faced by the Issuer.

### *Internal Audit*

The internal audit function is a part of the Issuer's organisational structure and constitutes one aspect of its internal oversight system. The role of the internal audit function is to provide independent and objective assurance and advice, which is intended to add value and improve the Issuer's operations.

The internal audit function evaluates the functionality of the Issuer's governance, risk management and internal controls, and thus supports the Issuer in achieving its goals. The internal audit function covers all of the Issuer's business units, including its subsidiaries, and pension funds managed and operated by the Issuer.

The Internal Auditor is appointed by the Issuer's Board of Directors and is responsible to the Board and its Audit Committee. The Internal Auditor reports functionally and administratively to the Chairman of the Board of Directors. Strong emphasis is placed on employees of internal audit function being independent and objective in their work. The internal audit function is certified according to international standards and guidelines on internal auditing (IPPF).

## LOAN PORTFOLIO

The table below sets out details of the Issuer's loans and advances to customers as at 31 December 2014, classified by type of loan. During 2014 the Issuer was not permitted to sell or re-pledge any collateral in absence of default by the owner of the collateral.

	<b>31 December 2014</b>
	<hr/> <i>(millions ISK)</i>
Public entities	13,831

	<b>31 December 2014</b>
Individuals	254,955
Corporations	491,016
Less: Allowance for impairment	(41,447)
<b>Total</b>	<b>718,355</b>

The table below sets out details of the Issuer's loans and advances to financial institutions as at 31 December 2014, classified by type of loan.

	<b>31 December 2014</b>
	<i>(millions ISK)</i>
Bank accounts with financial institutions	13,125
Money market loans	22,209
Overdrafts	6,892
Other loans	7,563
<b>Total</b>	<b>49,789</b>

The following tables show the Issuer's maximum credit risk exposure at 31 December 2014. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position. Off-balance sheet amounts in the tables below are the maximum amounts the Issuer might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

The Issuer uses the ISAT 08 industry classification for corporate customers.

At 31 December 2014	Corporations											Carrying amount	
	Financial institutions	Public entities*	Individuals	Fisheries	Con- struction and real estate companies	Holding companies	Retail	Services	ITC**	Manu- facturing	Agri- culture		Other
<i>(millions of ISK except %)</i>													
Cash and balances with Central Bank.....	-	10,160	-	-	-	-	-	-	-	-	-	-	10,160
Bonds and debt instruments.....	41	221,293	-	-	13,345	7,880	-	-	-	-	-	1,030	243,589
Derivative instruments.....	38	--	7	-	-	1	--	-	-	-	-	32	78
Loans and advances to financial institutions.....	49,789	-	-	-	-	-	-	-	-	-	-	-	49,789
Loans and advances to customers.....	-	13,708	238,932	156,023	112,880	42,861	39,118	56,387	19,798	28,760	8,751	1,137	718,355
Other financial assets.....	913	343	331	-	614	71	130	711	3	16,554	1	62	19,733
<b>Total on-balance sheet exposure.....</b>	<b>50,781</b>	<b>245,504</b>	<b>239,270</b>	<b>156,023</b>	<b>126,839</b>	<b>50,813</b>	<b>39,248</b>	<b>57,098</b>	<b>19,801</b>	<b>45,314</b>	<b>8,752</b>	<b>2,261</b>	<b>1,041,704</b>
<b>Off-balance sheet exposure.....</b>	<b>2,648</b>	<b>13,688</b>	<b>22,507</b>	<b>28,197</b>	<b>33,802</b>	<b>5,150</b>	<b>11,143</b>	<b>12,652</b>	<b>3,423</b>	<b>8,974</b>	<b>525</b>	<b>706</b>	<b>143,415</b>
Financial guarantees and underwriting commitments.....	45	611	572	7,740	2,917	3,525	2,240	2,250	673	559	37	331	20,500
Undrawn loan commitments.....	-	7,238	-	17,956	29,877	913	4,926	578	1,763	6,510	182	174	70,117
Undrawn overdraft/credit card facilities.....	2,603	5,839	21,935	2,501	2,008	712	3,977	9,824	987	1,905	306	201	52,798
<b>Maximum exposure to credit risk.....</b>	<b>53,429</b>	<b>259,192</b>	<b>261,777</b>	<b>184,220</b>	<b>160,641</b>	<b>55,963</b>	<b>50,391</b>	<b>69,750</b>	<b>23,224</b>	<b>54,288</b>	<b>9,277</b>	<b>2,967</b>	<b>1,185,119</b>

Corporations

At 31 December 2014	Financial institutions	Public entities*	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	ITC**	Manufacturing	Agriculture	Other	Carrying amount
<i>(millions of ISK except %)</i>													
Percentage of carrying amount ..	4.5%	21.9%	22.1%	15.5%	13.6%	4.7%	4.3%	5.9%	2.0%	4.6%	0.8%	0.3%	100%

Notes:

\* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

\*\* ITC consists of corporations in the information, technology and communication industry sectors.

The table below shows the credit exposure, allowances and impairment by industry and customer segments as at 31 December 2014.

At 31 December 2014	Individually impaired								Carrying amount
	Gross carrying amount	Gross not individually impaired	Collective allowance	Of which performing		Of which non-performing*		Total	
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance		
<i>(millions of ISK)</i>									
Financial institutions.....	49,789	49,789	-	-	-	-	-	-	49,789
Public entities .....	13,831	13,717	(25)	59	(57)	56	(42)	-	13,708
Individuals .....	254,955	228,952	(2,240)	7,118	(3,776)	18,884	(10,007)	-	238,931
<b>Corporations</b>									
Fisheries .....	162,507	150,959	(637)	8,881	(4,497)	2,667	(1,350)	-	156,023
Construction and real estate companies.....	119,926	109,273	(1,552)	6,119	(2,850)	4,534	(2,644)	-	112,880
Holding companies .....	45,451	31,249	(603)	13,443	(1,451)	758	(535)	-	42,861
Retail .....	42,198	37,788	(491)	2,752	(1,621)	1,657	(968)	-	39,117
Services .....	59,228	56,166	(1,137)	929	(579)	2,133	(1,125)	-	56,387
Information, technology and communication .....	20,454	20,219	(486)	86	(61)	149	(109)	-	19,798
Manufacturing .....	30,837	24,324	(433)	5,276	(1,015)	1,238	(629)	-	28,761
Agriculture.....	9,269	8,786	(104)	126	(122)	358	(293)	-	8,751
Other.....	1,145	1,146	(8)	-	-	-	-	-	1,138
<b>Total.....</b>	<b>809,590</b>	<b>732,368</b>	<b>(7,716)</b>	<b>44,789</b>	<b>(16,029)</b>	<b>32,434</b>	<b>(17,702)</b>	<b>-</b>	<b>768,144</b>

The table below shows the credit quality of the Issuer's financial assets, including its loans and advances as at 31 December 2014. The allowance for impairment includes both the allowance for individual impairment and the allowance for collective impairment.

	Gross carrying amount					Allowance for impairment <sup>1)</sup>	Carrying amount
	Neither past due not individually impaired	Past due but not individually impaired	Individually impaired	Total	Total		
<i>(millions of ISK)</i>							
<b>At 31 December 2014</b>							
Cash and balances with Central Bank.....	10,160	-	-	10,160	-	-	10,160
Bonds and debt instruments.....	235,568	8,021	-	243,589	-	-	243,589
Derivative instruments .....	78	-	-	78	-	-	78

	Gross carrying amount					Carrying amount
	Neither past due not individually impaired	Past due but not individually impaired	Individually impaired	Total	Allowance for impairment <sup>1)</sup>	
<i>(millions of ISK)</i>						
Loans and advances to financial institutions..	49,789	-	-	49,789	-	49,789
Loans and advances to customers.....	657,564	25,015	77,223	759,802	(41,447)	718,355
Other financial assets .....	19,733	-	-	19,733	-	19,733
<b>Total .....</b>	<b>972,892</b>	<b>33,036</b>	<b>77,223</b>	<b>1,083,151</b>	<b>(41,447)</b>	<b>1,041,704</b>

(iii) Note:

(1) The allowance for impairment includes both the allowance for individual impairment and the allowance for collective impairment.

The table below shows the gross carrying amount of loans and advances to financial institutions and customers that have failed to make payments which had become the ageing of the Issuer's past due but not impaired loans and advances as at 31 December 2014.

	Past due 1-5 days	Past due 6-30 days	Past due 31-60 days	Past due 61-90 days	Past due over 90 days	Gross carrying amount
<i>(millions of ISK)</i>						
<b>At 31 December 2014</b>						
Public entities.....	-	1	84	7	6	98
Individuals .....	2,419	7,321	3,430	1,352	976	15,498
Corporations.....	521	3,787	3,336	696	1,079	9,419
<b>Total .....</b>	<b>2,940</b>	<b>11,109</b>	<b>6,850</b>	<b>2,055</b>	<b>2,061</b>	<b>25,015</b>

The table below shows large exposures as at 31 December 2014. Six customer groups were rated as large exposures in accordance with FME's Rules on Large Exposures Incurred by Financial Undertakings, No. 625/2013. Customers are rated as large exposures if their total obligations, or those of financially or administrative connected parties, exceed 10% of the Group's capital base. The large exposure amount is calculated after taking account of eligible collateral held. No exposure may attain the equivalent of 25% of the capital base. With respect to eligible credit mitigation there are three large exposures as at 31 December 2014.

	Number of large exposures	Large exposures <i>(millions ISK, except %)</i>
<b>At 31 December 2014</b>		
Large exposures between 10% and 20% of the Group's capital base.....	3	102,217
<b>Total .....</b>	<b>3</b>	<b>102,217</b>
Total large exposure to capital base (400% is the maximum limit) .....		41%

## **FUNDING**

The Issuer is predominantly funded by four main sources: customer deposits, liabilities due to financial institutions, borrowing and share capital.

Deposits from customers are the Issuer's single largest financing item and the Issuer offers various types of deposits to its customers, both fixed rates and variable rates, non-indexed as well as indexed to the Icelandic CPI index. Deposits are predominately non-indexed and available on demand.

Liabilities due to financial institutions are primarily in the form of deposits, including deposits from foreign financial undertakings in ISK (off-shore ISK). The main form of borrowing undertaken by Landsbankinn is through a foreign currency denominated bonds issued to LBI hf.

Landsbankinn issued foreign currency denominated bonds to LBI hf. in December 2009 as part of settlement when assets and liabilities of LBI hf. (formerly Landsbanki Islands hf.) were transferred to Landsbankinn. On 8 May 2014, Landsbankinn and LBI hf. reached an agreement on amendments to the bonds and that agreement came into force in December 2014. The outstanding amount will be paid in ten bonds that mature every second year. Each bond will amount to the equivalent of ISK 30 billion with the exception of the 2018 bond that will amount to the equivalent of ISK 40 billion. The bonds are denominated in EUR, GBP and USD. The final payment from Landsbankinn to LBI hf. has been extended from October 2018 to October 2026. Interest rates will remain unchanged at a 2,9% margin until October 2018, stepping up to a 3,5% margin for the 2020 tranche to end at a 4,05% margin for the final maturity in 2026. The amended agreement allows Landsbankinn, under certain circumstances, to postpone payments maturing in 2018 and 2020. In addition under the amended agreement the minimum collateral requirement has been lowered from 125% to 115%.

In addition to bonds issued to LBI hf., the Issuer has in place an ISK 100 billion Covered Bond Programme with the purpose of providing funding for the Issuer's mortgage loan portfolio as well as hedging the Issuer's fixed interest rate exposure. Furthermore the Issuer has set up a €1,000,000,000 Euro Medium Term Note Programme (the "EMTN Programme") that has been approved by the Irish Stock Exchange.

Deposits are expected to continue to form a significant part of the Issuer's funding in the future. External factors might however affect the Issuer's deposit base in the short and medium term, such as the lifting of capital controls and the increased availability of other investment opportunities for investors who currently hold deposits with the Issuer. To reduce the risk of these external factors, the Issuer will continue to diversify its funding profile when conditions permit by issuing bonds in the domestic and international bond markets.

Landsbankinn received a public credit rating from S&P: BB+ / B rating with a stable outlook in January 2014. In October 2014 S&P revised the outlook for the Bank to positive from stable and affirmed the long- and short-term ratings.

The ratings reflect, according to S&P, their "bb" anchor for banks operating in Iceland and S&P's view of Landsbankinn's "adequate" business position, "strong" capital and earnings, "adequate" risk position, "average" funding and "adequate" liquidity.

## **RISK MANAGEMENT FRAMEWORK**

Risk is inherent in the Issuer's activities and is managed through a process of on-going identification, measurement, management and monitoring, subject to risk limits and other controls. Risk identification involves finding the origins and structures of possible risk factors in the Issuer's operations and undertakings. Risk measurement entails measuring the identified risks for management and monitoring purposes. Finally, risk controls and limits ensure compliance with rules and procedures, as well as compliance with the Issuer's risk appetite.

The objective of the Issuer's risk policies and procedures is to ensure that the risks in its operations are detected, measured, monitored and effectively managed. Exposure to risks is managed to ensure that it will remain within limits and the risk appetite adopted by the Issuer will comply with regulatory requirements. In order to ensure that fluctuations that might affect the Issuer's equity and performance are kept limited and manageable, the Issuer has adopted several policies regarding the risk structure of its asset portfolio.

Risk policy has been implemented through the risk appetite, goal setting, business strategy, internal rules and limits that comply with the regulatory framework of financial markets.

The Board of Directors has overall responsibility for the establishment and oversight of the Issuer's risk management framework and risk appetite setting. The Issuer's CEO is responsible for the effective implementation of the framework and risk appetite through the Issuer's corporate governance structure and committees. The Issuer's CEO has established and is a member of the Executive Board, the Risk & Finance Committee and the Credit Committee.

The Credit Committee deals with credit risk – individual credit decisions, credit limits on customers and credit risk policy issues – while the Risk & Finance Committee covers primarily market risk, liquidity risk, operational risk and legal risk. The Risk & Finance Committee monitors all the Issuer's risks, is responsible for enforcing the Issuer's risk appetite and risk limits, and reviews and approves changes to risk models before being presented to the Board of Directors. The Executive Board serves as a forum for consultation and communication between the CEO and the managing directors, addressing the main current issues in each division. This committee makes all major decisions not being considered in other standing committees. The Operational Risk Committee is a forum for discussions and decisions on key operational risk issues and review of the effective implementation of the operational risk framework.

The Issuer's Risk appetite is defined as the level and nature of risk that it is willing to take in order to pursue its articulated strategy, and is defined by constraints reflecting the views of the Board of Directors and the Issuer's CEO and Executive Board. The Issuer's risk appetite is reviewed and revised at least annually.

The material risks which the Issuer is exposed to and that arise from financial instruments are credit risk, liquidity risk, market risk and operational risk.

## **Credit Risk**

Credit risk is mainly managed through the credit process and the Issuer's credit risk models which include Probability of Default (“**PD**”), Loss Given Default (“**LGD**”) and Exposure of Default (“**EAD**”). These three models are used for various purposes, e.g. in management reporting.

### ***Credit risk identification***

Credit risk is defined as the risk of loss if customers fail to fulfil their agreed obligations and the pledged collateral does not cover existing claims.

The Issuer's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Credit risk is the greatest single risk faced by the Issuer and arises principally from loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts and aforementioned settlement risk.

### ***Credit risk assessment***

Credit risk is measured in three main dimensions: PD, LGD and EAD. For the purpose of measuring PD, the Issuer has developed an internal rating system, including a number of internally developed rating models. The objectives of the rating system are to provide a meaningful assessment of obligor characteristics; a meaningful

differentiation of credit quality; and accurate and consistent quantitative estimates of default risk, i.e. PD. Internal ratings and associated PD are essential in the risk management and decision-making process, and in the credit approval and corporate governance functions.

The rating system has an obligor rating scale which reflects exclusively quantification of the risk of obligor default, i.e. credit quality. The obligor rating scale has 10 rating grades for non-defaulted obligors going from 1 to 10, where 10 indicates the highest credit quality, and the grade 0 for defaulted obligors. The rating assignment is supported by rating models, which take information such as industry classification, financial accounts and payment behaviour into account.

The rating assignment and approval is an integrated part of the credit approval process and assignment shall be updated at least annually or when material information on the obligor or exposure becomes available, whichever is earlier.

In 2014 the Group implemented a revised credit rating model for corporates. The revised model was developed adding two years to the source material compared to the previous version. As the former model, the new version's discriminatory power significantly exceeds the Basel II requirement of 0.5. Furthermore, the new model is well calibrated, i.e. the weighted probability of default for each rating grade is equal to the actual default rate with respect to reasonable error limits.

LGD is measured using the foundation LGD models defined in the Basel framework for the purpose of Economic Capital calculations. In addition, the Issuer has implemented in the business processes an internal LGD model, which takes into account more types of collateral and is more sensitive to the collateralisation level than the aforementioned Basel model.

Exposure at default is an estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in case the borrower defaults.

### ***Credit risk management***

The Issuer's credit risk management is based on active monitoring by the Board of Directors, the CEO, the Risk & Finance Committee, the Credit Committee, the credit departments within Risk Management Division and the business units. The Issuer manages credit risk according to its risk appetite statement and credit policy approved by the Board of Directors as well as detailed lending rules approved by the CEO. The risk appetite and credit policy include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposures to certain industries. The CEO ensures that the risk policy is reflected in the Issuer's internal framework of regulation and guidelines. The Issuer's executives are responsible for the Issuer's business units to execute the risk policy appropriately as the CEO is responsible for the oversight of the process as a whole.

Incremental credit authorisation levels are defined based on size of units, types of customers and lending experience of credit officers. The Issuer has also implemented industry policies to the credit decision process. Credit decisions exceeding authorisation levels of business units are subject to confirmation by Credit Management, a department within Risk Management. Credit decisions exceeding the limits of Credit Management are subject to approval by the Issuer's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors which holds the highest credit authorisation within the Issuer.

### ***Credit risk mitigation***

Mitigating risks in the credit portfolio is a key element of the Issuer's credit policy as well as being an inherent part of the credit decision process. Securing loans with collateral is the main method of mitigating credit risk whereas for many loan products, collateral is required by legislation, as in the mortgage finance market, or is standard market practice.

The most important types of collateral are real estate, ships and financial assets (shares or bonds).

The Issuer regularly assesses the market value of collateral received. The Issuer has developed models to estimate the value of the most common types of collateral. For collateral for which no valuation model exists, the Issuer estimates the value as the market value less a haircut. The haircut represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs in the period over which the asset is up for sale, fees for external advisory services and any loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

The Issuer monitors the market value of mark-to-market collateral and may require additional collateral in accordance with underlying loan agreements.

#### *Derivative financial instruments*

In order to mitigate credit risk arising from derivatives, the Issuer chooses the counterparties for derivatives trading based on stringent rules, according to which clients must meet certain conditions set by the Issuer. The Issuer also enters into standard International Swaps and Derivatives Association (ISDA) master netting agreements with foreign counterparties and similar general netting agreements with domestic counterparties.

Commensurate collateral and margin requirements are in place for all derivative contracts the Issuer enters into. Collateral management and monitoring is performed daily and derivative contracts with clients are fully hedged.

The Issuer's supervision system monitors both derivative exposure and collateral value and calculates a credit equivalent value for each derivative intraday. It also issues margin calls and manages netting agreements.

Amounts due to and from the Issuer are offset when the Issuer has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. External ratings are used where applicable to assist in managing the credit risk exposure of bonds. Otherwise the Issuer uses fair value estimates based on available information and the Issuer's own estimates.

#### ***Credit risk control and monitoring***

The Issuer monitors exposures to identify signs of weakness in customer earnings and liquidity as soon as possible. To monitor customers, the Issuer uses - supplemental to ratings - an Early Warning System which classifies credit exposures to four credit risk groups (green, yellow, orange and red). The colour classification is the following:

Green customers are considered as performing without signs of repayment problems;

Yellow customers are on watch list 1. They have temporary difficulties and may need some instalments postponed or modification to terms or loan covenants;

Orange customers are on watch list 2. They are still under the supervision of the relevant business unit but are likely to go through debt restructuring or postponement of instalments; and

Red customers are under supervision by Corporate Solutions and need restructuring or are in legal collection. Restructuring options may include deferred payments, interest and/or debt forgiveness, collateral or guarantees being collected or that the management of the customer's operations possibly being taken over by the Issuer and subsequently sold.

The Credit Risk & Economic Capital Department within Risk Management is, together with the business units, responsible for the verification of colour-coding of customers and the transfer of customers from the business units to Corporate Solutions if necessary.

#### *Impairment process*

The Issuer's policy requires that individual financial assets above materiality thresholds are reviewed at least quarterly, and more frequently when circumstances require. Impairment allowances on individually assessed accounts are determined on a case-by-case basis by evaluating incurred losses at the reporting date. Collectively assessed impairment allowances are permitted in the following cases: (i) portfolios of homogenous loans that are

individually below materiality thresholds; and (ii) losses that have been incurred but not yet identified, using the available historical experience together with experienced judgement and statistical techniques.

Should the expected cash flows be re-examined and the present value of the cash flows (calculated using the effective interest rate) be revised, the difference is then recognised in profit or loss (as either impairment or net adjustments to loans and advances). Impairment is calculated using the effective interest rate, before any revision of the expected cash flows. Any adjustments to the carrying amount which result from revising the expected cash flows are recognised as profit or loss. The impact of financial restructuring of the Issuer's customers is reflected in loan impairment, or net adjustments to loans and advances, as the expected cash flow of customers has changed.

Total allowance for impairment totalled ISK 41 billion in 2014, compared to ISK 51 billion in 2013. Allowances decreased in nearly all industry sectors during 2014 while the overall carrying amount increased. The decrease in allowances is mainly due to written-off loans, improved collaterals and lower past due rate. At the end of 2014, 92 per cent. of the loan portfolio consisted of claims that were neither past due nor impaired and the accumulated impairment loss amounted to ISK 2 billion (*for further information, see the Consolidated Financial Statements for 2014, note 66 - Allowance for impairment on loans and advances to financial institutions and customers and other financial assets*).

## **Liquidity Risk**

Liquidity risk is identified as one of the Issuer's key risk factors, in light of the Issuer's current operating environment. Accordingly, great emphasis is put on liquidity risk management within the Issuer, which is both reflected in the risk appetite of the Issuer as well as in internal liquidity management policies and rules.

A liquidity policy for the Issuer and its subsidiaries is in place and is formulated by the Risk and Finance Committee. The objective of the liquidity management policy is to ensure that sufficient liquid assets and funding capacity are available to meet financial obligations and sustain withdrawals of confidence sensitive deposits in a timely manner and at a reasonable cost, even in times of stress.

The policy aims to ensure that the Issuer does that by maintaining an adequate level of unencumbered, high-quality liquid assets that can be converted into cash, even in times of stress. The Issuer has also implemented stringent stress tests that have a realistic basis in the Issuer's operating environment to further measure the Issuer's ability to withstand different and adverse scenarios of stressed operating environments.

The Issuer's liquidity risk is managed centrally by Treasury and is monitored by the Market Risk Department. This allows management to monitor and manage liquidity risk throughout the Issuer. The Risk & Finance Committee monitors the Issuer's liquidity risk, while the Issuer's Internal Audit assesses whether the liquidity management process is designed properly and operating effectively.

The Issuer monitors intraday liquidity risk, short-term 30 day liquidity risk, medium and longer-term liquidity risk and risk arising from mismatches of longer term assets and liabilities.

The Issuer's liquidity management process includes:

- Projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities and monitoring balance sheet liquidity.
- Monitoring and managing the maturity profile of liabilities and off-balance sheet commitments.
- Monitoring the concentration of liquidity risk in order to avoid undue reliance on large financing counterparties projecting cash flows arising from future business.
- Maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from a liquidity crisis.

The liquidity management policy is built on international standards on liquidity risk measurements developed by the Basel Committee e.g. the LCR and the NSFR and it also applies measurements that best suit the operating environment of the Issuer.

It is the intent of the Issuer to utilise the framework published by the Basel Committee e.g. the LCR and the NSFR to further ensure the Issuer's ability to measure and withstand liquidity needs in the short term, as well as to promote more medium and long-term funding of the assets and activities of the Issuer. As stated earlier, LCR is a short-term liquidity ratio whereas NSFR has a more medium and longer time horizon and its objective is to capture structural issues in the balance sheet with the aim to provide a sustainable maturity structure of assets and liabilities.

Implementation on LCR is already in place within the Issuer in line with the regulatory changes made by the Central Bank in December 2013. Implementation on NSFR in foreign currencies is in place as of 1 December 2014.

Various stress tests have been constructed to try to efficiently model how different scenarios affect the liquidity position and liquidity risk of the Issuer. The stress tests are conducted weekly and measure the Issuer's ability to withstand deposit withdrawals under various levels of adverse conditions. These stress tests are set up to measure the Issuer's ability to operate in its current environment in Iceland, e.g. measure the effect of an easing of capital controls, as well as more general stress tests, e.g. loss of confidence in the Issuer or a deposit competition/pricing scenario and other severe stress tests. The Issuer also performs other internal stress tests which may vary from time to time.

The Issuer follows liquidity rules set by the Central Bank No. 1031/2014 as well as following guidelines No. 2/2010 from the Icelandic Financial Supervisory Authority in Iceland (FME) on best practice for managing liquidity in banking organisation. The Central Bank Rules on liquidity are based on international standards developed by the Basel Committee but are adapted to Icelandic conditions e.g. including special requirements on foreign currency liquidity and treatment of risk related to the winding-up of the Old Banks. The liquidity rules issued by the Central Bank require the Group to maintain a LCR minimum of 70% total and 100% for foreign currencies at the end of year 2014. The LCR total minimum requirement will increase by 10 percentage points every year until it reaches 100% in the year 2017. The Central Bank of Iceland issued new rules on commercial bank's foreign currency funding ratios as of 1 December 2014 which set requirements for a minimum of 80% NSFR in foreign currencies at year-end 2014 and in 2015. The minimum NSFR requirements in foreign currencies will then increase by 10 percentage points every year, reaching 100% in 2017.

The Issuer's LCR as at 31 December 2014 was 131 per cent. and 614 per cent. for foreign currencies and the Issuer's NSFR for foreign currencies as at 31 December 2014 was 134% (*for further information, see the Consolidated Financial Statements for 2014, note 73 - Liquidity risk management*).

Another measure used by the Issuer for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Issuer could deliver on demand without incurring any significant losses due to forced assets sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with the Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with the Central Bank. In addition, the Issuer monitors liquidity risk by its cash ratio, which shows the ratio of on demand deposits that the Issuer could deliver with cash and cash equivalents such as cash at hand, balances with the Central Bank and loans to financial institutions (maturity within seven days).

The table below shows various values of the core liquidity ratio and cash ratio at the end of 2014 and the end of 2013.

	Core liquidity ratio		Cash ratio	
	2014	2013	2014	2013
Year-end	39%	50%	10%	13%
Maximum	53%	53%	21%	22%

Minimum	38%	41%	9%	10%
Average	49%	47%	15%	16%

The Issuer submits monthly reports on its liquidity position to the Central Bank and the FME.

## **Market Risk**

Market risk is the risk that changes in market prices will have an adverse impact on the fair value or future cash flows of financial instruments. Market risk arises from open positions in currency, equity and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, credit spreads, foreign exchange rates and equity prices. Most of the Issuer's products and exposures that entail market risk consist mainly of equities, government bonds and open currency positions.

The Board of Directors is responsible for determining the Issuer's overall risk appetite, including market risk. The CEO of the Issuer appoints the Risk & Finance Committee, which is responsible for developing detailed market risk management policies and setting market risk limits. Treasury and the Market Making department within Markets are responsible for managing market-related positions under the supervision of the Market Risk unit within Risk Management. The objective of market risk management is to identify, locate and monitor market risk exposures and analyse and report to appropriate parties. Together, the risk appetite of the Issuer and the market risk policies set the overall limits that govern market risk management within the Issuer.

Market risk monitoring and reporting is governed by the Risk & Finance Committee and implemented by the Market Risk Department.

The aim of the market risk management process is to quickly detect and correct deficiencies in compliance with policies, processes and procedures. The Issuer monitors early indicators that can provide warning of an increased risk of future losses. Market risk indicators need to be concise, reported in a timely manner, give clear signals, highlight portfolio risk concentrations and reflect current risk positions. The risk reports show the Issuer's total risk in addition to summarising risk concentration in different business units and asset classes, as well as across other attributes such as currencies, interest rates and counterparties.

Market risks arising from trading and non-trading activities are measured, monitored and reported on a daily, weekly and monthly basis, and the detailed limits set by the Risk & Finance Committee are monitored by Market Risk.

### ***Interest rate risk***

Interest rate risk is managed principally by monitoring interest rate gaps. Interest rate risk is managed centrally within the Issuer by the Treasury of the Issuer, and is monitored by the Market Risk Department. In the current economic environment, the Issuer has limited access to derivative instruments and other tools for managing interest rate risk.

### ***Sensitivity analysis for trading portfolios***

The management of market risk in the trading book is supplemented by monitoring sensitivity of the trading portfolios to various scenarios in equity prices and interest rates.

### ***Sensitivity analysis for non-trading portfolios***

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and liabilities to various interest rate scenarios. The Issuer employs a quarterly stress test of the interest rate risk in the Issuer's banking book by measuring the impact on profit of shifting the interest rate curves for every currency. The Issuer is now applying more severe interest rate shocks to the relevant rate curves. The

magnitudes of the shifts are based on guidelines from the European Banking Authority and the FME, taking historical interest rate volatility into account.

### ***CPI indexation risk (all portfolios)***

To mitigate the Issuer's imbalance in its CPI-indexed assets and liabilities, which the Issuer is in a limited position to do, the Issuer offers non-CPI-indexed loans and CPI-indexed deposits. CPI indexation risk is managed centrally within the Issuer by the Treasury of the Issuer, and is monitored by the Market Risk Department.

Management of the Issuer's CPI indexation risk is supplemented by monitoring the sensitivity of the Issuer's overall position in CPI-indexed financial assets and liabilities net on-balance sheet to various inflation/deflation scenarios.

### ***Currency risk (all portfolios)***

The Issuer follows the Rules No. 950/2010 on Foreign Exchange Balances, as set by the Central Bank. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within 15 per cent. of the Issuer's capital base, in each currency and for all currencies combined. The Issuer submits daily and monthly reports to the Central Bank with information on its foreign exchange balance.

## **Operational risk management**

Whereas the executive managing director of each division is responsible for that division's operational risk, the daily management of operational risk is in the hands of general managers of each department. The Issuer establishes, maintains and co-ordinates its operational risk management framework at a group level. This framework complies with the Basel Committee's 2011 publication "Principles for the Sound Management of Operational Risk". The Issuer ensures that operational risk management stays consistent throughout the Issuer by upholding a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, together with active monitoring by the Internal Audit Department. By managing operational risk in this manner, the Issuer intends to ensure that all of the Issuer's business units are kept aware of any operational risks, that a robust monitoring system remains in place and that controls are implemented efficiently and effectively.

## **Capital management**

The Issuer's capital management policies and practices ensure that the Issuer has sufficient capital to cover the risk associated with its activities. The capital management framework of the Issuer comprises four interdependent areas: capital assessment, risk appetite/capital target, capital planning and reporting/monitoring. The Issuer regularly monitors and assesses its risk profile in the most important business areas and for the most important risk types. Risk appetite sets out the level of risk the Issuer is willing to take in pursuit of its business objectives.

The Issuer's capital requirements are defined in Icelandic law and regulations, on the one hand, and by the Financial Supervisory Authority (FME), on the other. The requirements are based on the European legal framework for capital requirements (CRD) implementing the Basel framework. The regulatory minimum capital requirement under Pillar I of the Basel framework is 8 per cent. of risk weighted assets ("RWA") for credit risk, market risk and operational risk. In conformity with Pillar II of the Basel framework, the Issuer annually assesses its own capital needs through ICAAP. The ICAAP results are subsequently reviewed by the FME in the Supervisory Review and Evaluation Process ("SREP"). The Issuer uses the standardised approach in measuring Pillar I risks. The ICAAP under Pillar II is the Issuer's calculation of its solvency need (as a percentage of RWA) and is based on economic capital calculations, stress tests and results of the SREP. The economic capital requirement at end of 2014 was 14.1 per cent. In the latest SREP, based on data from 31.12.2013, the FME

determined the minimum capital requirement for the Group to be 15.8% of RWA (31.12.2012: 16.7% of RWA), consisting of the 8% regulatory capital requirement under Pillar I and a 7.8% capital requirement under Pillar II. Moreover, forthcoming Icelandic legislation, implementing the new EU CRD IV capital requirements, is expected to require the Group to hold capital buffers in addition to the existing capital requirements. The Issuer's equity at 31 December 2014 amounted to ISK 251 billion (compared to ISK 241 billion at year-end 2013), equivalent to 22.8 per cent. (compared to 21.0 per cent. as at 31 December 2013) of total assets, according to the Consolidated Statement of Financial Position. The Capital Adequacy ratio calculated in accordance with Article 84 of Act No. 161/2002 on Financial Undertakings, was 29.5 per cent. as at 31 December 2014. Under the Act, the minimum requirement for this ratio is 8 per cent.

As part of ICAAP and the capital planning process, internal stress tests are used as an important risk management tool in order to determine how severe, unlikely but plausible, changes in the business and macro environment affect the capital need. Stress tests reveal how the capital need varies during a stress scenario, where impact on financial statements, regulatory capital requirements and capital ratios occur.

The new CRD IV framework has not been incorporated into the EEA Agreement and is therefore, not yet at least, binding on Iceland under international public law. The Issuer does not expect the implementation of the provisions to lead, overall, to an increase in capital requirements for the Issuer. This view is based on the Issuer's strong capital and liquidity position and the already far-reaching capital requirements imposed by the FME under Pillar II.

## **LITIGATION**

The Issuer and its subsidiaries are from time to time party to litigation cases, which arise due to the nature of its business and are not expected to have material effect on the Issuer's financial position. The Issuer has formal controls and policies for managing legal claims. After professional advice has been obtained and estimations on any possible amount have been made, the Issuer takes the necessary steps to mitigate any adverse effects which the claims may have on its financial standing.

Below is a description of pending or threatened proceedings against the Issuer which may have a significant effect on the Issuer's financial position or profitability if not ruled in favour of the Issuer.

### **Recalculation of foreign currency indexed loans**

In December 2013, a company brought two lawsuits against the Issuer demanding recalculation of previous recalculations of a foreign currency indexed loan in accordance with Supreme Court judgements No. 600/2011 and No. 464/2012. The plaintiff argues that conditions established for rejecting the main principles of laws on claims on the claim holder's right to additional payment are met in the case. As such, contractual interest should be paid in accordance with final receipts rather than Central Bank interest rates. The Issuer rejected the company's claim, referring, inter alia, to Supreme Court judgement No. 463/2013 which concluded that conditions for granting the exception had not been met since there was no difference in the comparative position between the parties and the additional claim would not cause a serious disruption of a company's financial position comparable to the impact unexpected demands for additional payment would have on an individual or small enterprise. On 7 November 2014, the Issuer was acquitted in both cases by the District Court. The District Court concluded that the company had not shown that the Issuer's insistence on Central Bank interest rates had had such a material and unexpected impact on its financial position that the Issuer should absorb the risk arising from the imbalance between contractual rates and Central Bank rates. The cases have been appealed to the Supreme Court.

### **Inflation-indexation of financial obligations**

In January 2013, a customer commenced litigation against the Issuer, seeking acknowledgement of the unlawfulness of a consumer price indexation of a bond issued by him to the Issuer and that it is not permissible for the Issuer to revalue the principle amount of the bond on a monthly basis in accordance with the consumer price index. The EFTA Court handed down its advisory opinion on the case on 24 November 2014. As regards Directive 87/102/EEC, on Consumer Credit, the EFTA Court finds that when a credit agreement is linked to a CPI, it is not compatible with the Directive to calculate the total cost of the credit and the annual percentage rate of charge on the basis of 0% inflation if the known rate of inflation at the time of the credit agreement is not 0%. It is for the national court to assess, taking account of all the circumstances of the case, the legal consequences of and the remedies for such incorrect information, provided that the level of protection established by the Directive, as interpreted by the Court, is not compromised. As regards Directive 93/13/EEC on Unfair Terms in Consumer Contracts, the EFTA Court finds that the Directive does not generally prohibit contractual terms on the indexation of loans in contracts between a lender and a consumer. It is for the national court to assess whether the term at issue is unfair. The District Court will now review the EFTA Court's opinion and establish, based on Icelandic law, whether and to what extent it impacts judgement in the case. On 10 February 2015 the Supreme Court rejected the plaintiff's request to appoint an assessor to the case. The case will be heard by the District Court on 8 May 2015 and a judgement from the District Court is expected in summer 2015. It should be noted that on 6 February 2015, the District Court of Reykjavík ruled in two cases, in which similar issues were disputed, that it had not been established that information disclosure to the borrowers by relevant financial institutions had impacted the borrowers' interests to such an extent as to nullify the indexation provisions of the disputed loan contracts.

### **Transfer of assets and liabilities from LBI hf. to the Issuer**

In November 2012, Landsbankinn Guernsey Ltd. commenced litigation against the Issuer, concerning money market deposits placed with LBI hf. The District Court acquitted the Issuer of the plaintiff's claims on 19 December 2014 and concluded that the deposits should not have been classified as obligations to be transferred to the Issuer in accordance with the decisions of the FME dated 9 October and 11 November 2008. The case has been appealed to the Supreme Court and it is foreseeable that the court will hear the case in 2015.

### **Investigation of the Icelandic Competition Authority into lending terms**

In March 2013, the Icelandic Competition Authority submitted to the Issuer its preliminary assessment concerning certain preferential terms and conditions offered during 2004-2010 by LBI hf., subsequently, by the Issuer in 2004 to 2010 to clients for retail banking services, in particular for household mortgage loans. In June 2013, the Issuer gave its response and refuted allegations of a breach of competition rules. The Issuer does not have information as to whether the Icelandic Competition Authority will take further action in the case but has expressed willingness to collaborate in the matter. On 1 July 2014, the Authority notified the Issuer that a decision in the case would not be forthcoming until the first six months of 2015.

### **Claim for damages by a payment card company**

In June 2013, a payment card company commenced litigation against the Issuer and other financial undertakings claiming tort liability in an amount of around ISK 1.2 billion plus interest. The plaintiff argues that the defendants are liable in tort for alleged violation of competition rules. The Issuer refutes the allegations and the claims. On 28 February 2014 the District Court accepted the plaintiff's request to appoint an independent assessor to the case. It is unclear when a final ruling might be expected in the case.

## COMPETITION

The Icelandic competitive landscape is comprised of four commercial banks, eight savings banks and six credit institutions. The financials market also includes eleven securities companies, two securities brokerages and nine management companies of UCITS. The HFF, a fully state-owned mortgage lender, offers financing for residential housing in Iceland (see “*Financial Markets in Iceland - Other Relevant Institutions in the financial market*”). There is substantial competition for the types of banking and other products and services the Issuer provides. The Issuer’s main competitors are the other large commercial banks in Iceland, Íslandsbanki and Arion Bank. Competition has been limited in recent years as all three banks have focused on restructuring their loan portfolio and improving internal operations in response to the tightened regulatory framework implemented under Basel II and Basel III. While competition has been limited it can still be affected by different needs, consumer demand, technological changes and the impact of consolidation, as well as regulatory actions. The Issuer expects competition from the other commercial banks and smaller specialised institutions to intensify in the coming years. Possible mergers in the financial services industry and the possible entry into the market of foreign banks able to offer a wider array of products and services could complicate the competitive environment further.

The Issuer will continue to offer a full range of specialised financial services to individuals, corporate entities and institutions, as well as work on further product developments to meet different consumer demands.

## ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

<b>Name</b>	<b>Function</b>	<b>Principal Outside Activities</b>
<b>Senior Management</b>		
Mr. Steinþór Pálsson	CEO	Chairman of the Icelandic Financial Services Association and board member of the European Banking Federation.
Mr. Árni Þór Þorbjörnsson	Managing Director of Corporate Banking	Board member of Motus ehf. and Greiðslumiðlun Íslands ehf.
Mr. Helgi Teitur Helgason	Managing Director of Personal Banking	Board member of Motus ehf. and Greiðslumiðlun Íslands ehf. Advisory board member of Framtakssjóður Íslands GP hf. (“FSÍ”).
Ms. Hrefna Ösp Sigfinnsdóttir	Managing Director of Markets	N/A
Mr. Hreiðar Bjarnason	Managing Director of Finance, CFO	Represents Landsbankinn on the Board of FSÍ GP hf. Board member of The Depositors and Investors Guarantee Fund (TIF).

<b>Name</b>	<b>Function</b>	<b>Principal Outside Activities</b>
Ms. Jensína Kristín Böðvarsdóttir	Managing Director of Corporate Development & Human Resources	Board member of Frumtak GP ehf. and alternate board member of FSÍ.
Ms. Perla Ösp Ásgeirsdóttir	Managing Director of Risk Management	N/A
Ms. Ragnhildur Geirsdóttir	Managing Director of Operations & IT	N/A
<b>Board of Directors</b>		
Mr. Tryggvi Pálsson	Chairman	Chairman and CEO of Banker Consult slf.
Ms. Eva Sóley Guðbjörnsdóttir	Vice-chairman	Vice President of Corporate Finance at Össur hf., Board Member of Skeljungur hf.
Ms. Danielle Pamela Neben	Board Member	Alternate Board Member of GLS ehf.
Ms. Helga Björk Eiríksdóttir	Board Member	Chairman of the Board of Directors of Firkir ehf. General Manager and Board Member of Integrum ehf. Alternate Board Member of Fösull ehf. and Fenlogi ehf.
Mr. Jón Sigurðsson	Board Member	Senior Vice President of Procurement at Promens hf. and Managing Director in Promens Group A.S. a subsidiary of Promens hf.
Mr. Kristján Þ. Davíðsson	Board Member	Chairman of the Board of Directors of Valka hf., Board Member of Vaki fiskeldiskerfi hf. Board Member of Icelandic seafood industry technology companies; Viðskiptaþróun ehf. and ISDER ehf.

<b>Name</b>	<b>Function</b>	<b>Principal Outside Activities</b>
		Board Member of the Norwegian health supplements company OliVita A.S.
Mr. Jóhann Hjartarson	Board Member	Chairman of Íslensk erfðagreining ehf., General Council of Íslensk erfðagreining ehf. Board Member of UVS-Urður, verðandi Skuld ehf. Alternate Board Member of Skipti hf.
Mr. Árni G. Hauksson	Alternate	Chairman of the Board of Directors of Amivox ehf., President of Au Management Inc. and Vice Chairman of the Icelandic Chamber of Commerce in Japan.
Dr. Tinna Laufey Ásgeirsdóttir	Alternate	N/A

The business address of each of the Senior Management and Directors above is Austurstræti 11, 155 Reykjavík, Iceland.

There are no potential conflicts of interests between any duties of the Senior Management and Directors above and their private interests and/or other duties.