Landsbankinn hf.

(incorporated in Iceland as a limited liability company)

ISK 50,000,000,000

Debt Issuance Programme

Under this ISK 50,000,000,000 Debt Issuance Programme (the "**Programme**"), Landsbankinn hf., (the "**Issuer**" and "**Landsbankinn**") may from time to time issue bonds or commercial paper, (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 Nasdaq Central Securities Depository Iceland hf., (the "**NCSD System Debt Securities**" and the "**NCSD**" 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**"). Commercial Paper issued under the Programme will only be issued in uncertificated book entry form cleared through the NCSD 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 50,000,000,000 (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 8 November 2019 (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, as amended, (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, as amended, (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** 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.

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 (see *Selling Restrictions*). Interests in a Temporary Bearer Global Bond will be exchangeable, in whole or in part, for interests in a Permanent Bearer Global Bond on or after the Exchange Date (as defined in the section *Terms and Conditions of the Debt Securities*), upon certification as to non-U.S. beneficial ownership. Until the expiration of 40 days after the later of the commencement of the offering of Registered Bonds and the issue date thereof, beneficial interests in a Global Certificate may be held only through Euroclear or Clearstream.

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 8 November 2019

This Base Prospectus, dated 8 November 2019, 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, as amended 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. 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**"), United Kingdom, Hong Kong, Singapore and Japan. See chapter Selling Restrictions.

*The Debt Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and the Debt Securities may include Bearer Bonds that are subject to U.S. tax law requirements. Subject to certain exceptions, the Debt Securities may not be offered or sold or, in the case of Bearer Bonds, delivered within the United States or to, or for the account of benefit of, U.S. persons (as defined in Regulations S under the Securities Act („**Regulations S**")).*

The Debt Securities are being offered and sold outside the United States to Non- U.S. persons in reliance on Regulations S. For a description of these and certain further restrictions on offers, sales and transfers of bonds and distribution of this Base Prospectus see chapter Selling Restrictions.

The Debt Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Debt Securities or the accuracy or the adequacy of this Base Prospectus. Any representation to the contrary is a criminal offence in the United States.

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

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 50,000,000,000 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 1,415 billion at 30 September 2019. The Issuer offers a full range of financial services in the Icelandic financial service sector with a total of 37 branches and outlets across the country.
Legal Entity Identifier ("LEI"):	549300TLZPT6JELDWM92
Arranger:	Landsbankinn hf., or any successor arranger appointed as such.
Dealers:	Landsbankinn hf., or any successor or additional dealer appointed as such.
NCSD 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, United Kingdom, Hong Kong, Singapore and Japan. See *Selling Restrictions.* 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. Debt Securities in bearer form will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of The United States Internal Revenue Code of 1986, as amended (the "**Code**")) ("**TEFRA D**") unless: (i) the applicable Final Terms state that Debt Securities are issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**TEFRA C**"); or (ii) the Debt Securities are issued other than in compliance with TEFRA D or TEFRA C but in circumstances in which the Debt Securities will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.
Programme Size:	The maximum aggregate nominal amount of all Debt Securities from time to time outstanding under the Programme will not exceed ISK 50,000,000,000 (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 may be issued on an unsubordinated ("**Unsubordinated Debt Securities**") or a subordinated ("**Subordinated Bonds**") basis, as described in Condition 3.1 and 3.2 respectively, and as specified in the applicable Final Terms.
Status of the Unsubordinated Debt Securities:	The Unsubordinated Debt Securities are direct, unconditional, unsubordinated and unsecured obligation 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 obligation (other than subordinated obligation, if any) of the Issuer, from time to time outstanding.

Status of the Subordinated Bonds:

The Subordinated Bonds will constitute subordinated and unsecured obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves.

In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Issuer, the rights of the Debt Security Holders to payments on or in respect of the Subordinated Bonds shall rank

(i) *pari passu* without preference among themselves;

(ii) *pari passu* with present or future claims in respect of Parity Securities;

(iii) in priority to any present or future claims in respect of Junior Securities; and

(iv) junior to any present or future claims in respect of Senior Creditors

Point of Non-Viability Loss Absorption:

If a Non-Viability Event occurs at any time on or after the Issue Date and prior to the date on which any Applicable Statutory Loss Absorption Regime becomes effective in respect of the Debt Securities, the Prevailing Principal Amount of the Debt Securities may be Written-Down by the Issuer as further discussed in Condition 8.

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 Commercial

	Paper will have a maximum final maturity of 13 months when issued.
Form of Debt Securities:	The Debt Securities will be issued either (i) in bearer form, (ii) registered form or (iii) in the case of VS System Debt Securities, in uncertificated book entry form, as specified in the applicable Final Terms. 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 Commercial Paper 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 Commercial Paper (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.
Commercial Paper:	Commercial Paper may be issued at a discount to their nominal amount and will not bear interest. Commercial Paper 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).
Benchmark Discontinuation:	In the case of Floating Rate Bonds, if the Issuer determines that a Benchmark Event has occurred, the Issuer may, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate (which shall include consultation with an Independent Adviser) determine that (i) the relevant benchmark or screen rate may be replaced by a Successor Rate or (ii) if there is no Successor Rate but the Issuer determines there is an Alternative Rate, such Alternative Rate. An Adjustment Spread may also be applied to the Successor Rate or the Alternative Rate (as the case may be), together with any Benchmark Amendments (which shall be determined by the Issuer, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which shall include consultation with an Independent Adviser). This is further described in Condition 5.8 (Benchmark Discontinuation).

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 NCSD, 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 9 (Taxation). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9 (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 11 (Events of Default) entitling Debt Security Holders to demand redemption by the Issuer if one or more of the events described in Condition 11 (Events of Default) will occur and be continuing.
Governing law:	The Debt Securities, the Coupons and the Talons (other than NCSD 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 NCSD 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. ("**Arion Bank**") Íslandsbanki hf. ("**Íslandsbanki**"), Kvika bank hf. ("**Kvika Bank**") 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 (see further *"Description of the Issuer - Competition"*). 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.

In addition, Iceland's economy remains vulnerable to other political and economic external factors such as the withdrawal of the United Kingdom from the EU and instability or deterioration of the international financial markets. These factors could have a material adverse effect on the Icelandic economy. Although the financial sector in Iceland is still to some extent subject to capital controls and is mostly funded by domestic deposits, a global recession is likely to affect demand and the price of Iceland's main export sectors such as tourism, fishing and aluminium exports.

The Icelandic State Treasury is the largest shareholder of the Issuer. This may affect the Issuer and its business

As at the date of this Base Prospectus, the Icelandic State Financial Investments (the "**ISFI**") manages a 98.2 per cent. shareholding and the corresponding voting rights on behalf of the largest shareholder, 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 any proposals that may be put forward by the ISFI. Any such sale or disposal, and any conditions attaching to it, could affect the Issuer's business, financial condition and results of operations.

In certain areas, Icelandic legislation imposes special rules on the Issuer since the Icelandic State Treasury holds the majority shareholding in the Issuer. These rules do not apply to the Issuer's main competitors where their majority of shares are not owned by the Icelandic State Treasury, except for the Housing Finance Fund ("**HFF**"), and Íslandsbanki which became wholly owned by the Icelandic State Treasury in January 2016. These rules may impose a heavier regulatory burden on the Issuer compared to its competitors and may thus have a negative impact on the Issuer's competitive position. The Issuer's business, financial condition and results of operations could also be affected. These rules are: (i) Article 4 of the Act on the Auditor General and the Auditing of Government Accounts No. 46/2016 (the functions of the Auditor General include auditing the annual accounts of limited liability companies where the State owns 50 per cent. of the shares or more); (ii) Article 2 of the Information Act No. 140/2012 (the Issuer is subject to provisions of the Act, but it can obtain a temporary exemption from falling under the scope of this Act); and (iii) Article 14 of the Act on Public Archives No. 77/2014 (the Issuer is subject to provisions of this Act). Following a settlement with the Icelandic Competition Authority on 11 March 2016 relating to the changes in ownership of Íslandsbanki and a motion approved by the Annual General Meeting ("**AGM**") of the Issuer held on 14 April 2016, the Board of Directors of the Issuer added provisions on the competitive independence of the Issuer towards other state-owned commercial banks to its rules of procedures.

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

Although economic growth has been robust in the past four years, the Issuer expects economic growth to slow down significantly in 2019. Recent events in the tourism sector (the airline WOW air ceased operations in March

2019) and the marine sector (no quota was issued for capelin) may even lead to a minor economic contraction in 2019.

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. (the "**Emergency Act**") 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 (See further "*The Icelandic Economy"*). 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 over the past years, declining levels of non-performing loans and high capital ratios. Banking system liquidity has remained strong and capital ratios of the three largest Icelandic commercial banks are strong and well above the required minimum of the Financial Supervisory Authority ("**FME**"). The Central Bank of Iceland (the "**Central Bank**") publishes a Financial Stability Report bi-annually.

The Central Bank of Iceland (the "**Central Bank**") publishes a Financial Stability Report bi-annually. In the October 2019 Financial Stability Report, the Central Bank concluded that the economic uncertainty has increased in recent months. The three key domestic risks highlighted are, as in the previous report tourism, residential real estate and commercial real estate. After several years of double digit growth tourist numbers are now contracting. If the contraction in the sector continues, it is likely to result in increased default and loan losses in the financial system. Bank lending to the construction sector remains strong. However, newly constructed residential properties have been selling more slowly than before. In addition, tourist numbers are down, as are short-term private rentals, and population growth is expected to ease in the next few years. These factors could push residential housing prices downwards causing leverage ratios to rise as well as the probability of loan losses. Regarding commercial real estate, the outlook is for the supply of hotels to rise much more than the supply of other commercial property in the next several years. There is some risk of a glut of supply, with the associated falling prices, but as yet, in the view of the Central bank, this risk is limited primarily to hotels and guesthouses[1].

In the most recent International Monetary Fund (the "**IMF**") Article IV Consultation Staff Report from November 2018, the IMF stated that they expect Iceland's economy to continue to grow, but at a slower rate. The increase in exchange rate between 2014 and 2016 has dampened the rate of tourism growth. This has lessened the demand pressures and helped to cool the housing market. This has "*allayed overheating concerns*"[2]. The three downside risks mentioned in the report are (i) high jet fuel prices and fierce air transport competition, which are challenging the airline business and risking disruptions to tourism; (ii) rising global trade tensions, which could hurt Iceland's aluminium industry, among other sectors; and (iii) the results of Brexit, which could dampen demand from the United Kingdom, one of Iceland's most important export markets.

In June 2015, the Icelandic Government announced a comprehensive strategy for capital account liberalisation, which entailed a threefold plan towards the removal of capital control. One of the main objectives is maintaining economic and financial stability in Iceland. The strategy for capital account liberalisation involves a number of complex transactions which, therefore, leads to a number of risks. These risks include the risk of disorderly unwinding of ISK-denominated assets, legal disputes and a slower than envisaged path toward liberalisation. Such risks related to the liberalisation of capital controls could bring negative consequences for the domestic economy and/or renewed financial volatility, and could also have a detrimental impact on investor confidence, which could have a negative effect on the Issuer. See "*The Issuer's operating environment is still to some extent subject to capital controls even though the capital controls have mostly been lifted. Removal of the remaining capital controls could have an adverse effect on the Issuer's business*".

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[1] Source: the Financial Stability 2019/2 published by the Central Bank on 9 October 2019: https://www.cb.is/publications/news/news/2019/10/09/Financial-Stability-2019-2/

[2] Source: the Iceland Article IV Staff Report published by the IMF on 14 November 2018

In June 2016, the Central Bank published its Rules on Special Reserve Requirements for New Foreign Currency Inflows, No. 490/2016, in accordance with Temporary Provision III of the Foreign Exchange Act, no. 87/1992, as amended, (the "**Foreign Exchange Act**"**)**. The rules were replaced in March 2019 with Rules on Special Requirements for New Foreign Currency Inflows, No. 223/2019 (the "**Special Reserve Requirement Rules").** The main purpose of the Temporary Provision III of the Foreign Exchange Act is to provide the Central Bank with a policy instrument, generally referred to as a capital flow management measure, to temper inflows of foreign currency and to affect the composition of such inflows. The Special Reserve Requirement Rules implement special reserve requirements in relation to some investments using inflows of foreign currency. The investments are: (i) new investment and reinvestment in bonds or bills electronically issued in ISK, or deposits of such reinvested funds to ISK deposit accounts, bearing annual interest of 3 per cent. or more; (ii) ISK deposits from listed transactions; (iii) new investments and reinvestment of new investment in unit share certificates of funds that (a) invest in bonds or bills electronically issued in ISK or ISK deposits from such investment, bearing annual interest of 3 per cent. or more and (b) constitute 10 per cent. or more of the fund‘s assets; (iv) new investments and reinvestment of such new investment in the equity of a company that is established for the purpose of investing, directly or indirectly, in bonds or bills electronically issued in domestic currency or that is established for the purpose of investing, directly or indirectly, in ISK deposits, bearing annual interest of 3 per cent. or more; and (v) loans granted to resident entities that are used for investments in ISK, for the benefit of the lender, in bonds or bills electronically issued in ISK or ISK deposits from such investment, bearing annual interest of 3 per cent. or more.

If an investment is subject to special reserve requirement, the investor is obliged to deposit a specific portion (currently 0 per cent[3].), in a reserve account for a certain holding period[4], which may range up to five years according to Temporary Provision III of the Foreign Exchange Act. Deposit institutions are required to deposit the special reserve amount that they hold in special reserve accounts to a capital flow account with the Central Bank of Iceland which bears 0 per cent. interest. The settlement currency for capital flow accounts shall be the Icelandic krona. See further "*Taxation and Capital Inflow Restrictions - Rules on Special Reserve Requirements for New Foreign Currency Inflows- Capital Inflow Restrictions*."

Although the conditions have developed that permit lowering the Special Reserve Requirements to 0 per cent., because the likelihood of substantial inflows leading to an overshooting of the exchange rate and to severe disturbances in the monetary policy transmission mechanism has subsided, no assurance can be given that the Central Bank would not re-impose elements of the Special Reserve Requirements which have already been lifted.

The economic and financial environment, together with the operating and financial conditions of borrowers, may affect the Issuer's levels of non-performing loans, determination of loan values and the level of write-offs. Levels of problem loans, determination of loan values and the levels of write-offs will depend on general economic developments and operating and financial conditions of the relevant borrowers. No assurance can be given that the rate of problem loans will decrease in the future. The Icelandic banks could be adversely affected if other developments in the Icelandic economy or internationally result in a further decline in Iceland's economic growth, particularly in countries that constitute Iceland's main trading partners such as European countries and the United Kingdom.

Should Iceland's economy be adversely affected by domestic or external factors, whether as a result of any of the above factors or for other reasons, such as fluctuation in the value of the Icelandic krona, lack of foreign investment, inflation, global recession or strikes due to unsuccessful collective bargaining negotiations, it could adversely affect the ability of the Issuer's customers to repay their loans which in turn could have a material

3 The Temporary Provision III of the Foreign Exchange Act states that the special reserve ratio may range up to 75 per cent. The special reserve ratio was first set at 40 per cent.in June 2016. The ratio was reduced to 20 per cent. in November 2018 and to 0 per cent. in March 2019.

4 The special reserve requirement can also be satisfied via repo transactions with Central Bank certificates of deposit.

adverse effect on the Issuer's business, financial conditions, results of operations, cash flows and prospects, and its ability to make payments in respect of the Debt Securities.

The Icelandic banking system is relatively small and has been subject to restructuring, which could limit opportunities and involve risks that could materially affect the Issuer

The Issuer, Íslandsbanki and Arion Bank (together the "**New Banks**") are the three largest commercial banks in Iceland and were established after the banking crisis in 2008. The total assets of the New Banks, comprised around 72 per cent. of the total assets of all Icelandic credit institutions (excluding the Central Bank and including the failed banks' holding companies),[5] as at the end of 2018, according to the Central Bank. The Icelandic banking system is small and the New Banks have had limited opportunities for growth. The New Banks have so far primarily engaged in domestic lending in krona. The majority of the New Banks' funding comes from deposits by customers (see *"Description of the Issuer - Funding"*). The Icelandic Government maintained a policy between October 2008 and September 2016 that deposits in banks domiciled in Iceland needed to be guaranteed by the Icelandic Government. It is not known whether, and in what capacity, the Icelandic government would assist the banking sector during difficult times in the future. External factors might also affect the Issuer's deposit base, in the short and medium term such as the increased availability of other investment opportunities for depositors who currently hold deposits with the Issuer.

The Icelandic Government's strategy for capital account liberalisation, which was introduced in June 2015 as a threefold plan, involved a number of complex transactions, including mitigating the risk of capital flight from customers, who have not been able to transfer their deposits and/or offshore krona assets due to the capital controls. In March 2017, the Icelandic Government announced that the capital controls would to a large extent be removed. For further information, see "*The Icelandic Economy- The recession in 2008 and the restructuring of the financial sector- The Capital controls*". The Issuer has, to date, not experienced any significant withdrawal of deposits by customers who were to some extent restricted from doing so, due to capital controls. There is no assurance, however, that the Icelandic Central Bank will be able to prevent capital flight, and thus withdrawal of deposits by the Issuers's customers, in the event capital controls are lifted further, fully withdrawn or imposed to a greater degree in the future.

The relatively small banking system, given the small size of the Icelandic economy (see "*The Icelandic Economy*"), and the ongoing restructuring of the Icelandic banking sector have affected and continue to affect the Icelandic banks. The reputation of the Icelandic banking sector has at times been negative due to the financial crisis in 2008 and the subsequent recession in Iceland. This negative reputation can be reflected in political and legislative decisions which have had a material adverse effect on the Issuer. Various ideas have been discussed on how to improve the banking sector in Iceland. One being to initiate a sale process on either of the two state owned banks, namely Landsbankinn and Íslandsbanki. For further information see the risk factor entitled "*The Icelandic State Treasury is the largest shareholder of the Issuer. This may affect the Issuer and its business*". Another is the introduction of a potential law requiring the separation of commercial banking activities from investment banking activities, which could require the Issuer to divest or otherwise restructure some of its operations. No such requirements has been enacted to-date, but there can be no assurance that such law or similar or related measures will not be proposed and ultimately be enacted, which in turn could have a material negative effect on the Issuer's business.

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 and its ability to make payments in respect of any the Debt Securities.

[5] Source: Central Bank of Iceland, Landsbankinn, Arion Bank and Íslandsbanki annual reports

The Issuer's operating environment is still to some extent subject to capital controls, even though the capital controls have mostly been lifted. Removal of the remaining capital controls could have an affect on the Issuer's business.

Capital controls have the purpose of limiting the flow of foreign currencies in Iceland and prohibiting certain transactions with securities, which could adversely affect the ability of investors to invest in and trade with the Debt Securities issued by the Issuer. Work on removing capital controls in Iceland is nearly complete according to the comprehensive strategy implemented by the Icelandic Government in June 2015 (see "*The Icelandic Economy - The recession in 2008 and the restructuring of the financial sector - Capital Control*") but the date for full and complete liberalisation of capital control is unknown. If the capital control regime is removed in a manner which fails to protect the Icelandic economy from a negative impact of its removal, there will be negative consequences for the Icelandic Government's fiscal position, the stability and recovery of Iceland's financial sector, and the Icelandic economy as a whole. This could affect the ability of the Issuer's customers to repay their loans which in turn could have adverse effect on the Issuer's business, and its ability to make payments in respect of the Debt Securities.

It is uncertain when and if the remaining restrictions of the capital controls will be lifted in full, and if economic circumstances in Iceland were to change, there can be no assurance that the Central Bank of Iceland, would not re-impose elements of the capital controls which have already been lifted.

Prospective investors in Debt Securities issued under the Programme must consider the risk of further changes to the capital controls and the special reserve requirements and the impact this may have on the Issuer's business and an investment in the Debt Securities. Prospective investors who are in any doubt as to their position should consult their professional advisers.

Increase in competition and changes in ownership of the New Banks may affect the Issuer and its business

As demand for new lending and other financial products increases, the Issuer expects to face increased competition from other large Icelandic banks, pension funds and smaller specialised institutions (see *„Description of the Issuer - Competition"*). In addition, as the capital controls have mostly been eased and there is sufficient credit demand, the Issuer may potentially face competition from foreign banks seeking to establish operations in Iceland. The Issuer is subject to considerable regulatory scrutiny that can hinder its competitiveness. Due to the small economy of Iceland and the Issuer's lack of scale advantage and high regulatory obligations, as a systematically important financial institution in Iceland, foreign competitors may have more resources and financial means available to them, compared to the Issuer, allowing foreign competitors to offer banking products at a lower price. The Issuer may have to comply with regulatory requirements that may not apply to such foreign competitors, creating an unequal competitive environment, such as in addition to the basic corporate income tax rate of 20 per cent. in Iceland, the Issuer is subject to certain other taxes which are specific to Iceland which increase its effective tax rate and its effective cost of funding, which in turn can inhibit its ability to compete effectively with domestic and foreign lenders who are not subject to such additional taxes. (see. "*Changes in tax laws or in their interpretation could harm the Issuer's business*").

In addition, it is likely that competition will intensify even further with the emerging competition from financial technology ("**FinTech**") start-ups (especially digital technology that is often referred to as FinTech). In the coming years, the Revised Payment Service Directive No. 2015/2366 ("**PSD2**") will come into effect in Iceland, which increases competition between payment providers. The PSD2 requires the commercial banks to open up their application program interface (the "**APIs**"), so that third-party payment service providers ("**TPP**s") can directly access and use their client's account data. In essence, PSD2 separates the distribution of banking services from their production, by allowing new entrants to provide almost any kind of banking products and services under lighter regulation. When PSD2 comes into effect, the distribution of financial services will become open to non-banks and consequently, retail banking revenues could decrease. Competitive pressures caused by FinTech firms, and in particular the emergence of open banking, may cause greater and faster disruption to banks' business models and revenues in Iceland. This could therefore have a negative effect on the Issuer's business.

To keep up with the rapid development in the financial market, the Issuer replaced its core deposit and payment system, with Sopra banking system, which simplifies and updates the Issuer's technological infrastructure. The Sopra banking system opens the way to increased integration of software solutions in the financial system.

The Issuer will continue to offer the full range of specialised financial products to individuals, corporate entities and institutions and to work on product development to meet increased competition and keep up with the rapid development in digital technology. If the Issuer is unable to provide attractive financial products and services at more competitive prices, or to implement solutions to keep up with development in digital technology, it may lose market share which could have a material adverse effect on the Issuer's business, prospects, financial position, and its ability to make payments in respect of the Debt Securities.

As at the date of this Base Prospectus, the Issuer and Íslandsbanki which are two of the four commercial banks in Iceland, are partially or wholly owned by the Icelandic State Treasury. In February 2018, it was announced that 5.34 per cent. of issued shares in Arion Bank had been sold to domestic funds and existing international shareholders, who owned 29 per cent. in the bank after a private placement in March 2017. In June 2018, further sales of shares in Arion Bank through initial public offerings took place and the shares were listed on the Icelandic and Swedish Stock markets. According to the ISFI which manages the shareholding and the corresponding voting rights in the Issuer and Íslandsbanki, on behalf of the largest shareholder, the Icelandic State Treasury, it is likely that the Icelandic State Treasury will want to sell part of its shares in the Issuer and/or in Íslandsbanki in the future[6]. For further information, see the section entitled "*The Icelandic State Treasury is the largest shareholder of the Issuer*". This may affect the Issuer and its business. Any changes in ownership of the New Banks can affect the competitive environment and the Issuer's business, financial condition and result of operations.

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 2019 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. See further *"Description of the Issuer - Loan Portfolio".* 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.* A 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.

[6] Source: "The Icelandic State's ownership strategy for Financial Services" published in July 2017 by the Ministries of Finance and Economic Affairs :https://www.government.is/media/fjarmalaraduneyti-media/media/frettatengt2016/The-icelandic-state_s-ownership.pdf

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. 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. 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 its 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. 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. 784/2018 on Foreign Exchange Balances, as set by the Central Bank of Iceland (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 10 per cent. of its capital base, in each currency and for all currencies combined. Furthermore, the Issuers' total foreign exchange balance (weather long or short) shall not exceed ISK 25 billion. The Issuer has taken various measures to decrease its overall currency risk and to bring expected future currency risk levels within acceptable limits.

- *Imbalance in CPI indexed assets and liabilities.* The Issuer's indexations 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 earlier maturities of financial liabilities than financial 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**"), for example 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 complies with Rules No. 266/2017, on Liquidity Ratios, as set by the Central Bank (the "**Rules on Liquidity Ratios**"). The liquidity rules are based on the liquidity requirements set forth in the CRD IV/CRR framework, which was fully implemented in Iceland in 2017 (Regulation No. 233/2017). The Rules on Liquidity Ratios are based on the LCR developed by the Basel Committee. Information regarding the Issuer's liquidity risk is further described in *"Description of the Issuer - Risk Management Framework"*. The Central Bank also set Rules No. 1032/2014, on funding ratios, which the Issuer complies with. The rules on funding ratios are based on the NSFR.

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, market funding and share capital. The Issuer has diversified its funding profile by issuing bonds, and 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. Information regarding the Issuer's funding is further described in *"Description of the Issuer - Funding"*.

Operational risks are inherent in the Issuer's 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 detrimental to 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 has implemented controls designed to detect, monitor and mitigate operational risks. However, these controls cannot completely eliminate such risks as some can be difficult to detect or recommendations and suggestions of surveillance units of the Issuer (such as the compliance and internal audit functions) could be ignored, misunderstood or misapplied and mitigation may fail to be effective. Failures in internal controls could subject the Issuer to regulatory scrutiny. Such events could harm the Issuer's reputation and have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Debt Securities.

The Issuer is exposed to the risk of breach of security, unauthorised disclosure of confidential information and personal data, or functionality of its information systems that could have materially adverse effects on the Issuer's business

Banks and their activities are increasingly dependent on Information and communication technology ("**ICT**") systems, including a significant shift away from physical banks branches and towards greater reliance on internet websites and the development and use of new applications on smartphones. The Issuer's ICT systems comprise a major operational risk, both with regard to their functioning and accessibility. The Issuer's ICT systems are varied and in many instances depend upon co-operating partners and they are vulnerable to a number of problems, such as software or hardware malfunctions, interruptions in network availability, hacking, human error, physical damage to vital ICT centres and computer viruses. 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.

As part of its business, the Issuer is responsible for safeguarding information such as personal customer, merchant data and transaction data. ICT systems need regular upgrades to meet the needs of changing business and regulatory requirements and to keep up with developments in the market and to be able to rely on information and communication technology more broadly. The Issuer believes it has in place sufficient policies and procedures to comply with relevant data protection and privacy laws by its employees and any third-party service providers. The Issuer has also taken necessary steps to implement and maintain appropriate security measures to protect confidential information. However, the Issuer may not be able to implement necessary upgrades on a timely basis and upgrades may fail to function as planned. In addition to costs that may be incurred as a result of any failure of its ICT systems or technical issues associated with, as well as the general cost of, upgrading its ICT systems, the Issuer could face fines from regulators if its ICT systems fail to enable it to comply with applicable banking or reporting regulations, including data protection regulations.

The Issuer maintains back-up systems for its operations, one of the backup systems is located outside its premises. However, under limited circumstances, for example, in the event of a major catastrophe resulting in the failure of its ICT systems, the Issuer could lose certain recently entered data with regards to its operation located outside its premises or a significant portion of data with regards to its international operations.

In the event of a breach of applicable law due to loss of confidential information, or as a result of unauthorised third party access, this could result in additional costs relating to compensation, fines, reputational damage, loss of relationship with financial institutions, sanctions, legal proceedings, and adverse regulatory actions against the Issuer, by the authorities, customers, merchants or other third parties. Unauthorised disclosure of confidential information could occur in a number of circumstances, including as a result of software or hardware malfunctions, interruption in network availability, hacking, human error, physical damage to vital ICT centres and computer viruses, as well as physical security breaches due to unauthorised personnel gaining physical access to confidential information.

In 2018, the European General Data Protection Regulation (the "**GDPR**") was implemented in Iceland, and other jurisdictions in which the Issuer operates. The Issuer is exposed to the enhanced data protection requirements under the GDPR and has needed to make additional changes to its operations, which incurred additional costs, in order to comply with the GDPR. Failure to comply with the GDPR could subject the Issuer to substantial fines.

Although the Issuer maintains customary insurance policies for its operations, such insurance policies may not be adequate to compensate the Issuer for all losses that may occur as a result of any aforementioned damage, interruption, failure or lack of capacity. A sustained failure of the Issuer's ICT systems centrally or across its branches would have a significant impact on its operations, reputation and the confidence of its customers in the reliability and safety of its banking systems and could result in costly litigations. Any of the aforementioned factors could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Debt Securities.

Cyberattacks

Cybersecurity risks are foremost related to the Issuer's internet banking users and include potential unauthorised access to privileged and sensitive customer information, including internet banking credentials as well as account and credit card information. The Issuer's activities have been, and are expected to continue to be, subject to an increasing risk of ICT crime in the form of Trojan attacks and denial of service attacks, the nature of which are continually evolving. The Issuer believes it has in place investments to address threats from cyberattacks, but the Issuer cannot guarantee that these investments will be successful in part or in full or without significant additional expenditures. The Issuer may experience security breaches or unexpected disruptions to its systems and services in the future, which could, in turn, result in liabilities or losses to the Issuer, its customers and/or third parties and have an adverse effect on the Issuer's business, prospects, reputation, financial position and/or results of operations, and its ability to make payments of the Debt Securities.

The Issuer relies on third-party service providers, which may fail to perform their contractual obligation, which could have materially adverse effects on the Issuer's business

The Issuer relies on the services, products and knowledge of third-party service providers in the operation of its business. No assurance can be given that the third-party service providers selected by the Issuer will be able to provide the products and services for which they have been contracted, for example, as a result of failing to have the relevant capabilities, products or services in place or due to changed regulatory requirements.

The Issuer also faces the risk that third-party service providers may become insolvent, enter into default or fail to perform their contractual obligations in a timely manner (or at all) or fail to perform their contractual obligations at an adequate and acceptable level. Any such failure from any third-party service provider, such as ICT system service providers, could lead to interruptions in the Issuer's operations or result in vulnerability of its ICT systems, exposing the Issuer to operational failures, additional costs or cyber-attacks. The Issuer may need to replace a third-party service provider, on short notice, to resolve any potential problems, and the search for and payment to a new third-party service provider, on short notice, or any other measures to remedy such potential problems may be costly.

The Issuer [generally] includes confidentiality obligations in its agreements with third party partners, or service providers, who may have access to confidential information. Although the obligations restrict such third parties from using or disclosing any such confidential information, these contractual measures may not be able to prevent the unauthorised use, modification, destruction or disclosure of confidential information. Further, the Issuer might not be able to seek reimbursement from such third party in case of a breach of confidentiality or data security obligations.

Any failure by a third-party service provider to deliver the contracted products and services in a timely manner (or at all) or to deliver products and services in compliance with applicable laws and regulations, and at an adequate and acceptable level could result in reputational damage, additional costs relating to customers and/or merchant compensations or other charges, claims, losses and damages and have a material adverse effect on the Issuer, its business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Debt Securities.

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

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, which could have an adverse effect on the Issuer's prospects and ability to make payments in respect of the Debt Securities. The Issuer's Compliance Officer monitors 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, the Act on Actions to Combat Money Laundering and Terrorist Financing, No. 140/2018 ("**Act on Actions to Combat Money Laundering and Terrorist Financing**"), and other relevant legislation and regulations.

The Issuer is subject to rules and regulations regarding anti-bribery, anti-money laundering, anti-terrorist financing and economic sanctions. In general, the risk that banks will be subjected to or used for bribery or money laundering has increased worldwide. Monitoring compliance with anti-money laundering and anti-terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems.

The Issuer believes that its current policies and procedures are sufficient to comply with applicable rules and regulations. There is, however, always a risk that its anti-money laundering and anti-terrorism financing policies and procedures might fail to prevent instances of money laundering or terrorism financing, or that its employees might fail to comply with such policies. Any violation of anti-money laundering or anti-terrorism financing rules, or suggestion of violations, may have severe legal and reputational consequences for the Issuer and could have a material adverse effect on the Issuer financial conditions and results of operations. The Issuer cannot guarantee that further changes to such policies could completely prevent situations of money laundering or bribery, for which the Issuer might be held responsible.

The Issuer notes, that on October 18, 2019 the Financial Action Task Force ("**FATF**") decided to place Iceland on its list of jurisdictions with strategic Anti-Money Laundering and Countering the Financing of Terrorism deficiencies ("**AML/CFT**"). The decision is based on FATF's Follow-up Report and Compliance Re-Rating and the subsequent consideration by FATF Joint Group. The Icelandic Government has stated that it expects that the FATF's decision to have limited impact on financial institutions, but that the list may require counterparts of Icelandic entities to undertake increased diligence measures. There can be no assurance that the aforementioned decision will not have negative effect on the Issuer's operation and/or reputation.

Regulatory changes or enforcement initiatives could increase compliance costs and adversely affect Issuer´s business, if the Issuer becomes subject to increasingly complex requirements

The Issuer is subject to banking and financial services laws and government regulations. Regulatory changes such as the adoption in Iceland of Directive (2014/65/EC) on Markets in Financial Instruments ("**MiFID II**"), which updates the existing MiFID directive, and Regulation (600/2004) on Markets in Financial Instruments ("**MiFIR**") could affect the way in which the Issuer and its principal subsidiaries (the **"Group"**) conducts its business. See further "*Description of the Issuer - Organisational Structure*".

The adoption in Iceland of MiFID II and MiFIR will replace, extend and improve the functioning of the existing European rules on markets in financial instruments and strengthen investor protection, by introducing additional organisational and conduct requirements and increase in transparency. The adoption of MiFID II and MiFIR will give more comprehensive powers to regulators and introduce the possibility of imposing higher fines on financial institutions subject to MiFID II in the event of infringement by such financial institutions of the requirements of such regulations. As MiFID II and MiFIR will significantly extend not only the scope but also the detail of existing regulations, the Group will have to review existing activities and make adjustments where necessary to make sure it remains compliant with MiFID II and MiFIR. The Group will have to provide more information to their customers, such as the cost and charges involved in providing investment services and, as a result, could face significantly higher compliance costs and become subject to increasingly complex requirements and additional legal risk, which could in turn have a material adverse effect on the Group's business, prospects, financial position and/or results of operations, and ability to make payments in respect of the Debt Securities.

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

The Issuer's remuneration policy is determined by the Board of Directors and approved by the AGM.

The Issuer's performance is, to a large extent, dependent on the performance of its senior management and highly skilled employees. The departure of key members of its senior management or employees may significantly delay the attainment of the Issuer's business objectives and could have a material adverse effect on its business, financial condition and results of operations.

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

Damage to the Issuer's image and reputation 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 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 may be impacted by changes in accounting policies or accounting standards and the interpretation of such policies and standards. From time to time the international Accounting Standards Board (the "**IASB**") changes the financial accounting and reporting standards that govern the preparation of the Group's financial statements. In some cases the Group may be required to apply a new or revised standard, or alter the application of an existing standard, retroactively, rendering a restatement of prior period financial statements necessary.

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 comprehensive crime and professional indemnity coverage. Comprehensive crime insurance provides cover for fraud by employees and third parties. It covers financial loss sustained by the Issuer and its subsidiary companies, including those sustained in customer accounts, which are first discovered during the period of the policy, regardless of when the fraudulent acts were committed. In addition, money transportation is insured in accordance with the interests at stake in each instance. Recently, the Issuer has taken out a cyber liability insurance which covers for damages and claim expenses resulting from cyber breaches, as well as possible privacy regulatory actions. 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 the Issuer 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 "*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 "*Description of the Issuer – Litigation*".

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

The 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 (known as "**CRD IV**") comprising Directive (2013/36/EU) and Regulation ((EU) No. 575/2013), for the implementation of the Basel III framework in the European Union (the "**EU**"), and to strengthen the regulation of the banking sector.

The transposition of the CRD IV into Icelandic law is set to take place in separate amendments. The first amendment was introduced on 9 July 2015 by Act No. 57/2015, which amended the Financial Undertakings Act. This amendment includes CRD IV's provisions on capital buffers and adopts a regulation implementing the provisions of the CRR and related technical standards. The second amendment, which was introduced on 1 September 2016, by Act No. 96/2016, and further amended the Financial Undertakings Act, includes CRD IV's provisions on operating licences, initial capital, information obligations, leverage ratios, supervisory review and evaluation process. The third amendment, which was introduced on 9 May 2017 by Act No. 23/2017, further amended the Financial Undertakings Act, includes the CRD IV provision on whistle-blowing. The fourth amendment which was introduced in 2018, by Act No. 54/2018, and further amended the Financial Undertakings Act, includes provisions on supervision on a consolidated basis, prudential requirements on consolidated basis, supervisory collaboration among competent authorities in EU Member States, and rules[7] in respect of large risk

[7] The act changes the definition of large risk exposures and provides the minister with an authorisation to issue a regulation with further rules on large risk exposures

exposure. Furthermore, the Act No. 54/2018 updates the legal basis for implementing Regulation (EU) No. 575/2013, on prudential requirements for credit institutions and investment firms, which was to a large extent implemented into Icelandic law in March 2017 with Regulation No. 233/2017. The bill was passed as law in June 2018. In February 2019 a further amendment to the Financial Undertakings Act, was approved by the Icelandic Parliament, implementing further CRD IV into Icelandic law, cf. Act No. 8/2019, amending the Financial Undertakings Act. The Act No. 8/2019 relates to the number of directorships which may be held simultaneously, as well as further enhancing the duties of auditors under the Financial Undertakings Act. It is anticipated that another bill will be submitted to the Icelandic Parliament during the legislative parliament to further implement CRD IV into Icelandic law.

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. For the forgoing reasons, the Issuer may need to raise additional capital in the future. Such capital, whether in the form of debt financing, hybrid capital or additional equity, may not be available on attractive terms, 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 the BRRD which provides for a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full implementation of the BRRD in Iceland and its impact on the Issuer is currently unclear but the taking of any action under the BRRD following completion of its implementation could materially affect the value of any Debt Securities

On 2 July 2014, Directive 2014/59/EU which provides an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") entered into force. 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 was applied by EU member states from 1 January 2015 and the general bail-in tool (see below) was applied from 1 January 2016. In November 2016, the European Commission published a proposal to amend and supplement certain provisions of the BRRD.

The BRRD was incorporated into the EEA Agreement on 9 February 2018 with decision No. 21/2018 of the EEA Joint Committee. 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 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 (write-down may result in the reduction in value of such claims to zero) and to convert unsecured debt claims to equity or other instruments of ownership (the "general bail-in tool") (subject to certain parameters as to which liabilities would be eligible for the general bail-in tool), which equity or other instruments could also be subject to any future cancellation, transfer or dilution.

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).

In addition to the general bail-in tool, the BRRD allows for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments or other instruments of ownership such as the Subordinated Bonds at the point of non-viability and before any other resolution action is taken ("**non-viability loss absorption**"). Any instruments issued to holders of Subordinated Bond upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

Prior to the implementation of the BRRD in Iceland, Subordinated Bonds may further be subject as directed by the Relevant Resolution Authority to Write-Down upon the occurrence of a Non-Viability Event pursuant to Condition 8 (each of the capitalised terms has the meaning given in Condition 8). Any application of the general bail-in tool under the BRRD shall follow the hierarchy of claims in normal insolvency proceedings. Accordingly, the impact of such application on holders of the Debt Securities will depend on their ranking in accordance with such hierarchy, including any priority given to other creditors such as depositors.

To the extent any resulting treatment of holders of the Debt Securities pursuant to the exercise of the general bail-in tool is less favourable than would have been the case under such hierarchy in normal insolvency proceedings, a holder has a right to compensation under the BRRD based on an independent valuation of the firm (which is referred to as the "no creditor worse off safeguard" under the BRRD). Any such compensation is unlikely to compensate that holder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the Debt Securities. No such hierarchy of claims or compensation may apply in respect of any Write-Down of the Debt Securities pursuant to Condition 8 (Point of Non- Viability Loss Absorption).

Under the BRRD, resolution authorities must set a minimum level of own funds and other eligible liabilities ("**MREL**") for each bank (and/or group) based on criteria including systemic importance. Eligible liabilities may be senior or subordinated provided they have a remaining maturity of at least one year and must be able to be written-down or converted into equity upon application of the general bail-in tool.

On 10 February 2014, a committee was appointed to prepare a draft legislation implementing the BRRD in Iceland. The Ministry of Finance and Economic Affairs decided, in collaboration with the committee, that the BRRD should be implemented into Icelandic laws with more than one bill. The first bill regarding the implementation of the BRRD into Icelandic law was passed as Act. No. 54/2018 in June 2018 amending the Act on Financial Undertaking, and implementing the content of recovery plan, early intervention and intra-group financial support. The aforementioned actions are all subject to the supervision of the FME. It is anticipated that another bill will be submitted to the Icelandic Parliament during this legislative parliament to further implement the BRRD into Icelandic law. As Iceland has not yet implemented the BRRD in full it is currently unclear how such requirements may be applied to Icelandic banks including the Bank in the future. The powers currently set out in the BRRD and under Condition 8 will, in certain circumstances, impact the rights of creditors. If the BRRD is implemented in full into Icelandic law (and before such implementation in the case of any Write-Down pursuant to Condition 8) holders of Debt Securities may be subject to the application of the general bail-in tool and, in the case of Subordinated Bonds, non-viability loss absorption or the Write-Down of such Subordinated Bonds pursuant to Condition 8, as applicable, which may result in such holders losing some or all of their investment (in the case of Subordinated Bonds, see "*Subordinated Bonds may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer*"). Such application of the general bail-in tool could also involve modifications to or the disapplication of provisions in the conditions of the Debt Securities, including alteration of the principal amount or any interest payable on the Debt Securities, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. The exercise or perceived increase in likelihood of exercise of any power under the BRRD, the implementation of any Write-Down pursuant to Condition 8 or any suggestion of such exercise could, therefore, materially adversely affect the rights of Debt Security Holders, the price or value of their investment in any Debt Securities and/or the ability of the Bank to satisfy its obligations under any Debt Securities. Notwithstanding the foregoing, no assurance can be given as to whether and when the BRRD will in full be implemented into Icelandic law. Furthermore, there can be no assurance that, if BRRD is 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, (including without limitation in relation to the OECD's 'Base Erosion and Profit Shifting' Project), 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 the Act on Special Tax on Financial Institutions, No. 155/2010, under which certain types of financial institution, including the Issuer, are required to pay an annual levy of the carrying amount of their liabilities as determined for tax purposes. This levy was originally 0.041 per cent. but in December 2011, a transitional provision was introduced under which financial institutions had to pay an additional 0.0875 per cent. of their tax base as assessed for the years 2012 and 2013. In 2013 the levy was increased and set at 0.376 per cent. of the total debt of the Issuer excluding tax liabilities in excess of ISK 50 billion at the end of the year. This levy has remained unchanged since the year 2014. Non-financial subsidiaries are exempt from this tax. In September 2019 the Minister of Finance and Economic Affairs submitted a bill to the Icelandic Parliament proposing that the levy will be decreased in steps so that it will be 0.318 per cent for 2020, 0.261 per cent for 2021, 0.203 per cent for 2022 and 0.145 per cent thereafter. No assurance can be made that the bill will pass as law. Furthermore, 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 are taxable in Iceland and can be subject to withholding tax at the rate of 12.0 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Icelandic 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 NCSD, Euroclear and Clearstream Luxembourg, 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 the Act on Tax on Financial Activities, No. 165/2011, under which certain types of financial institutions, including the Issuer, were required to pay a special additional tax levied on all remuneration paid to employees, with effect from 1 January 2012. The levy is currently set at 5.5 per cent. of such remuneration. Additionally, Act No. 165/2011 amended Article 71 of the ITA, regarding income tax of legal entities, and imposed a special additional income tax on legal entities liable for taxation according to Article 2 of Act No. 165/2011, which includes the Issuer. The levy is set at 6.0 per cent. on income over ISK 1 billion, disregarding joint taxation and transferable losses.

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, (for example, where 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 may be 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 banks in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation.

FACTORS WHICH 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 including in the case of a Tax Event or (in respect of Subordinated Bonds only) a Capital Event is likely to limit their market value. During any period when the Issuer may elect to redeem Debt Securities, or when the Issuer is perceived by the market to have a redemption right available to it, 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.

Debt Securities issued under the Programme can be linked to the Consumer Price Index which could adversely affect the value of the Debt Securities

Under the Programme the Issuer can issue Inflation linked Equal Principal Payment Bonds and Inflation Linked Annuity Bonds which are indexed to the Consumer Price Index ("**CPI**"). Investment in indexed linked Debt Securities involves the risk that subsequent changes in the CPI may adversely affect the value of the index linked Debt Securities. The historical experience of the CPI should not be viewed as an indicator of the future performance of the CPI.

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

The Issuer may issue Bonds with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Bonds with principal or interest payable in one or more currencies which may be different from the currency in which the Bonds are denominated. Potential investor should be aware that:

(a) The market price for such Bonds may be volatile;

(b) they may receive no interest;

(c) payment of principal or interest may occur at a different time or in a different currency than expected;

(d) they may lose all or a substantial portion of their principal;

(e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(f) if a Relevant Factor is applied to Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and

(g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the possible effect on yield.

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

Bonds which are issued with variable interest rates or which are structured to include a multiplier or other leverage factor, are likely to be more volatile than standard securities

Bonds with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features and, as a consequence, could drop further in value.

The Issuer's obligations under Subordinated Bonds are subordinated. An investor in Subordinated Bonds assumes an enhanced risk of loss in the event of the Issuer's insolvency

The Issuer's obligations under Subordinated Bonds will be unsecured and subordinated.

On a liquidation, dissolution or winding-up of, or analogous proceedings over the Issuer by way of exercise of public authority (referred to herein as a "winding-up of the Issuer"), all claims in respect of the Subordinated Bonds will rank *pari passu* without any preference among themselves, at least *pari passu* with present or future claims in respect of Parity Securities (as defined in Condition 3.2 (Status of the Debt Securities-Subordinated Bonds)), in priority to any present or future claims in respect of Junior Securities (as defined in Condition 3.2 (Status of the Debt Securities-Subordinated Bonds)) and junior to any present or future claims in respect of Senior Creditors (as defined in Condition 3.2 Status of the Debt Securities-Subordinated Bonds). If, on a winding-up of the Issuer, the assets of the Issuer are insufficient to enable the Issuer to repay the claims of the Senior Creditors in full, the Debt Security Holders will lose their entire investment in the Subordinated Bonds. If there are sufficient assets to enable the Issuer to pay the claims of Senior Creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Subordinated Bonds and all other claims of Parity Securities, Debt Security Holders will lose some (which may be substantially all) of their investment in the Subordinated Bonds.

There is no restriction on the amount of securities or other liabilities that the Issuer may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Subordinated Bonds. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Debt Security Holder during a winding-up of the Issuer and may limit the Issuer's ability to meet its obligations under the Subordinated Bonds.

Although Subordinated Bonds may pay a higher rate of interest than comparable Debt Securities which are not subordinated, there is a significant risk that an investor in such Debt Securities will lose all or some of his or her investment should a winding-up of the Issuer occur.

Subordinated Bonds may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Issuer

In addition to the application of the general bail-in tool to Subordinated Bonds (see "*The Council of the European Union has adopted the BRRD which provides for a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the BRRD in Iceland and its impact on the Issuer is currently unclear but the taking of any action under the BRRD following its implementation could materially affect the value of any Debt Securities*"), the BRRD and the terms of the Subordinated Bonds contemplate that Subordinated Bonds may be subject to non-viability loss absorption. As a result, resolution authorities may require the permanent write-down of capital instruments such as Subordinated Bonds (which write-down may be in full) or the conversion of them into equity capital at the point of non-viability and before any other resolution action is taken. Prior to the implementation of the BRRD in Iceland, such non-viability loss absorption is provided for in Condition 8 (Point of Non-Viability Loss Absorption) of the Debt Securities.

While any such write-down or conversion pursuant to non-viability loss absorption under the BRRD shall be in accordance with the hierarchy of claims in normal insolvency proceedings, even if grounds for compensation could be established, compensation may not be available under the BRRD to any holders of capital instruments subject to any write-down or conversion and even if available would only take the form of shares in the Issuer.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution (**or the group, as the case may be**) meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the Subordinated Bonds) are written down or converted into equity or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution or the group as the case may be) would no longer be viable. With respect to the Issuer this is further reflected in the definition of: Non-Viability Event" under Condition 8 (Point of Non-Viability Loss Absorption).

The occurrence of a Non-Viability Event or the application of the general bail-in tool or any non-viability loss absorption measure pursuant to any Applicable Statutory Loss Absorption Regime (including the BRRD) or Condition 8 (Point of Non-Viability Loss Absorption) of the Subordinated Bonds may result in Debt Security Holders losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the rights of Debt Security Holders, the price or value of Subordinated Bonds issued under the Programme and/or the ability of the Issuer to satisfy its obligations under Subordinated Bonds.

There are limited enforcement events in relation to Subordinated Bonds

Each Series of Subordinated Bonds will contain limited enforcement events relating to:

(i) non-payment by the Issuer of any amounts due under the relevant Series of Subordinated Bonds. In such circumstances, as described in more detail in Condition 11.2 (Enforcement events Subordinated Bonds), a Debt Security holder may institute proceedings in Iceland in order to recover the amounts due from the Issuer to such Debt Security Holder; and

(ii) the liquidation or bankruptcy of the Issuer. In such circumstances, as described in more detail in Condition 11.2 (Enforcement Event- Subordinated Bonds), the relevant Series of Subordinated Bonds will become due and payable at their outstanding principal amount, together with accrued interest thereon. A Debt Security Holder may not itself file for the liquidation or bankruptcy of the Issuer. As such, the remedies available to holders of Subordinated Bonds are more limited than those typically available to holders of senior ranking securities (such as the Unsubordinated Debt Securities), which may make it more difficult for Subordinated Debt Security holders to take enforcement action against the Issuer.

Subordinated Bonds: Call options are subject to the prior consent of the FME

Subordinated Bonds may also contain provisions allowing the Issuer to call them, in certain instances, only after a minimum period of five years. To exercise such a call option, the Issuer must obtain prior written consent of the FME as provided in Condition 7.15 (FME Approval).

Holders of Subordinated Bonds have no rights to call for the redemption of Subordinated Bonds and should not invest in such Debt Securities in the expectation that such a call will be exercised by the Issuer. The FME must agree to permit such a call, based upon its evaluation of the regulatory capital position of the Issuer and certain other facts at the relevant time. There can be no assurance that the FME will permit such a call. Holders of Subordinated Bonds should be aware that they may be required to bear the financial risks of an investment in Subordinated Bonds for a period of time in excess of the minimum period. See also "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" above.

In certain circumstances, the Issuer can substitute or vary the terms of Subordinated Bonds

Where the applicable Final Terms specify that Condition 7.14 (Substitution or Variation- Subordinated Bonds) applies, if at any time a Capital Event or a Tax Event occurs, the Issuer may, subject to obtaining the prior written consent of the FME, either substitute all, but not some only, of the relevant Subordinated Bonds for, or vary the terms of the relevant Subordinated Bonds, as the case may be, so that they remain or, as appropriate, become, Qualifying Securities (as defined in Condition 7.14, Substitution or Variation- Subordinated Bonds) as further provided in Condition 7.14. The terms and conditions of such substituted or varied Subordinated Bonds may have terms and conditions that contain one or more provisions that are substantially different from the terms and conditions of the original Subordinated Bonds, provided that the relevant Subordinated Bonds remain or, as appropriate, become, Qualifying Securities in accordance with the Terms and Conditions of the Debt Securities. While the Issuer cannot make changes to the terms of Subordinated Bonds that, in its reasonable opinion, are materially less favourable to the holders of the relevant Subordinated Bonds as a class, no assurance can be given as to whether any of these changes will negatively affect any particular holder. In addition, the tax and stamp duty consequences of holding or disposing of such substituted or varied Subordinated Bonds could be different for some categories of Debt Security Holders from the tax and stamp duty consequences for them of holding or disposing of the Subordinated Bonds prior to such substitution or variation.

The obligation of the Issuer to pay additional amounts in respect of any withholding or deduction of taxes is limited to payments of interest under the Subordinated Bonds

The obligation of the Issuer to pay additional amounts in respect of any withholding or deduction of taxes imposed under the laws of Iceland under the Conditions apply only to payments of interest and not to payments of principal due under the Subordinated Bonds. As such, the Issuer is not required to pay any additional amounts under Condition 9 (Taxation) of the Terms and Conditions of the Debt Securities to the extent any withholding or deduction applies to payments of principal under the Subordinated Bonds. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Subordinated Bonds, the holders of such Subordinated Bonds may receive less than the full amount due thereunder. There is some risk under Icelandic law that withholding or deduction in respect of principal could apply on account of any currency gains deemed to have arisen when such principal is measured in ISK.

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 Unsubordinated Debt Securities issued by the Issuer are subordinated to the claims of certain depositors, and will therefore rank behind certain depositors of the Issuer upon the occurrence of a winding-up or insolvency of the Issuer. 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. In the case of Subordinated Bonds, the claims of the Subordinated Bonds are subordinated to the claims of the depositors of the Issuer in accordance with Condition 3.2 (Status of the Subordinated Bonds) and will therefore also rank behind the depositors of the Issuer upon the occurrence of a winding up or insolvency of the Issuer. See also (*"The Issuer's obligation under Subordinated Bonds will be unsecured and subordinated*")

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.

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. There can be no assurance that the Debt Securities will be sufficient to pay in full the amounts payable under the Debt Securities programme.

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 9 (Taxation)*. If withholding or deduction arises as a result of one of the circumstances described in paragraphs (a) to (d) of Condition 9, 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 (d) of Condition 9 addresses Article 3 of the ITA, which states that any interest received from Iceland (outbond payments), such as the interest payable to holders of Debt Securities by any person or entity residing outside of Iceland is taxable income in Iceland. According to Article 70 (8) of the ITA, the current tax rate on taxable income under Article 3 (8) is (a) 12 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 150,000); and (b) 12 per cent. for legal entities, unless the issue is exempt on the grounds that the Debt Securities are registered with a securities depository within the EEA or OECD and has been registered as such. Further exemptions are available to the relevant Debt Security Holders in their home countries or under a double taxation treaty with Iceland.

In April 2013 the Icelandic Parliament adopted an amendment to Article 3(8) of the ITA exempting from taxation the interest earned on income by non-domestic entities, from certain debt instruments issued by financial institutions. This exemption includes bonds registered with a securities depository within the EEA or OECD such as those issued under this programme. The exemption is subject to confirmation from the Directorate of Internal Revenue (*Ice. Ríkisskattstjóri).* See further *"Taxation - Non Icelandic Tax Residents"*.

U.S. Foreign Account Tax Compliance Withholding

Whilst the Debt Securities are held within Euroclear, Clearstream or NCSD ("**ICSD**"), in all but the most remote circumstances, it is not expected that the Foreign Account Tax Compliance Act ("**FATCA**"), will affect the amount of any payment received by the ICSDs. 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. Debt Security Holders should choose their 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. The Issuer's obligations under the Debt Securities are discharged once it has made payment to, as to the order of, the common depositary or the common safekeeper for the ICSDs, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intra-governmental agreement with the United States ("**IGA**") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

FATCA is particularly complex and its application is uncertain at this time. 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. Prospective investors should refer to the section ("*Taxation – FATCA withholding").*

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 NCSD 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 NCSD 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 Debt Securities in denominations that are not an integral multiple of the Specified Denomination may be adversely affected if definitive Debt Securities are subsequently required to be issued

In relation to any issue of Debt Securities 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 Debt Securities 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 Debt Securities 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 Debt Securities in definitive form ("**Definitive Debt Securities**") in respect of such holding (should Definitive Debt Securities be printed) and would need to purchase a principal amount of Debt Securities such that its holding amounts to a Specified Denomination.

If such Debt Securities in definitive form are issued, Debt Security Holders should be aware that Definitive Debt Securities 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 9 (Taxation) in such circumstances to cover any resulting amounts deducted.

Reliance on Euroclear and Clearstream procedures

Debt Securities (other than the NCSD 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 Debt Securities (other than the NCSD System Debt Securities) 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 (other than the NCSD System Debt Securities) are represented by Global Bonds, the Issuer will discharge its payment obligation under the Debt Securities 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.

Floating Rate Debt Securities referencing or linked to benchmarks

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate ("**LIBOR**") and the Euro Interbank Offered Rate ("**EURIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Debt Securities referencing or linked to such Benchmark.

In 2012, a review, undertaken at the request of the UK government, on the setting and usage of LIBOR, resulted in an initiative to devise new methodologies for determining representative inter-bank lending rates and, ultimately, so called 'risk free' rates that may be used as an alternative to LIBOR in certain situations.

Following this review, the International Organisation of Securities Commissions ("**IOSCO**") created a task force to draft principles to enhance the integrity, reliability and oversight of Benchmarks generally. This resulted in publication by the Board of IOSCO, in July 2013, of nineteen principles which are to apply to Benchmarks used in financial markets (the "**IOSCO Principles**"). The IOSCO Principles provide an overarching framework for Benchmarks used in financial markets and are intended to promote the reliability of Benchmark determinations and address Benchmark governance, quality and accountability mechanisms. The Financial Stability Board ("**FSB**") subsequently undertook a review of major interest rate Benchmarks and published a report in 2014, outlining its recommendations for change, to be implemented in accordance with the IOSCO Principles. In addition, in June 2016, the Benchmark Regulation came into force. The Benchmark Regulation implements a number of the IOSCO Principles and the majority of its provisions applied from 1 January 2018.

In a speech on 27 July 2017, Andrew Bailey, the Chief Executive of the FCA, questioned the sustainability of LIBOR in its current form, and advocated a transition away from reliance on LIBOR to alternative reference rates.

He noted that currently there is wide support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA's intention that it will not be necessary to sustain LIBOR through its influence or legal powers by persuading or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed.

Any changes to the administration of LIBOR or the emergence of alternatives to LIBOR as a result of these reforms, may cause LIBOR to perform differently than in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of LIBOR or changes to its administration could require changes to the way in which the rate is calculated in respect of any Debt Securities referencing or linked to LIBOR. The development of alternatives to LIBOR may result in Debt Securities linked to or referencing LIBOR performing differently than would otherwise have been the case if such alternatives to LIBOR had not developed. Any such consequence could have a material adverse effect on the value of, and return on, any Debt Securities referencing or linked to LIBOR.

Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such Benchmark may adversely affect such Benchmark during the term of the relevant Debt Securities, the return on the relevant Debt Securities and the trading market for securities based on the same Benchmark.

The "Terms and Conditions of the Debt Securities" provide for certain fallback arrangements in the event that a published Benchmark, including an inter-bank offered rate such as LIBOR, EURIBOR or other relevant reference rates (including, without limitation, mid-swap rates), (including any page on which such Benchmark may be published (or any successor service)) becomes unavailable or a Benchmark Event otherwise occurs, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative reference rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant Benchmark, all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser). In certain circumstances the ultimate fallback for the purposes of calculation of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Debt Securities based on the rate which was applied in respect of a previous Interest Period, the application of the relevant Rate of Interest for a preceding Reset Period. The Issuer will not, however, be required to replace any benchmark or make consequential amendments to the Terms and Conditions of any Debt Securities in circumstances where it considers that doing so could reasonably be expected to prejudice the qualification of any of its Subordinated Bonds as Tier 2 Capital.

In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the trading market for, liquidity of, value of and return on any such Debt Securities. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Debt Securities or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Debt Securities. Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Debt Securities.

Risks related to the market generally

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

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.

The Debt Securities have not been, and will not be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof, (as set forth under "*Selling Restrictions*").

Lack of liquidity in the secondary market may adversely affect the market value of the Debt Securities

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.

Exchange rate and exchange control

The issuer will pay principal and interest on the Debt Securities in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency). An appreciation in the value of the investor's Currency relative to the Specified Currency would decrease, i. the Investor's Currency-equivalent yield on the Debt Securities, ii. the Investor's Currency-equivalent value of the principal payable on the Debt Securities; and iii. the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Debt Securities. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Exchange rate risk will be mitigated by the use of the Currency Swaps and by matching interest rate flow with the maturity of loan and other assets of the Issuer.

Investor holding Debt Securities which are not denominated in the investor´s home currency will be exposed to movements in exchange rate adversely affecting the value of his holding.

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

Investment in Fixed Rate Bonds involves the risk that, if market interest rates subsequently increase above the rate paid on the Fixed Rate Bonds, this will adversely affect the value of the Fixed Rate Bonds."

Trading in 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 assigned to the Issuer or any Debt securities may not reflect all the 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 may not reflect all risks associated with an investment in the Debt Securities and 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. Certain information with respect to the credit rating agencies and ratings will be disclosed in the Final Terms.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent (1) Debt Securities are legal investments for it, (2) Debt Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Debt Securities. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Debt Securities under any applicable risk-based capital or similar rules.

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 and 8 December 2016. In addition, update of the Programme and the issue of Debt Securities was duly authorised by a resolution of the Board of Directors of the Issuer on the 24 October 2019.

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 50,000,000,000 (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 Chief Executive Officer and Chief Financial Officer 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, 8 November 2019

On behalf of Landsbankinn hf.	On behalf of Landsbankinn hf.
Lilja Björk Einarsdóttir	Hreiðar Bjarnason
Chief Executive Officer	Chief Financial Officer

STATUTORY AUDITOR

The National Audit Office, Skúlagata 57, 105 Reykjavík, Iceland, has been the Issuer's statutory auditor for the financial years 2017, 2018 and for the nine months ended 30 September 2019. The National Audit Office has outsourced the audit of the Issuer for the financial years 2015-2020 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.

DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference. This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus. The following information, which has been published on the Issuer's website or are published simultaneously with this Base Prospects and have been filed with the FME and shall be incorporated by reference in, and form a part of this Base Prospectus.

- The reviewed Condensed Consolidated Interim Financial Statements of the Issuer for the nine months ended 30 September 2019, together with the review report thereon:
  https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=907965&lang=en

- The audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2018, together with the audit report thereon;
  https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=874098&lang=en

- The audited Consolidated Financial Statements of the Issuer for the financial year ended 31 December 2017, together with the audit report thereon;
  https://newsclient.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=823806&lang=en

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 and at the Issuer's registered office at Austurstræti 11, 155 Reykjavík, Iceland:

- The Issuer's Articles of Association.
- This Base Prospectus, dated 8 November 2019
- The Audited Consolidated Financial Statements of the Issuer for the years 2017 and 2018 together with the audit reports prepared therewith and the Reviewed Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 2019, together with the review report 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.
- Series of Debt Securities issued under the Programme have been admitted to trading on a regulated market of Nasdaq Iceland.
- 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 ("**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.
- 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. 140/2018 on Actions to Combat Money Laundering and Terrorist Financing.
Act on Financial Undertakings	Act No. 161/2002 on Financial Undertakings.
AGM	Annual General Meeting.
API	Application Program Interface
AT1	Additional Tier 1.
Bankruptcy Act	Bankruptcy Act No. 21/1991.
Base Prospectus	This Base Prospectus dated 8 November 2019 and issued by Landsbankinn.

Basel III	Amendments to the Basel Committee on Banking supervision´s framework.
Basel Committee	The Basel Committee on Banking Supervision.
BRRD	Bank Recovery and Resolution Directive (EU), No 59/2014 (as amended).
CA	Current Account
Capacent	Capacent ehf., Reg. No. 550910-0630, Borgartún 27, 105 Reykjavík, Iceland.
Central Bank	The Central Bank of Iceland.
CEO	Chief Executive Officer.
CET1	Common Equity Tier 1
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 (as amended).
CRM	Customer Relationship Management.
CRR	Capital Requirements Regulation (EU) No. 575/2013 (as amended).
EAD	Exposure of Default.
ECL	Expected Credit Loss.
ECOFIN	Economic and Financial Affairs.
EDW	Enterprise Data Warehouse.
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.
Emergency Act	Act No. 125/2008, on the Authority for Treasury Disbursements Due to Special Financial Market Circumstances etc (as amended).
Employee Shareholders	Current and former employees of the Issuer that are shareholders in the Issuer.
EMTN	Euro Medium Term Note
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.

FME	Financial Supervisory Authority, Iceland.
Foreign Exchange Act	The Act on Foreign Exchange No. 87/1992 (as amended).
FSC	Financial Stability Counsel
GDP	Gross Domestic Product.
Group	Landsbankinn hf., Reg. No. 471008-0280, having its registered office at Austurstræti 11, 155 Reykjavík, Iceland including its subsidiaries.
HFF	Icelandic Housing Financing Fund.
HR	Human resources.
ICAAP	Internal Capital Adequacy Assessment Process.
Ice.	Icelandic.
Iceland	Republic of Iceland.
ICT	Information and Communication Technology.
IGA	Jurisdictions (including Iceland) that have entered into, or have agreed in substance to intergovernmental agreements with the United States to improve International Tax Compliance and to implement FATCA.
IFRS	International Financial Reporting Standards.
IRB	Internal Rating Based.
IRS	The U.S. Internal Revenue Service.
ISFI	The Icelandic State Financial Investments.
ISDA	International Swaps and Derivatives Association.
IT	Information Technology.
ITA	The Income Tax Act No. 90/2003, (as amended).
ITIL	The Information Technology Infrastructure Library.
LBI ehf.	LBI ehf., formerly Landsbanki Íslands hf., Reg. No. 540291-2259, Ármúla 21, 108 Reykjavík Iceland.
LCR	Liquidity Coverage Ratio.
LGD	Loss Given Default.
MiFID	Markets in Financial Instruments Directive No. 2004/39/EC.
MiFiD II	Markets in Financial Instruments Directive No. 2014/65/EC.
MiFIR	Regulation on Markets in Financial Instruments No. 600/2004 as amended).
MREL	Minimum Requirement for own fund and Eligible Liabilities.
NSFR	Net Stable Funding Ratio.

OECD	Organisation for Economic Co-operation and Development.
PD	Probability of Default.
PMO	Project Management Framework.
PPP	Purchasing power parity.
PSD2	Revised Payment Service Directive No. 2015/2366, (as amended).
REA	Risk Exposure Amount.
Rules on Foreign Exchange	The Central Bank's Rules on Foreign Exchange, No. 200/2017 (as amended).
Rules on Foreign Exchange Balances	The Central Bank's Rules on Foreign Exchange Balances No. 784/2018, (as amended).
Rules on Liquidity Ratios	The Central Bank's Rules on liquidity Ratios, No. 266/2017 (*Ice.* "*Reglur um lausafjárhlutfall lánastofnanna, nr. 266/2017*"), (as amended).
S&P	International rating agency Standard & Poor's.
SME	Small and Medium sized Enterprises.
Special Reserve Requirements Rules	Rules on Special Reserve Requirements for new foreign currency inflows, No. 223/2019, (as amended).
Special Tax on Financial Institutions	Act on Special Tax on Financial Institutions, No. 155/2010 (as amended).
SREP	Supervisory Review and Evaluation Process.
Supreme Court	The Supreme Court of Iceland.
TPP	Third party payment service provider.
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 [50,000,000,000]

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 8 November 2019 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.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.*]

[*When adding any other final terms or information consideration should be given as to whether such terms or information constitutes "significant new factors" and consequently triggers the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*]

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 Debt Securities 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 a 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:	[*specify*/Issue Date/Not Applicable]
8.	**Maturity Date:**	[*Specify date or (for Floating Rate Debt Security)* Interest Payment Date falling in or nearest to [*specify month and year*]]
9.	**Interest Basis:**	[Inflation Linked Interest] [[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR/REIBOR/*specify other*] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Not Applicable/*specify other*] (see paragraph [17]/[18]/[19]/[20]/[21]/[22] below)
10.	**Redemption/Payment basis:**	[Subject to any purchase or cancellation or early redemption, the Debt Securities will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount] [*specify other*]
11.	**Change of interest basis or redemption/Payment basis:**	[For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [19/20] applies and for the period from (and including) [date],

		up to (and including) the Maturity Date, paragraph [19/20] applies][*Specify other*][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:** *(If Subordinated Bonds include:)*	[Unsubordinated/Subordinated]
	(i) Redemption upon occurrence of Capital Event:	[Applicable-Condition 7.13 applies/Not Applicable]
	(ii) Substitution or variation:	[Applicable-Condition 7.14 applies/Not Applicable]
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:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
	ii. Number of Interest Payment Dates:	[ ]
	iii. Interest Payment Date(s):	The [[ ] 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/*Specify other*]

	vi.	Day Count Fraction:	[30/360/Actual/Actual (ICMA)/[*Specify other*]]
	vii.	Base Index	means [*to be inserted*], being the value of the CPI on [*to be inserted*]

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

18.	**Inflation Linked Equal Principal Payment Bonds:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	i.	Rate(s) of Interest:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
	ii.	Number of Interest Payment Dates:	[ ]
	iii.	Interest Payment Date(s):	The [[ ] 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/*Specify other*]
	vi.	Day Count Fraction:	[30/360/Actual/Actual (ICMA)/[*Specify other*]]
	vii.	Base Index:	means [*to be inserted*], being the value of the CPI on [*to be inserted*]

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:	[ ] per cent. per annum [payable[annually/semi-annually/quarterly] in arrears]
	ii.	Interest Payment Date(s):	The [[ ] 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.	Fixed Coupon Amount(s):	[ ] per Calculation Amount/[Not Applicable] *(Applicable to Debt Securities in definitive form)*

	iv.	Broken Amount (s):	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable] *(Applicable to Debt Securities in definitive form)*
	v.	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)] [*Specify other*]
	vi.	Determination Date(s):	[[ ] in each year][Not Applicable] *Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*
	vii.	Other terms relating to the method of calculating interest for Fixed Rate Bonds:	[None/*give details*]
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.	Party responsible for calculating the Rate of Interest and Interest Amount (if not Fiscal Agent):	[Specify/Not Applicable]
	vi.	Screen Rate Determination	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
		i. Reference Rate:	[ ] Reference Rate: [ ] month [LIBOR/EURIBOR/REIBOR/*specify other/Not Applicable*] (*Either LIBOR, EURIBOR, REIBOR or other, although additional information is required if other*)
		ii. Interest Determination Date(s):	[[ ]/Not Applicable] (*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 Reykjavík Business Day of each interest period if REIBOR
		(NB: Specify the Interest Determination Date(s))
iii.	Relevant Screen Page:	[[ ]/Not Applicable]
		(Give details)
vii.	ISDA Determination:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining subparagraphs of this paragraph*)
iv.	Floating Rate Option:	[[ ]/Not Applicable]
v.	Designated Maturity:	[[ ]/Not Applicable]
vi.	Reset Date:	[[ ]/Not Applicable]
		(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
viii.	Other determination:	[Applicable/Not Applicable]
		(*If applicable, give details*)
ix.	Linear Interpolation:	[Not Applicable/Applicable-the Rate of interest for the [long/short][first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
x.	Margin(s):	[+/-] [ ] per cent. per annum/Not Applicable
xi.	Minimum Rate of Interest:	[[ ] per cent. per annum/Not Applicable]
xii.	Maximum Rate of Interest:	[[ ] per cent. per annum/Not Applicable]
xiii.	Day Count Fraction:	[[30/360] [Actual/Actual (ISMA)] [*Specify other*]/Not Applicable]
xiv.	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]
xv.	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:	Issue 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.	**Commercial Paper Provisions:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	i.	Discount yield:	[ ] per cent. per annum equivalent to [ ] per cent. simple interest
	i.	Reference Price:	[Issue Price/*specify other*]
	ii.	Any other formula/basis of determining amount payable:	[Not Applicable/*specify other*]
	iii.	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 Securities and method, if any, of calculation of such amount(s):	[[ ] per Debt Security of [ ] Specified Denomination] [Condition 7.8 applies] [[ ] per Calculation Amount] [*Specify formula*]
	iii.	If redeemable in part:	[Applicable/Not Applicable] (*If not applicable, delete the remaining Subparagraphs of this paragraph*)
		a) Minimum Redemption Amount:	[ ]
		b) Maximum Redemption Amount:	[ ]

	iv. Notice period:	Minimum period: [ ] days Maximum period: [ ] days (*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent (as the case may be)*)
24.	**Investor Put:**	[Applicable/Not Applicable] (*Only applicable to Unsubordinated Debt Securities. If applicable specify details)*
25.	**Final Redemption Amount of each Debt Security:**	[ ] per Calculation Amount *(N.B. Except in the case of Zero Coupon Debt Securities where a Redemption/Payment Basis other than 100 per cent. of the nominal amount has been specified, the Final Redemption Amount shall be equal to 100 per cent. of the Calculation Amount per Calculation Amount*)
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/NCSD 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]] [Global Certificate ([ ] nominal amount) registered in the name of a common depositary 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.

	– If syndicated, names of Managers:	[Not Applicable/*give names*]
	– Stabilizing Manager (if any):	[Not Applicable/*give names*]
36.	**If non-syndicated, name of relevant Dealer**	[ ]
37.	**US. selling restrictions:**	Reg. S. Compliance Category [2]; [TEFRA C]/[TEFRA D]/[TEFRA not applicable]
38.	**Additional selling restrictions:**	[Not Applicable/*give details*]

LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required for the Debt Securities described herein ***to be [listed and] admitted to trading*** pursuant to the ISK 50,000,000,000 Debt Securities Programme of Landsbankinn hf. [*Specify other*]

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

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]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Debt Securities of this type issued under the Programme generally]: [*insert details*]] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. [Each of [i*nsert legal name of relevant credit rating agency entity providing rating*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**").] [*Insert legal name of relevant credit rating agency entity providing rating*] is not established in the EU but the rating it has given to the Debt Securities is endorsed by [*insert legal name of credit rating agency*], which is established in the EU and registered under Regulation (EC) No 1060/2009 (the "**CRA Regulation**").] [*Insert legal name of relevant credit rating agency entity providing rating*] is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the "**CRA Regulation**"). [*Insert legal name of relevant credit rating agency entity providing rating*] is not established in the EU and is not certified under Regulation (EC) No 1060/2009 (the "CRA Regulation") and the rating it has given to the Debt Securities is not endorsed by a credit rating agency under Regulation (EC) No 1060/2009 (the "**CRA Regulation**"). ***(****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/*specify other*] [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

– Use of proceeds:	[For general funding purposes of the Issuer/*specify other*]
– Estimated net proceeds:	[ ]
– Estimated total expenses:	[ ]

6. YIELD *(Fixed Rate Debt Securities only)*

Indication of yield:	[ ] per cent. per annum *(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)*/NCSD. The Issuer shall be entitled to obtain certain information from the register maintained by the NCSD for the purpose of performing its obligations under the issue of NCSD System Debt Securities. The NCSD 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 NCSD.]
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 Debt Securities are intended upon issue to be deposited with Euroclear or Clearstream as common safekeeper and does not necessarily mean that the Debt Securities 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 have been met]./[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Debt Securities are capable of meeting them the Debt Securities may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Debt Securities will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that the Eurosystem eligibility criteria have been met.]*

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 mean:

(a) in relation to any Debt Securities represented by 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 Nasdaq CSD Iceland (the "**NCSD System Debt Securities**" and the "**NCSD**" respectively) or any other clearing system as decided by the Issuer (together 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 NCSD 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 NCSD or VP Lux. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the relevant Member State.

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 Debt Securities including Commercial Paper and 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 NCSD or VP Lux as the holders of the Debt Securities (in the case of VS System Debt Securities), and shall, in relation to any Bond represented by a Global Bond and any VS System 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, 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 9 (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 9 (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 Commercial Paper, 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.

2010 PD Amending Directive	Directive 2010/73/EU, amending the Prospectus Directive (Directive 2003/71/EC).
Accrual Period	In accordance with Condition 5.7(c)(i), the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date.
Accrual Yield	In relation to Zero Coupon Bonds, the meaning given in the applicable Final Terms.
Act on Securities Transactions	The Icelandic Act on Securities Transactions No. 108/2007 which came into effect 1 November 2007, as amended (*Ice. "Lög um verðbréfaviðskipti 108/2007"* (as amended).
Additional Business Centre	The meaning (if any) given in the applicable Final Terms.
Additional Financial Centre	The meaning (if any) given in the applicable Final Terms.
Agency Agreement	Shall mean the agency agreement (if any) to be entered into between the Issuer, Fiscal Agent and other agents.
Amortised Face Amount	The meaning given in Condition 7.8(b).
Annuity Amount	The meaning given in Condition 6.1(a).
Annuity Bonds	Bonds which will be redeemed in Annuity Amounts (subject to adjustment for indexation in accordance with the provisions specified in the applicable Final Terms) on one or more Interest Payment Dates as specified in the applicable Final Terms.
Applicable Final Terms	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.
Base Index	Means the index value defined in the applicable Final Terms, being the value of the CPI on the date defined in the applicable Final Terms.
Bearer Bonds	Bonds issued in bearer form.

Benchmark Discontinuation	In the case of Floating Rate Bonds, if the Issuer determines that a Benchmark Event has occurred, the relevant benchmark or screen rate may be replaced by a Successor Rate or, if there is no Successor Rate but the Issuer determines there is an Alternative Rate (acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser), such Alternative Rate. An Adjustment Spread may also be applied to the Successor Rate or the Alternative Rate (as the case may be), together with any Benchmark Amendments (which in the case of any Alternative Rate, any Adjustment Spread unless formally recommended or provided for and any Benchmark Amendments shall be determined by the Issuer, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser). This is further described in Condition 5.8 (Benchmark Discontinuation).
Bonds	Debt Securities bearing interest, but not excluding Zero Coupon Bonds, issued or to be issued by the Issuer under the Programme.
Business Day	The meaning in Condition 5.7(a).
Business Day Convention	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 5.7(b).
Calculation Agent	The meaning (if any) given in the applicable Final Terms.
Clearstream	Clearstream Banking société anonyme, 42 Avenue JF Kennedy, L-1855, Luxembourg, or its successors.
Code	The United States Internal Revenue Code of 1986, as amended.
Commercial Paper	Debt Securities that are offered and sold at a discount to their nominal amount and will not bear interest. Commercial Paper will have a maximum final maturity of 13 months when issued. Commercial Paper will only be issued in uncertificated book entry form cleared through the NCSD, VP LUX or any other clearing system as decided by the Issuer and will be in dematerialised form, Commercial Paper will not be issued in definitive form nor in subordinated form.
Common Depositary	The common depositary for Euroclear and Clearstream or its successors.
Common Safekeeper	The common safekeeper for Euroclear and Clearstream or its successors.
Couponholders	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons).

Coupons	Interest coupons expressing the amount payable by way of interest in respect of Definitive Bonds.
CPI	The consumer price indexation, as calculated by Statistics Iceland in accordance with Act on Price Indexation No. 12/1995 (*Ice.* "*Lög um vísitölu neysluverðs nr. 12/1995"*) and published monthly in the Legal Gazette in Iceland (*Ice. "Lögbirtingablaðið"*) or its successors.
Day Count Fraction	The meaning given in Condition 5.7(c).
Dealer	Any dealer appointed by the Issuer (if any).
Debt Securities	Debt securities issued or to be issued by the Issuer under the Programme, including Bonds and Commercial Paper. All Debt Securities issued under the Programme may be issued in uncertificated and dematerialised book entry form cleared through the Nasdaq CSD Iceland ("**NCSD System Debt Securities**" and the "**NCSD**" respectively) or any other clearing system as decided by the Issuer (together "**VS System Debt Securities**"). Additionally, Bonds issued under the Programme may be issued in bearer form ("**Bearer Bonds**") or registered form ("**Registered Bonds**") and they are either unsubordinated or subordinated.
Definitive Bonds	Debt Securities in definitive form, bearing interest, but not excluding Zero Coupon Bonds, issued or to be issued by the Issuer under the Programme.
Designated Account	Means the account maintained by a holder with a Designated Bank and identified as such in the Registered Bond Register.
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.
Designated Maturity	The meaning given in the ISDA Definitions.
Determination Date	The meaning given in the applicable Final Terms.
Determination Period	The meaning given in Condition 5.7(d).
Directors	The directors for the time being of the Issuer as defined in the Icelandic Act No. 2/1995, on Limited Liability Companies (*Ice. "Lög um hlutafélög nr. 2/1995"*).
Discount Yield	In relation to Commercial Paper, the meaning given in the applicable Final Terms.
Distribution Compliance Period	The period that ends 40 days after completion of the distribution of each Tranche of Debt Securities, as certified by the relevant Dealer.
Early Redemption Amount	The amount calculated in accordance with Condition 7.8.

Equal Payment Amount	The meaning given in Condition 6.1(b).
EU	The European Union.
EURIBOR	Euro-zone inter-bank offered rate.
Euroclear	Euroclear Bank S.A./N.V., 1, Boulevard du Roi Albert II B - 1210 Brussels, Belgium, or its successors.
Exchange Date	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.
Exchange Event	The meaning given in Condition 2 (Form, Denomination and Title) in the section on Bearer Bonds.
Exchange Notice	The meaning given in Condition 4. (iv).
Final Redemption Amount	The meaning given in the applicable Final Terms.
Final Terms	Each Tranche will be the subject to the Final Terms which, for the purposes of that Tranche only, completes the Terms and Conditions of the 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.
Financial Indebtedness	As defined in Condition 11 of the Terms and Conditions.
Fiscal Agent	Landsbankinn hf., or any successor agent appointed as such.
Fixed Rate Bonds	Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer 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.
Floating Rate	The meaning given in the ISDA Definitions.
Floating Rate Convention	The meaning given in Condition 5.7(b)(i).
Floating Rate Bonds	Bonds which bear interest at a rate determined: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

(iii) on such other basis as may be agreed between the Issuer and the relevant Dealer, or as set out in the applicable Final Terms.

FME	The Financial Supervisory Authority, Iceland (*Ice. “Fjármálaeftirlitið”*).
Following Business Day Convention	The meaning given in Condition 5.7(b)(ii).
Global Bonds	Bonds (other than NCSD System Debt Securities) issued under the Programme that may be represented on issue by one or more bonds representing the whole principal amount of the issuance. While in global form the bond can be a Temporary Bearer Global Bond or a Permanent Bearer Global Bond.
Global Certificate	Registered Bonds held in a clearing system in the form of a single certificate representing the whole principal amount of the issuance offered and sold in reliance on Regulation S.
IIA	Institute of Internal Auditors.
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.
Inflation Linked Annuity Bonds	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.
Inflation Linked Equal Principal Payment Bonds	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.
Instalment Amounts	In respect of Instalment Bonds, each amount specified as such in the applicable Final Terms.
Instalment Bonds	Bonds which will be redeemed in Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.
Instalment Dates	In respect of Instalment Bonds, each date specified as such in the applicable Final Terms.
Interest Amount	The amount of interest payable on the Floating Rate Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 5.4(d) or the amount of interest payable on Inflation Linked Annuity Bonds or Inflation Linked Equal Principal Payment Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Conditions 5.1 and 5.2 respectively.

Interest Commencement Date	In the case of interest-bearing Bonds, the date specified in the applicable Final Terms from (and including) which interest will accrue in respect of the relevant Bonds.
Interest Determination Date	In respect of Floating Rate Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms.
Interest Payment	The meaning given in Condition 5.1.
Interest Payment Date	In respect of Fixed Rate Bonds, Inflation Linked Annuity Bonds and Inflation Linked Equal Principal Payment Bonds, the meaning given in the applicable Final Terms. In respect of Floating Rate Bonds the meaning given in Condition 5.4(a).
Interest Period	In accordance with Condition 5.7(e) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
Investor	The holders for the time being of the Debt Securities.
Investor Put	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.
ISDA	International Swaps and Derivatives Association, Inc.
ISDA Definitions	The meaning given in Condition 5.4(b).
ISDA Determination	If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Bonds is to be determined in accordance with Condition 5.4(b).
ISDA Rate	The meaning given in Condition 5.4(b).
ISK or Icelandic Krona or krónur	The lawful currency of the Republic of Iceland.
Issue Date	Each date on which the Issuer issues a Tranche of Debt Securities under the Programme, as specified in the applicable Final Terms.
Issue Price	The price, generally expressed as a percentage of the nominal amount of the Debt Securities, at which a Tranche of Debt Securities will be issued.
Issuer	Landsbankinn hf., Reg. No. 471008-0280, having its registered office at Austurstræti 11, 155 Reykjavík, Iceland.
Issuer Call	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.
Landsbankinn	Landsbankinn hf., Reg. No. 471008-0280, having its registered office at Austurstræti 11, 155 Reykjavík, Iceland.

LIBOR	London inter-bank offered rate.
Margin	As specified in the applicable Final Terms (if any).
Maturity Date	As specified in the applicable Final Terms.
Maximum Rate of Interest	In respect of a Floating Rate Bond, the percentage rate per annum (if any) specified in the applicable Final Terms.
Maximum Redemption Amount	The amount specified as such in the applicable Final Terms.
Member State	A state which is a party to the Agreement on the European Economic Area or the European Free Trade Association Treaty, or the Faroe Islands.
Minimum Rate of Interest	In respect of Floating Rate Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms.
Minimum Redemption Amount	The amount specified as such in the applicable Final Terms.
Modified Following Business Day Convention	The meaning given in Condition 5.7(b)(iii).
Nasdaq Iceland	The main market of Nasdaq Iceland hf., Reg. No. 681298-2829, with its registered office at Laugavegur 182, 105 Reykjavík.
NCSD	Nasdaq Central Securities Depository Iceland hf. Reg. No. 500797-3209, with its registered office at Laugavegur 182,105 Reykjavík (*Ice. Nasdaq verðbréfamiðstöð hf.*)
NCSD System Account Operator	Landsbankinn hf. in its capacity as NCSD system account operator.
NCSD System Debt Securities	Shall mean Debt Securities issued in dematerialised, uncertified book entry form cleared through NCSD.
Optional Redemption Amount	The meaning (if any) given in the applicable Final Terms.
Optional Redemption Date	The meaning (if any) given in the applicable Final Terms.
Partial Redemption	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.
Paying Agents	The Principal Paying Agent and any other paying agent appointed (if any).
Payment Day	The meaning given in Condition 6.8.
Permanent Bearer Global Bond	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.

Preceding Business Day Convention	The meaning given in Condition 5.7(b)(iv).
Principal Amount Outstanding	The meaning given in Condition 5.7(f).
Principal Paying Agent	The Issuer, Landsbankinn hf.
Programme	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 50,000,000,000 (or its equivalence in other currencies calculated as described herein), subject to increase as described herein.
Prospectus Directive, PD Directive	Directive 2003/71/EC (*Ice. "Tilskipun Evrópuþingsins og Ráðsins 2003/71/EB"*) 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.
Prospectus Regulation	Commission Regulation (EC) No. 809/2004 as amended.
Put Notice	The meaning given in Condition 7.5.
Rate of Interest	In respect of a Series of interest-bearing Bonds, the rate of interest payable from time to time in respect of such Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms.
Receipts	Receipts for the payment of instalments of principal other than the final instalment attached on issue to Definitive Bonds repayable in instalments.
Receiptholders	The holders of Receipts (which expression shall, unless the context otherwise requires, include the holders of the Talons).
Record Date	The meaning given in Condition 6.5.
Redemption	The applicable Final Terms will indicate either that the relevant Debt Securities cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, for taxation reasons or following an Event of Default, or in the case of Subordinated Bonds, upon the occurrence of a Capital Event) 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 to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms. The applicable Final Terms may provide that Debt Securities are redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.
Redeemed Debt Securities	The meaning given in Condition 7.4.
Redenomination Currency	The meaning given in Condition 4(v).

Redenomination Date	A date, specified in a notice to Debt Security Holders, the Receiptholders and the Couponholders, when redenomination of Debt Securities will come into effect.
Reference Price	In respect of a Zero Coupon Bond and Commercial Paper, the meaning given in the applicable Final Terms.
Reference Rate	In respect of Floating Rate Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms.
Registered Bond Register	Register of holders of the Registered Bonds maintained by the Registrar.
Registrar	Any registrar to be appointed in accordance with an Agency Agreement (if any).
Registered Bond	Means Bonds issued in registered form.
Regulated Market	Means a medium for the exchange of goods or services over which a government body exerts a level of control.
Regulation S	Regulation S under the US Securities Act.
REIBOR	Reykjavík Inter Bank Offered Rate.
Relevant Date	The meaning given in Condition 9 (Taxation).
Relevant Screen Page	In respect of Floating Rate Bonds or Rest Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms.
Reset Date	The Meaning given in the ISDA Definitions.
Screen Rate Determination	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Bonds is to be determined in accordance with Condition 5.4(b).
Selection Date	The meaning given in Condition 7.4.
Series	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.
Specified Currency	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.

Specified Denomination	In respect of a Series of Debt Securities, the denomination or denominations of such Debt Securities as specified in the applicable Final Terms.
Specified Interest Payment Date	In respect of Floating Rate Bonds, the meaning (if any) given in the applicable Final Terms.
Subsidiary	Means an entity from time to time of which the Issuer (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.
Sub-Unit	The meaning given in Condition 5.7(g).
Talons	Talons for further Coupons in respect of interest-bearing Definitive Bonds.
TARGET2 System	The meaning given in Condition 5.7(a).
Tax Jurisdiction	The meaning given in Condition 9 (Taxation).
Temporary Bearer Global Bond	A Global Bond in bearer form which will initially represent the Bearer Bond of each Tranche.
Terms and Conditions or Conditions	The terms and conditions of the Debt Securities.
Tranche	Issues of Debt Securities which are identical in all respects (including as to listing and admission to trading on a Regulated Market)
Transfer Agent	Landsbankinn hf., or any successor agent appointed as such.
US Securities Act	U.S. Securities Act of 1933, (as amended).
VP LUX	Means VP Lux S.à.r.l., 32, Boulevard Royal, L-2449 Luxembourg, or its successors.
VS System Debt Securities	Means Debt Securities issued in uncertificated book entry form cleared through the NCSD 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).
Zero Coupon Bonds	Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.
€, Euro, EUR or **euro**	The currency of the European economic monetary union.
£ or **Sterling**	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.
$, U.S.$, U.S. Dollars, US Dollars or USD	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, Commercial Paper or a combination of any of the foregoing, depending upon the interest basis and redemption/payment basis shown in the applicable Final Terms.

The Debt Securities may be Unsubordinated Debt Securities or Subordinated Bonds, depending on the Status 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 depositary for Euroclear and Clearstream (the "**Common Depositary**").

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 9 (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 12 (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 Global Certificate which will be deposited with a common depositary 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 Global Certificate 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 Global Certificate will bear a legend regarding such restrictions on transfer.

Persons holding beneficial interests in 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 Global Certificate will be made to the registered holder of the Global Certificate. 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 Global Certificate or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Interests in a Global Certificate 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 Depositary 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 Global Certificate in definitive form. The Issuer will promptly give notice to Debt Security Holders in accordance with Condition 12 (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 Global Certificate) 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 Global Certificate 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 NCSD 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 NCSD 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 Global Certificate 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 Global Certificate may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such beneficial interest in another Global Certificate. No beneficial owner of an interest in a Global Certificate 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 Global Certificate 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 Global Certificate 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 Global Certificate 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 Global Certificate 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 NCSD or VP LUX. Title to the VS System Debt Securities will pass by registration in the register between the direct accountholders at the NCSD or VP Lux in accordance with the rules and procedures of the NCSD 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 NCSD 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 NCSD 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 NCSD, (as the case may be). References to Euroclear, Clearstream, VP LUX and/or the NCSD, (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

3.1 Status - Unsubordinated Debt Securities

This Condition 3.1 applies to Debt Securities specified in the applicable Final Terms as being Unsubordinated Debt Securities and references to "Debt Securities" in this Condition shall be construed accordingly.

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.

3.2. Status - Subordinated Bonds

This Condition 3.2 applies only to Subordinated Bonds and references to "Bonds" and "Debt Security Holder" in this Condition shall be construed accordingly.

a) The Bond constitute subordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves. The Bonds are subordinated as described in Condition 3.2 b).

b) In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Issuer, the rights of the Debt Security Holders to payments on or in respect of the Bond shall rank:

    i. *pari passu* without preference among themselves;

    ii. *pari passu* with present or future claims in respect of Parity Securities;

    iii. in priority to any present or future claims in respect of Junior Securities; and

    iv. junior to any present or future claims in respect of Senior Creditors.

In the Conditions, the following expressions shall have the following meanings:

"**FME**" means the Financial Supervisory Authority of Iceland (*Fjármálaeftirlitið*) or such other agency of Iceland which assumes or performs the functions which are performed by such authority;

"**Junior Securities**" means all classes of share capital of the Issuer and any present or future obligations of the Issuer which rank, or are expressed to rank, junior to the Subordinated Bonds;

"**Parity Securities**" means any present or future instruments issued by the Issuer which were eligible to be recognised as Tier 2 Capital at the time of issue by the FME, any guarantee, indemnity or other contractual support arrangement entered into by the Issuer in respect of securities (regardless of name or designation) issued by a Subsidiary of the Issuer which were eligible to be recognised as Tier 2 Capital at the time of issue and any instruments issued, and subordinated guarantees, indemnities or other contractual support arrangements entered into by the Issuer which rank, or are expressed to rank, pari passu therewith, but, in each case, excluding Junior Securities;

"**Senior Creditors**" means (a) the depositors of the Issuer; (b) other unsubordinated creditors of the Issuer; and (c) subordinated creditors of the Issuer in respect of any present or future obligation of the Issuer which by its terms is, or is expressed to be, subordinated in the event of liquidation, dissolution, winding-up of, or analogous proceedings over the Issuer, by way of exercise of public authority, to the claims of depositors and all other unsubordinated creditors of the Issuer, but which rank or are expressed to rank senior to Parity Securities and Junior Securities; and

"**Tier 2 Capital**" means Tier 2 capital as described in Article 84(c) of the Act on Financial Undertakings No 161/2002, and any secondary legislation adopted on the basis of that act, as amended or replaced.

3.3 Set-Off

No claims in respect of any Subordinated Bonds held by a Debt Security Holder may be set-off, or be the subject of a counterclaim, by the relevant Debt Security Holder against or in respect of any of its obligations to the Issuer or any other person and each Debt Security Holder waives, and shall be treated for all purposes as if it had waived, any right that it might otherwise have to set-off, or to raise by way of counterclaim, any of its claims in respect of any Subordinated Bonds, against or in respect of any of its obligations to the Issuer or any other person. If, notwithstanding the preceding sentence, any holder of a Subordinated Bonds receives or recovers any sum or the benefit of any sum in respect of such Subordinated Bonds by virtue of such set-off or counterclaim, it shall hold the same on trust for the Issuer and shall pay the amount thereof to the Issuer or, in the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Issuer, to the liquidator of the Issuer, to be held on trust for the Senior Creditors.

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 12 (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 (if Fiscal Agent is other than the Issuer) (in the case of Debt Securities other than NCSD 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 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_k = Interest Repayment Factor for period k

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

c = the Rate of Interest of the relevant bond

f = the number of interest payments per year

n = the 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.)

The resultant figure shall be rounded 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. Payment(s) on each Interest Payment Date is the sum of the relevant Principal Repayment and the interest payment.

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

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

where,

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

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

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

where,

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

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

d = the relevant calendar date

D = number of calendar days in the relevant calendar month

Provided that if the Reference Index in i) or ii) below is lower than the Base Index, the Reference Index shall equal the Base Index.

And

Base Index means the index value defined in the applicable Final Terms, being the value of the CPI on the date defined in the applicable Final Terms.

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.

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.

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 is calculated on each Interest Payment date as the Principal Amount Outstanding as defined in Condition 6.1 b) on each Interest Payment Date multiplied with the Rate of Interest and, the appropriate Day Count Fraction 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.

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 will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Bond are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed 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.

Except in the case of Bond in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

a) in the case of Fixed Rate Bond which are represented by a Global Bond, the aggregate outstanding nominal amount of the Fixed Rate Debt Securities represented by such Global Bond; or

b) in the case of Fixed Rate Bonds in definitive form, the Calculation Amount;

and, in each case, 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. Where the Specified Denomination of a Fixed Rate Debt Securities in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.3:

a) 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 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; or

(ii) in the case of Debt Securities where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) 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

(B) 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; and

b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

c) In the Conditions:

"**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); and

"**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, one cent.

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. In the Conditions, "**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.

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:

(A) in any case where Specified Periods are specified in accordance with Condition 3.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) 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 (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) 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

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, "**Business Day**" means a day which is both:

(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 London and each Additional Business Centre specified in the applicable Final Terms; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) 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) 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 2006 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 Debt Securities (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. the relevant Reset Date is the day specified in the applicable Final Terms.

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.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(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 Relevant Screen Page is not available or if, in the case of (A) above, no offered quotation appears or, in the case of (B) above, fewer than three offered quotations appear, in each case as at 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, or Reykjavik time, in the case of REIBOR), the Fiscal Agent shall request each of the Reference Banks to provide the Fiscal Agent (if other than the Issuer) with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, or, Reykjavik time, in the case of REIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Fiscal Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Fiscal Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, or, Reykjavik time, in the case of REIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro-zone inter-bank market (if the Reference Rate is EURIBOR), or the Icelandic inter-bank market (if the Reference Rate is REIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Fiscal Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, or Reykjavik time, in the case of REIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Fiscal Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro-zone inter-bank market (if the Reference Rate is EURIBOR), or the Icelandic inter-bank market (if the Reference Rate is REIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

As used herein, "**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in the case of a determination of REIBOR, the principal Reykjavik office of four major banks in the Icelandic inter-bank market, in each case selected by the Fiscal Agent in consultation with the Issuer.

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 Fiscal 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 Fiscal Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Bond for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Bond which are represented by a Global Bond, the aggregate outstanding nominal amount of the Bond represented by such Global Bond; or

(ii) in the case of Floating Rate Bond in definitive form, the Calculation Amount;

and, in each case, 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. Where the Specified Denomination of a Floating Rate Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 5.4:

(a) if "Actual/Actual (ISDA)" or "Actual/Actual" 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);

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

(c) 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;

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

(e) 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, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(f) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Interest Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(g) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30.

e) Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Fiscal Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Fiscal Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Designated Maturity**" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

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 (Interest on Floating Rate

Bonds) by the Fiscal Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Fiscal Agent, the other Paying Agents and all Debt Security Holders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Debt Security Holders or the Couponholders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

g) Notification of Rate of Interest and Interest Amounts

The Fiscal Agent (if other than the Issuer) or, where the relevant Floating Rate Bonds are NCSD system Debt Securities, the Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Bonds are for the time being listed (by no later than the first day of each Interest Period (or, where the relevant Floating Rate Bonds are not NCSD Debt Securities and the Calculation Agent is other than the Fiscal Agent, as soon as reasonably practicable after the Calculation Agent has notified the Fiscal Agent of such)) and notice thereof to be published in accordance with Condition 12 (Notices) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Bonds are for the time being listed and to the Bondholders in accordance with Condition 12 (Notices). For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

5.5 Accrual of interest

Each Bond (or in the case of the redemption of part only of a Bond, that part only of such Bond) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

a) the date on which all amounts due in respect of such Bond have been paid; and

b) five days after the date on which the full amount of the moneys payable in respect of such Bond has been received by the Fiscal Agent and notice to that effect has been given to the Debt Security Holders in accordance with Condition 12 (Notices).

In the event of non-payment of a Zero Coupon Bond, interest will accrue as provided in Condition 7.12 (Late Payment on Zero Coupon Bonds and Commercial Paper).

5.6 Interest on any Write Down of Subordinated Bonds

If the Subordinated Bonds are Written-Down in full, interest will be cancelled in accordance with Condition 8 (Point of Non-Viability Loss Absorption).

In the case of any Write-Down (as defined in Condition 8 (Point of Non-Viability Loss Absorption)) of Subordinated Bonds in part, interest will, without prejudice to the provisions and operation of Condition 8 (Point of Non-Viability Loss Absorption), be paid on the Subordinated Bonds on the Interest Payment Date immediately following such Write-Down, provided that any amount of interest that would have been payable on such Interest Payment Date which would have been attributable to any amount of principal that has been Written-Down shall be cancelled in accordance with Condition 8 (Point of Non- Viability Loss Absorption).

5.7 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:

(i) if *Actual/Actual (ICMA)* is specified in the applicable Final Terms: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 5.7(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; and

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 Principal 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 Principal 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.

5.8 Benchmark Discontinuation

Notwithstanding any other provision of Conditions 5.4 (Interest on Floating Rate Bonds), if a Benchmark Event occurs in relation to an Original Reference Rate by reference to which any amount payable under the Debt Securities remains to be determined, then the following provisions of this Condition 5.8 (Benchmark Discontinuation) shall apply.

a) Independent Adviser

The Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5.8 (b)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5.8 (c)) and any Benchmark Amendments (in accordance with Condition 5.8 (d)).

An Independent Adviser appointed pursuant to this Condition 5.8 shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Fiscal Agent, the Paying Agents or the Debt Security Holders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 5.8.

b) Successor Rate or Alternative Rate

If the Issuer, following consultation with the Independent Adviser and acting in good faith, determines that:

i. there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 5.8 (c) (Adjustment Spread) subsequently be used in place of the Original Reference Rate to determine any relevant amount(s) payable under the Debt Security (subject to the further operation of this Condition 5.8 (Benchmark Discontinuation); or

ii. there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 5.8 (c)) subsequently be used in place of the Original Reference Rate to determine the any relevant amount(s) payable under the Debt Security (subject to the further operation of this Condition 5.8).

c) Adjustment Spread

If the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (A) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of any relevant amount(s) payable under the Debt Securities by reference to such Successor Rate or Alternative Rate (as applicable).

d) Benchmark Amendments

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 5.8 and the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (A) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5.8 (e) (Notices, etc), without any requirement for the consent or approval of Debt Security Holders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 5.8(d) (Benchmark Amendments), the Issuer shall comply with the rules of any stock exchange on which the Debt Securities are for the time being listed or admitted to trading.

e) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5.8 will be notified promptly by the Issuer to the Fiscal Agent, the Paying Agents and, in accordance with Condition 12 (Notices), the Debt Security Holders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Debt Security Holders of the same, the Issuer shall deliver to the Fiscal Agent a certificate, to be made available for inspection by Debt Security Holders, signed by two authorised signatories of the Issuer:

i. confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate and, (c) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5.8;

ii. certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread; and

iii. certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why the Issuer not done so.

The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any)) be binding on the Issuer, the Fiscal Agent and the Debt Security Holders.

f) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Conditions 5.8(a), Condition 5.8(b), 5.8(c) and 5.8(d), the Original Reference Rate will continue to apply unless and until the Fiscal Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with Condition 5.8(c) and (d). Further, notwithstanding any other provision of this Condition 5.8, no successor, replacement or alternative benchmark or screen rate will be adopted, nor will any other amendment to the terms and conditions of any Series of Debt Securities be made if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Debt Securities as Tier 2 Capital of the Issuer and/or the Group.

For the purposes of the Conditions:

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the fullest extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Debt Security Holders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

i. in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or

ii. in the case of an Alternative Rate, is in customary market usage in the international debt capital market for transactions which reference the Original Reference Rate, where such rate has been replaced by the Alternative Rate; or

iii. if no such recommendation or option has been made (or made available), or the Issuer determines there is no such spread, formula or methodology in customary market usage, the Issuer determines, following consultation with the Independent Adviser and acting in good faith, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or

iv. if the Issuer determines that no such industry standard is recognised or acknowledged, the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith, determines to be appropriate.

"**Alternative Rate**" means an index, benchmark or other price source which the Issuer determines in accordance with Condition 5.8 has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Debt Securities.

"**Benchmark Amendments**" has the meaning given to it in Condition 5.8(d).

"**Benchmark Event**" **means**, with respect to an Original Reference Rate:

i. the Original Reference Rate ceasing to exist or be published; or

ii. the later of (a) the making of a public statement by the administrator of the Original Reference Rate that it will, by a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and (b) the date falling six months prior to the date specified in (ii)(a); or

iii. the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been permanently or indefinitely discontinued; or

iv. the later of (a) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will, by a specified date, be permanently or indefinitely discontinued and (b) the date falling six months prior to the date specified in (iv)(a); or

v. a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used (or that its use will be subject to restrictions or adverse consequences), in each case within the following six months; or

vi. it has or will become unlawful for any Paying Agent, the Fiscal Agent or the Issuer to calculate any payments due to be made to any Debt Security Holder using the Original Reference Rate including, without limitation, under the Benchmark Regulation (EU) 2016/1011, if applicable.

"**Original Reference Rate**" means, for a Series, the index, benchmark or price source (as applicable) originally **specified** for the purpose of determining any amount payable under the Debt Securities of that Series. To the extent that a Successor Rate is determined to be used in respect of a Series, such Successor Rate shall be an "Original Reference Rate" for that Series during the period in which it is used.

"**Successor Rate**" **means** a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

"**Relevant Nominating Body**" **means**, in respect of an Original Reference Rate:

i. the central bank for the currency to which the Original Reference Rate relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of Original Reference Rate; or

ii. any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the Original Reference Rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the Original Reference Rate, (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

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 payment that is the sum of the relevant Principal Repayment as defined in this Condition and the Interest Payment as defined in Condition 5.1 (together, the "**Annuity Amount**") as calculated by the Calculation Agent.

Principal Repayment(s) is the 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.)

b) Payments in respect of an Inflation Linked Equal Principal Payment Bond, including Bonds with one payment of Principal on Maturity Date

In case of an Inflation Linked Equal Payment Bond, including Bond with one payment of Principal on Maturity Date, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, as defined in this condition and interest due as defined in Condition 5.2 (together, the "**Equal Payment Amount**") as calculated by the Calculation Agent.

Principal Repayment(s) is 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.

The Principal Amount Outstanding is calculated based on the following formula:

$$\mathrm{PAO}_t = (PAO_{t-1} - PR_{t-1})\frac{\mathrm{IR}_t}{\mathrm{IR}_{t-1}}$$

where,

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

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

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

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

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

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:

$$\mathrm{IR} = \frac{\mathrm{RI}_t}{\mathrm{BI}}$$

where,

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

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

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

where,

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

CP_{M-2} = 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 the index value defined in the applicable Final Terms, being the value of the CPI on the date specified in the applicable Final Terms,

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.

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 9 (Taxation)) any law implementing an intergovernmental approach thereto (**FATCA**).

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 9 (Taxation)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10 (Prescription) or, if later, 5 years (4 years in the case of NCSD 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 interest in the Global Certificate 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 NCSD, 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 NCSD, 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 10 (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) Reykjavík; 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, Reykjavík 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 9 (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 Commercial Paper, 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.

Any reference in the Conditions to interest in respect of the Debt Securities shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 (Point of Non-Viability Loss Absorption).

7. REDEMPTION AND PURCHASE

7.1 Redemption of Inflation Linked Annuity Bonds and Inflation Linked Equal Payment Bonds, including Bond with one payment of Principal on Maturity Date

Unless previously redeemed or purchased and cancelled as specified below, each Inflation Linked Annuity Bond and each Inflation Linked Equal Payment Bond, including Bonds with one payment of Principal on Maturity Date, 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) and (in the case of Subordinated Bonds only) 7.15 (FME Approval) 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 neither a Floating Rate Bond, an Inflation Linked Annuity Bond nor 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 and not more than 60 days' notice to the NSCD or VP LUX and, in accordance with Condition 12 (Notices), the Debt Security Holders (which notice shall be irrevocable), if:

a) on the occasion of the next payment due under the Debt Securities,

    i. the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (Point of Non- Viability Loss Absorption)

    ii. in the case of Subordinated Bonds only, the Issuer would not be entitled to claim a deduction in computing its taxation liabilities in any Tax Jurisdiction as defined in Condition 9 (Taxation) in respect of such payment of interest to be made on the Debt Securities on the occasion of the next payment due under the Subordinated Bonds (or the amount of such deduction would be materially reduced),

in each case, as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9 (Taxation)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after (A) (in the case of Unsubordinated Debt Securities) the date on which agreement is reached to issue the first Tranche of the Debt Securities; or (B) (in the case of Subordinated Bond) the Issue Date and

b) such obligation, loss of entitlement (or reduction) cannot be avoided by the Issuer taking reasonable measures available to it;

(each "**Tax Event**") provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which (i) the Issuer would be obliged to pay such additional amounts; or (ii) the Issuer would not be entitled to claim such a deduction (or the amount of such deduction would be materially reduced) in respect of such payment (as applicable), in each case, were a payment in respect of the Debt Securities then be 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 (if Fiscal Agent is other than the Issuer) 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 Tax Event has occurred.

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)

Subject, in the case of Subordinated Bonds, to the provisions of Condition 7.15 (FME Approval), 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 12 (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 represented 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, Luxembourg (to be reflected in the records of Euroclear and Clearstream Luxembourg 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 NCSD 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 represented by Definitive Bonds, a list of the serial numbers of such Redeemed Bonds will be published in accordance with Condition 12 (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 12 (Notices) at least five days prior to the Selection Date.

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

If the Debt Securities are Unsubordinated Debt Securities and Investor Put is specified in the applicable Final Terms, upon the holder of any Debt Security giving the Issuer in accordance with Condition 12 (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 Luxembourgh, (which may include notice being given on his instruction by Euroclear or Clearstream Luxembourgh, 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 a 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 NCSD 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 NCSD System Debt Securities, the NCSD 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 11 (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:

Early Redemption Amount = $RP \times (1 + AY)^y$
where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such 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 Commercial Paper, at the Amortised Face Amount calculated in accordance with the following formula:

Early Redemption Amount = $RP \times (1 + DY)^y$
where:

RP means the Reference Price;

DY means the Discount Yield expressed as a decimal; and

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

Subject, in the case of Subordinated Bonds to the provision of Condition 7.15 (FME Approval), 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 NCSD, 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 Commercial Paper

If the amount payable in respect of any Zero Coupon Bonds or Commercial Paper upon redemption of such Zero Coupon Bond or Commercial Paper pursuant to Conditions 7.2, 7.3, 7.4 or 7.5 above or upon its becoming due and repayable as provided in Condition 11 (Events of Default) is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Bonds or Commercial Paper 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 Commercial Paper 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 Commercial Paper 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 Commercial Paper has been received by the Fiscal Agent and notice to that effect has been given to the Debt Security Holders in accordance with Condition 12 (Notices).

7.13 Redemption upon a Capital Event – Subordinated Bonds

This Condition 7.13. applies only to Subordinated Bonds in relation to which this Condition 7.13 is specified as being applicable in the applicable Final Terms, and references to "Debt Securities", " Bond" and "Debt Security Holders" in this Condition shall be construed accordingly.

Subject to the provisions of Condition 7.15 (FME Approval) of, the Debt Security may, save as provided below, 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) or on any Interest Payment Date (if this Debt Security is a Floating Rate Bond, an Inflation Linked Bond or an Inflation Linked Annuity Bond), on giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent and, in accordance with Condition 12 (Notices), the Debt Security Holders, if a Capital Event occurs.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent (if Fiscal Agent is other than the Issuer), or the NCSD agent, as applicable, 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.

Debt Securities redeemed pursuant to this Condition 7.13 will be redeemed at their Early Redemption Amount referred to in Condition 7.8 (Early Redemption Amounts) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

In the Conditions, the following expressions shall have the following meaning:

"**Applicable Banking Regulations**" means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Iceland and applicable to the Issuer and/or the Group including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the FME (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Issuer and/or the Group); and

"**Capital Event**" means the determination by the Issuer, after consultation with the FME, that, as a result of a change in Icelandic law or Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date of the last Tranche of the Debt Security, the Debt Security are excluded in whole or in part from the Tier 2 Capital of the Issuer and/or the Group, other than where such exclusion is only as a result of any applicable limitation on such capital;

"**Group**" means the Issuer and its Subsidiaries taken as a whole; and

"**Subsidiaries**" means any entity whose affairs are required by law or in accordance with generally accepted accounting principles applicable in Iceland to be consolidated in the Issuer's consolidated accounts.

7.14 Substitution or Variation-Subordinated Bonds

This Condition 7.14 applies only to Subordinated Bonds and "Bonds" and "Debt Security Holders" in this Condition shall be construed accordingly.

If Condition 7.14 is specified as being applicable in the applicable Final Terms, and at any time a Capital Event or a Tax Event occurs, subject to the provisions of Condition 7.15 (FME Approval) the Issuer may, having given not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent (if Fiscal Agent is other than the Issuer), in accordance with Condition 12 (Notices), the Debt Security Holders, either substitute all, but not some only, of the Bonds for, or vary the terms of the Bonds so that they remain, or, as appropriate, become, Qualifying Securities, provided that such substitution or variation does not itself give rise to any right of the Issuer to redeem the substituted or varied securities that are inconsistent with the redemption provisions of the Bonds.

Prior to the publication of any notice of substitution or variation pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent (if Fiscal Agent is other than the Issuer), a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such substitution or variation and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to substitute or, as the case may be, vary the terms of the Issuer, have occurred.

In the Conditions, the following expressions shall have the following meanings:

"Qualifying Securities" means securities issued directly or indirectly by the Issuer that:

a) have terms not materially less favourable to the Debt Security Holders as a class than the terms of the Debt Securities (as reasonably determined by the Issuer) and, subject thereto, they shall (i) have a ranking at least equal to that of the Debt Securities prior to the relevant substitution or variation, as the case may be; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Debt Securities prior to the relevant substitution or variation, as the case may be; (iii) have the same redemption rights as the Debt Securities prior to the relevant substitution or variation, as the case may be; (iv) comply with the then current requirements of the FME in relation to Tier 2 Capital; (v) preserve any existing rights under the Debt Securities to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date, and (vi) (as the case may be) where Debt Securities which have been substituted or varied had a published and solicited rating from a Rating Agency immediately prior to such substitution or variation, each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published and solicited rating to the relevant Qualifying Securities; and
b) are listed on a recognised stock exchange, if the Debt Securities were listed immediately prior to such substitution or variation, as selected by the Issuer; and

"Rating Agency" means the relevant credit rating agency (or their respective successors) as set out in the applicable Final Terms.

7.15 FME approval

In the case of Subordinated Bonds, no early redemption in any circumstances, purchase under Condition 7.10 (Purchases) or substitution or variation under Condition 7.14 (Substitution or Variation- Subordinated Bonds), shall take place without the prior written consent of the FME (if, and to the extent then required, by the FME).

For the avoidance of doubt, redemption of Subordinated Bonds under Condition 7.2 (Final Redemption) shall not require the consent of the FME.

8. POINT OF NON- VIABILITY LOSS ABSORPTION

8.1 This Condition 8 applies only to Subordinated Bonds and prior to the date on which any Applicable Statutory Loss Absorption Regime becomes effective in respect of the Debt Securities, "Debt Securities" and "Debt Security Holders" in this condition shall be construed accordingly.

8.2 If a Non-Viability Event occurs at any time on or after the Issue Date and prior to the date on which any Applicable Statutory Loss Absorption Regime becomes effective in respect of the Debt Securities, the Issuer will:

a) promptly notify Debt Security Holders thereof in accordance with Condition 12 (a **Non-Viability Event Notice**); and

b) irrevocably and mandatorily (and without any requirement for the consent or approval of Debt Security Holders) cancel any accrued and unpaid interest write-down the Prevailing Principal Amount of the Subordinated Bonds in full or to the extent required in order for the Issuer no longer to be considered Non-Viable by the Relevant Resolution Authority and in order that such Non-Viability Event is no longer continuing, (a "**Write-Down**" and "**Written-Down"** shall be construed accordingly), which Non-Viability Write-Down shall take place as directed by the Relevant Resolution Authority in accordance with the priority of claims under normal insolvency proceedings and may be effected before any public provision of capital to the Issuer or any other equivalent measure of extraordinary financial support without which, in the determination of the Relevant Resolution Authority, the Issuer would be Non-Viable.

With effect on and from the date on which an Applicable Statutory Loss Absorption Regime becomes effective in respect of the Debt Securities, the foregoing provisions of this Condition 8 will lapse and cease to have any effect (and without any requirement for the consent or approval of Debt Security Holders or any notice to be given to Debt Security Holders), except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. If a Non-Viability Event occurs on or after such date, the Relevant Resolution Authority (or the Issuer following instructions from the Relevant Resolution Authority) may (without any requirement for the consent or approval of Debt Security Holders or any notice to be given to Debt Security Holders) take such action in respect of the Debt Securities as is required or permitted by such Applicable Statutory Loss Absorption Regime.

Debt Security Holders shall have no claim against the Issuer in respect of any Prevailing Principal Amount of the Subordinated Bonds that is Written-Down in accordance with the provisions of this Condition 8 or otherwise pursuant to any Applicable Statutory Loss Absorption Regime.

In these Conditions, the following expressions have the following meanings:

Applicable Statutory Loss Absorption Regime means a Statutory Loss Absorption Regime that is applicable to the Debt Securities;

Non-Viability Event means the occurrence of any of the following events:

a. the Relevant Resolution Authority determines that the Issuer is or will be Non-Viable without a Non-Viability Write-Down;
b. the Relevant Resolution Authority decides to inject capital into the Issuer or provide any other equivalent extraordinary measure of financial support without which, the Issuer would become Non-Viable; or

c. any other event or circumstance specified in Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime that leads to a determination by the Relevant Resolution Authority that the Issuer is Non-Viable;

in each case, where such determination or decision by the Relevant Resolution Authority is required pursuant to Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime

Non-Viable means the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Issuer or if the Issuer is, unable to pay a material part of its debts as they fall due or unable to carry on its business or is subject to restructuring or resolution under Act on Financial Undertaking, No. 161/2002 and Act on Bankruptcy, etc. No. 21/1991 or any other event or circumstance specified as such in Applicable Banking Regulations or any Applicable Statutory Loss Absorption Regime;

Relevant Resolution Authority means the FME or any successor authority that is responsible for the determination of any Non-Viability Event in respect of the Issuer or that otherwise has the power to implement loss absorption measures with respect to the Issuer under any Applicable Statutory Loss Absorption Regime; and

Statutory Loss Absorption Regime means any statutory regime implemented or directly effective in Iceland which provides any Relevant Resolution Authority with the powers to implement loss absorption measures in respect of capital instruments (such as the Debt Securities), including, but not limited to, any regime resulting from the implementation in Iceland of, or which otherwise contains provisions analogous to, Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended or replaced from time to time.

9. 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, duties, assessments or governmental changes 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) In respect of any demand made for payment in Iceland; or

b) in respect of any demand made for payment by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Debt Security or Coupon by reason of it having some connection with a Tax Jurisdiction other than the mere holding of such Debt Security or Coupon; or

c) in respect of any demand made 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 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.

Notwithstanding any other provision of these Conditions, in no event will the Issuer be required to pay any additional amounts in respect of the Debt Securities and Coupons for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

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 Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is due given to the Debt Security Holders in accordance with Condition 12 (Notices).

10. PRESCRIPTION

The Debt Securities, Receipts and Coupons (other than NCSD 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 9 (Taxation)). The NCSD 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 9 (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)).

11. EVENTS OF DEFAULT

11.1 Events of default – Unsubordinated Debt Securities

This Condition 11.1 shall apply only to Unsubordinated Debt Securities and references to "Debt Securities" and "Debt Security Holders" in this Condition 11.1. shall be construed accordingly. 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 11 (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;

c) 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);

d) 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;

e) receivables sold or discounted (otherwise than on a non-recourse basis);

f) 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;

g) 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

h) 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).

11.2 Enforcement Events – Subordinated Bonds

This Condition **Error! Reference source not found.** applies only to Subordinated Bonds and references to " Bonds" and "Debt Security Holders" in this Condition shall be construed accordingly.

The following events or circumstances (each an "Enforcement Event") shall constitute enforcement events in relation to the Bonds:

a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of five days in the case of principal and ten days in the case of interest, any Debt Security Holder may, at its own discretion and without further notice, institute proceedings in Iceland in order to recover the amounts due from the Issuer to such Debt Security Holder, provided that a Debt Security Holder may not at any time file for liquidation or bankruptcy of the Issuer. Any Debt Security Holder may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce any obligation, condition or provision binding on the Issuer under the Bonds, provided that the Issuer shall not by virtue of the institution of any proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it; and

b) if an order is made or an effective resolution is passed for the liquidation or bankruptcy of the Issuer, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, then the Bonds shall become due and payable at their outstanding principal amount together with interest (if any) accrued to such date.

12. NOTICES

(a) Bonds other than VS System Debt Securities

All notices regarding the Bearer Bonds will be deemed to be validly given (a) if published 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). 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), 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 NCSD, 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.

13. MEETINGS OF DEBT SECURITY HOLDERS AND MODIFICATION

(a) Bonds other than VS System Debt Securities

An Agency Agreement (as the case may be) 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 (if Fiscal Agent is other than the Issuer) 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 12 (Notices) as soon as practicable thereafter.

(b) VS System Debt Securities

The Issuer may, in its capacity as NCSD 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 NCSD 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 NCSD 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.

14. 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.

15. GOVERNING LAW AND JURISDICTION

15.1 Governing Law

The Debt Securities, the Receipts, the Coupons and the Talons (other than NCSD 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 NCSD System Debt Securities will be governed by, and construed in accordance with Icelandic law.

15.2 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 NCSD System Debt Securities) and accordingly any legal action or proceedings arising out of or in connection with any Debt Securities, Receipts or Coupons or Talons (other than NCSD System Debt Securities) ("**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 or Receipts (other than NCSD System Debt Securities) 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 NCSD 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.

15.3 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 12 (Notices). Nothing shall affect the right to serve process in any manner permitted by law.

16. REPLACEMENT OF BONDS, RECEIPTS, COUPONS AND TALONS

Should any Debt Security, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Debt Securities, Coupons or Talons must be surrendered before replacements will be issued.

17. PAYING AGENTS

The names of the initial Agents and their initial specified offices are set in applicable Final Terms, (if other than the Issuer). If any additional [or new] Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

a. there will at all times be a Fiscal Agent;

b. so long as the Debt Securities are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Bonds) and a Transfer Agent (in the case of Registered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority); and

c. there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6.6 (General provisions applicable to payments). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Debt Security Holders promptly by the Issuer in accordance with Condition 12 (Notices).

In acting under the Agency Agreement (as the case may be, if, Paying Agent is other than the Issuer), the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Debt Security Holders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

18. EXHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Debt Security to which it appertains) a further Talon, subject to the provisions of Condition 10 (Prescription).

19. ACKNOWLEDGEMENT OF STATUTORY LOSS ABSORPTION POWERS

Notwithstanding and to the exclusion of any other term of the Debt Securities, or any other agreements, arrangements or understanding between any of the parties thereto or between the Issuer and any Debt Security Holder (which, for the purposes of this Condition 19, includes each holder of a beneficial interest in the Debt Security), each Debt Security Holder by its purchase of the Debt Security will be deemed to acknowledge, accept, and agree, that any liability arising under the Debt Security may be subject to the exercise of Statutory Loss

Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

a) the effect of the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:

    i. the reduction of all, or a portion, of the Relevant Amounts in respect of the Debt Security;

    ii. the conversion of all, or a portion, of the Relevant Amounts in respect of the Debt Security into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Debt Security Holder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Debt Securities;

    iii. the cancellation of the Debt Securities or the Relevant Amounts in respect of the Debt Securities; and

    iv. the amendment or alteration of the maturity date of the Debt Securities or the amendment of the amount of interest payable on the Debt Securities, or the date on which interest become payable, including by suspending payment for a temporary period; and

b) the variation of the terms of the Debt Security, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority.

In the Conditions the following expressions shall have the following meaning:

"**Relevant Amounts**" means the outstanding principal amount of the Debt Securities, together with any accrued but unpaid interest and additional amounts due on the Debt Securities pursuant to Condition 9 (Taxation). References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any applicable Statutory Loss Absorption Powers by the Relevant Resolution Authority; and

"**Statutory Loss Absorption Powers**" mean any write-down, conversion, transfer, modification, suspension or similar or related powers existing from time to time under, and exercised in compliance with any Statutory Loss Absorption Regime.

SELLING RESTRICTIONS

UNITED STATES

The Debt Securities have not been and will not be registered under the Securities Act and the Debt Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer appointed under the Programme will be required to agree that, except as permitted by any dealer agreement entered into, it will not offer, sell or, in the case of Bearer Bonds, deliver (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of which such Bonds are a part, as determined and certified to the Fiscal Agent by such Dealer (or, in the case of an identifiable tranche of Bonds sold to or through more than one Dealer, by each of such Dealers with respect to Bonds of an identifiable tranche purchased by or through it, in which case the Fiscal Agent shall notify such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Dealer to which it sells Bonds during the Distribution Compliance Period a confirmation or other notice setting out the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

The Bonds are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. In addition, until 40 days after the commencement of the offering of any identifiable tranche of Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering of such tranche of Bonds) may violate the registration requirements of the Securities Act.

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

Debt Securities in bearer form having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations promulgated thereunder.

Debt Securities in bearer form will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of The United States Internal Revenue Code of 1986, as amended (the "**Code**")) ("**TEFRA D**") unless: (i) the applicable Final Terms state that Debt Securities are issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the "**TEFRA C**"); or (ii) the Debt Securities are issued other than in compliance with TEFRA D or TEFRA C but in circumstances in which the Debt Securities will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.

EEA

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Debt Securities which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Debt Securities to the public in that Relevant Member State:

(a) if the final terms in relation to the Bonds specify that an offer of those Bonds may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

UNITED KINGDOM

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Debt Securities which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Debt Securities other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Debt Securities would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Debt Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Debt Securities in, from or otherwise involving the United Kingdom.

ICELAND

The investment described in this Base Prospectus has not been and will not be registered for public distribution in Iceland with the Financial Supervisory Authority pursuant to the Icelandic Act on Securities Transactions No. 108/2007 (as amended) (the "**Icelandic Securities Act**").

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to acknowledge and agree, that this Base Prospectus may be distributed only to, and may be directed only at, persons who are (i) qualified investors under the private placement exemption of Article 50 (1) Item 1 a) as defined in Article 43 Item 9 of the Icelandic Securities Act or (ii) other persons to whom this Base Prospectus may be communicated lawfully in accordance with the Icelandic Securities Act (all such persons together being referred to as the Relevant Persons). This Base Prospectus must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Base Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Base Prospectus or any of its contents. This Base Prospectus must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other persons.

HONG KONG

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that:

(c) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any of the Debt Securities (except for Debt Securities which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(d) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Debt Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Debt Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

SINGAPORE

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Debt Securities or caused the Debt Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Debt Securities or cause the Debt Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Debt Securities whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

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

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Debt Securities, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Debt Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

JAPAN

The Debt Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer appointed under the Programme will be required to agree that it will not, directly or indirectly, offer or sell and will not, directly or indirectly, offer or sell any Debt Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Debt Securities to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of Debt Securities, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has and will agree that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Debt Securities or has in its possession or distributes the Base Prospectus, any other offering material or any Final Terms therefore in all cases at its own expense.

TAXATION AND CAPITAL INFLOW RESTRICTIONS

The comments below are of a general nature based on the Issuer's understanding of current law and practice. 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 persons 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.

In addition, set out below is a brief description of the policy instrument to temper and affect the composition of capital flows into Iceland. Prospective investor in the Debt Securities is strongly advised to consult their professional advisers, if in any doubt on how the capital inflow restrictions will affect their potential investment.

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 12 per cent. income tax on interest payments. The tax liability applies both to interest payment as such but also to capital gains on the Debt Securities, 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 150,000 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 (*Ice. Ríkisskattstjóri*) 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 22 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 150,000 per year.

FATCA

Foreign Account Tax Compliance Act ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer believes that it is a foreign financial institution for these purposes. A number of jurisdictions (including Iceland) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Debt Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Debt Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Debt Securities, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and 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 prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless such Debt Securities are (i) materially modified after such date or (ii) treated as equity for U.S. federal income tax purposes. However, if additional Debt Securities that are not distinguishable from outstanding Debt Securities in the same Series are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Debt Securities in such Series, including grandfathered Debt Securities, as subject to withholding under FATCA. Holders of Debt Securities should consult their own tax advisors regarding how these rules may apply to their investment in the Debt Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Debt Securities, no person will be required to pay additional amounts as a result of the withholding.

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**"). However, Estonia has since ceased to participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the 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 the 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.

However, the FTT proposal remains subject to negotiation between participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states might decide to participate. Prospective holders of the Debt Securities are advised to seek their own professional advice in relation to the FTT and its potential impact on the Debt Securities.

RULES ON SPECIAL RESERVE REQUIREMENTS FOR NEW FOREIGN CURRENCY INFLOWS - CAPITAL INFLOW RESTRICTIONS

In June 2016, the Central Bank published its Rules on Special Reserve Requirements for New Foreign Currency Inflows, No. 490/2016, in accordance with Temporary Provision III of the Foreign Exchange Act, no. 87/1992, as amended, (the "**Foreign Exchange Act**"**)**. The rules were replaced in March 2019 with Rules on Special Requirements for New Foreign Currency Inflows, No. 223/2019 (the "**Special Reserve Requirement Rules").** The main purpose of the Temporary Provision III is to provide the Central Bank with a policy instrument, generally referred to as a capital flow management measure, to temper inflows of foreign currency and to affect the composition of such inflows.

The Special Reserve Requirement Rules implement special reserve requirements in relation to some investment using inflow of foreign currency. The Special Reserve Requirement Rules implement special reserve requirements in relation to some investments using inflows of foreign currency. The investments are: (i) new investment and reinvestment in bonds or bills electronically issued in ISK, or deposits of such reinvested funds to ISK deposit accounts, bearing annual interest of 3 per cent. or more; (ii) ISK deposits from listed transactions; (iii) new investments and reinvestment of new investment in unit share certificates of funds that (a) invest in bonds or bills electronically issued in ISK or ISK deposits from such investment, bearing annual interest of 3 per cent. or more and (b) constitute 10 per cent. or more of the fund‘s assets; (iv) new investments and reinvestment of such new investment in the equity of a company that is established for the purpose of investing, directly or indirectly, in bonds or bills electronically issued in domestic currency or that is established for the purpose of investing, directly or indirectly, in ISK deposits, bearing annual interest of 3 per cent. or more; and (v) loans granted to resident entities that are used for investments in ISK, for the benefit of the lender, in bonds or bills electronically issued in ISK or ISK deposits from such investment, bearing annual interest of 3 per cent. or more.

If an investment is subject to special reserve requirement, the investor is obliged to deposit a specific portion (currently 0 per cent[8].), in a reserve account or enter into a repurchase transaction for the special reserve amount for a certain holding period[9], which may range up to five years according to Temporary Provision III of the Foreign Exchange Act. Deposit institutions are required to deposit the special reserve amount that they hold in special reserve accounts to a capital flow account with the Central Bank of Iceland which bears 0 per cent. interest. The settlement currency for capital flow accounts shall be the Icelandic krona.

Investors who are in any doubt as to their position or would like to know more should consult their professional advisers.

[8] The Temporary Provision III of the Foreign Exchange Act states that the special reserve ratio may range up to 75 per cent. The special reserve ratio was first set at 40 per cent. in June 2016. The ratio was reduced to 20 per cent. in November 2018 and to 0 per cent. in March 2019.

[9] The special reserve requirement can also be satisfied via repo transactions with Central Bank certificates of deposit

THE ICELANDIC ECONOMY[10]

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 2,812 billion in 2018[11]. The population is also small, numbering just under 357,000 at the end of year 2018. According to World Bank data, GDP per capita, measured in terms of purchasing power parities, amounted to USD 57,300 in 2018, which is in the top twenty of the highest in the world.

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. In 2018, services accounted for 54 per cent. of total export revenues, while exports of marine products accounted for 18 per cent. and exports of aluminium and aluminium products accounted for 17 per cent[12].

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 the rapid 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 ("**CA**") deficit and mounting inflationary pressures. The recession was triggered by a twin currency and banking crisis in autumn 2008. Domestic demand contracted by nearly 27 per cent. from its peak in 2007 to its trough in 2010[13].

After a period of austerity measures and restructuring of the financial sector, growth resumed in 2011 as GDP grew by 1.9 per cent.; in 2012, growth continued at 1.3 per cent[14]. Unemployment peaked at 9.3 per cent. in early 2010 but was down to 3.5 per cent. in September 2019, well below the EU average[15]. 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 October 2019, the ISK had appreciated by 35 per cent. since its lowest level in November 2009[16].

The trade account surplus measured 3.0 per cent. of GDP in 2018 and the CA balance was positive by 2.8 per cent. of GDP[17]. In 2018, the CA surplus measured ISK 79 billion compared to ISK 99 billion in 2017. The trade account surplus measured ISK 84 billion in 2018 compared to ISK 108 billion in 2017[18].

The Central Bank forecasts 0.2 contraction in GDP in 2019 related to a slowdown in tourism. The Central Bank expects a return to growth in 2020 with GDP increasing by 1.9% and 2.7% GDP growth in 2021. Annual CPI inflation in October 2019 measured 2.8 per cent[19]. just above the 2.5 per cent. inflation target of the Central Bank. The Central Bank forecast assumes that CPI inflation will be 3.1 per cent. in 2019, 2.4 per cent. in 2020 and 2.3 per cent in 2021[20].

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[10] Sources: This chapter was compiled by Landsbankinn's Economic Research Department based on data and information obtained from Statistics Iceland,the Central Bank of Iceland,, the Directorate of Labour and the Financial Supervisory Authority as of November 2019.
[11] Source: Statistics Iceland
[12] Source: Statistics Iceland, own calculation
[13] Source: Statistics Iceland, own calculation
[14] Source: Statistics Iceland
[15] Source: The Directorate of Labour
[16] Source: Central Bank of Iceland
[17] Source: Statistics Iceland, Central Bank of Iceland, own calculations
[18] Source: Central Bank of Iceland
[19] Source: Statistics Iceland
[20]Source: Monetary Bulletin 2019-3, Central Bank of Iceland

FINANCIAL MARKETS IN ICELAND

In the first decade of the 21st century, Iceland's financial services sector grew substantially, catalysed by financial globalisation and de-regulation in the 1990s and, in 2003, the privatisation of state-owned banks. Following the privatisation of the three major banks in Iceland, the resulting financial undertakings focused on foreign investments and opened branches abroad and acquired operations in several foreign countries. By the end of 2007, the banking system's assets were roughly 10 times that of the country's GDP. In autumn 2008, the three major banks collapsed and in the months and years after, smaller financial institutions also collapsed which resulted in a collapse of roughly 97 per cent. of the banking system (measured by assets).

In the aftermath of the banking crisis, the financial system in Iceland changed radically. Three new banks were established and took over the domestic operations of the collapsed banks. Other smaller financial institutions have undergone financial restructuring and some of them lost their operating licences. The restructured banking system (deposit money banks) is much smaller at approximately 1.3 times Iceland's GDP as of 31 December 2018.[21]

Size of the banking system

Total assets of Icelandic deposit money banks, which are the four commercial banks and four savings banks, amounted to ISK 3,930.1 billion, as at 30 September 2019, of which foreign assets were ISK 445.7 billion, or 11.5 per cent. The Icelandic financial market is therefore highly exposed to the Icelandic economy[22].

The total assets of the three largest commercial banks, the Issuer, Íslandsbanki and Arion Bank, comprised around 74 per cent. of the total assets of the Icelandic credit institutions (excluding the Central Bank and including the failed banks' holding companies)[23] as at 30 September 2019, according to the Central Bank. The proportion of total assets of other financial corporations, of which the Housing Finance Fund ("**HFF**") is largest, was 25 per cent. of the total assets.

Market participants and supervision

Icelandic credit institutions are comprised of four commercial banks, four savings banks and five credit undertakings subject to minimum reserve requirements. The financial market also includes nine securities companies, and nine management companies of UCITS, as well as two other supervised entities (HFF and Depositors' and Investors' Guarantee Fund)[24].

The HFF, a fully state-owned institution, operates in Iceland and offers financing for residential housing in Iceland. The establishment of the mortgage lender HFF was approved at the beginning of 1999. The HFF 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 2004 when the three major banks in Iceland entered the financing sector for residential housing.

One stock exchange is operated in Iceland, Nasdaq Iceland, operating under Act. No. 110/2007 on Stock Exchanges, and two securities depositories, Nasdaq CSD Iceland and Verðbréfamiðstöð Íslands[23]. Securities depositories are operated under Act No. 131/1997, on Electronic Registration of Rights of Title to Securities.

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[21] Source: Central Bank of Iceland, Statistics Iceland, own calculations
[22] Source: Central bank of Iceland
[23] Source: Central Bank of Iceland, Landsbankinn, Arion Bank and Íslandsbanki interim financial statements
[24] Source: Financial Supervisory Authority
[23] Verðbréfamiðstöð Íslands hf. has been granted an operating license from the Iceland Financial Supervisory Authority, but has at this time not commenced operations

Icelandic financial markets are supervised by the FME. Entities engaging in financial activities which are subject to licence are regulated by the FME, including credit institutions, insurance companies and pension funds. The activities of the FME are largely governed by Act No. 87/1998, on the Official Supervision of Financial Operations, and Act No. 99/1999, 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. In general, the capital controls in the Foreign Exchange Act restricted the outflow of capital from Iceland and between resident and non-resident parties except in the case of a payment for goods or services. These capital controls prohibited certain transactions with securities and could adversely affect the ability of investors to invest in and trade such securities. In June 2015, the Government of Iceland presented a comprehensive strategy for capital account liberalisation, see further "*The recession in 2008 and the restructuring of the financial sector- Capital Controls"*. In 2014, a new Act amending the Foreign Exchange Act took effect and in March 2017, the Central Bank announced new rules which provide for general exemptions to most of the existing restrictions pursuant to the Foreign Exchange Act. The Central Bank oversees surveillance of the rules on Foreign Exchange.

Other relevant institutions in the financial market

There are other relevant financial institutions which participate in the financial markets.

Pension funds, which are independent non-governmental entities, are an important source of long-term finance in Iceland and are active in the financial market through their investments activities. In addition, the pension funds have become active competitors after they started increasing their mortgage lending to the public. 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.

Several securities houses are also operating domestically and many of them operate mutual funds of various kinds. With the easing of capital controls and the increased availability of investments opportunities, some securities houses have started offering services on international financial markets.

Furthermore, there are four major insurance companies, Tryggingamiðstöðin hf., Sjóvá-Almennar tryggingar hf., Vátryggingafélag Íslands hf., and Vörður tryggingar hf., which are licensed to operate in Iceland. Tryggingamiðstöðin hf., Sjóvá Almennar tryggingar hf., and Vátryggingarfélag Íslands hf. have been active in the financial market through their investment activities in Iceland. These three insurance companies are listed on Nasdaq Iceland.

The recession in 2008 and the restructuring of the financial sector

In the fourth quarter of 2008, the Icelandic economy entered into a severe recession after a five-year period of robust but unsustainable economic growth. This was a major economic and political event that involved the collapse of Iceland's three large cross-border banks, LBI, Glitnir Bank hf. and Kaupthing Bank hf. On 6 October 2008, the parliament of Iceland passed Act No. 125/2008, the so-called Emergency Act, authorising the FME to take control of financial undertakings in extraordinary financial and/or operational difficulties. On the basis of the Emergency Act, the FME intervened in the operations of all three banks. Aiming to prevent a general collapse of the Icelandic economy, three new state-owned banks were established, and these banks took over the domestic activities of the three Old Banks. The collapsed banks went into special resolution regimes on the basis of the Emergency Act. The path forward for the receivership-held banks was dictated to be a secretion of all domestic assets into new surviving public-owned domestic versions of the banks, while leaving the foreign operations of the banks to go into receivership and liquidation. In April 2009, "winding up committees" were appointed to process creditor claims. Later in 2009, the Icelandic government invested approximately USD 1.1 billion in the equity and an additional USD 0.44 billion in subordinated debt of the three new banks, NBI hf. (now Landsbankinn), New Glitnir hf. (now Íslandsbanki) and New Kaupthing hf. (now Arion Bank).

The financial crisis had a significant negative impact on the Icelandic economy. The national currency fell sharply in value, and the market capitalisation of the Icelandic stock exchange fell by more than 90 per cent. As a result of the crisis, Iceland underwent a severe economic recession; the nation’s GDP dropped by 6.9 per cent. in real terms in 2009. The sharp depreciation in the ISK caused significant financial difficulties for Icelandic households and businesses that were heavily indebted and had significant exposure to foreign currency.

Following the collapse of the financial sector, the central government reached an agreement which involved a joint economic programme with the IMF and the Central Bank. The objective of this programme was to restore confidence and stabilise the economy under a two-year stand-by arrangement that was subsequently extended until 31 August 2011. The programme involved access to around USD 2.1 billion in foreign funding from the IMF, accompanied by bilateral loan commitments from European neighbours and standing facilities together totalling approximately USD 3 billion. The stand-by arrangement was completed in August 2011.

The period 2005-2008 saw significant capital inflow into Iceland. The loss of confidence following the collapse of the financial sector threatened to trigger large capital outflows which could have led to further depreciation of the krona and higher inflation. Since private sector balance sheets were, at the time, characterised by both high leverage and a large proportion of foreign-denominated and inflation-indexed debt, it was considered that this could trigger a wave of defaults, with adverse macroeconomic implications. Consequently, on 10 October 2008, the Central Bank introduced capital controls which were later formalised in legislation. In general, the capital controls in the Foreign Exchange Act restricted the outflow of capital from Iceland and between resident and non-resident parties except in the case of a payment for goods or services. These capital controls prohibited certain transactions with respect to securities and restricted investments by foreign investors in Iceland. In June 2015, the Icelandic Government announced a comprehensive strategy for capital account liberalisation, which entailed a threefold plan towards the removal of capital controls. Firstly, the estates of the Old Banks and of other smaller financial undertakings agreed to certain stability conditions, which have since been fulfilled by making contributions to the Central Bank after completion of respective winding-up proceedings reaching composition agreements with respective creditors (all of which have been confirmed by the District Court); secondly, the Central Bank held a foreign currency auction in June 2016, with respect to which owners of ISK-denominated assets subject to special restrictions pursuant to Act No. 37/2016 were invited to participate; and thirdly, it was intended, when conditions in the domestic market allowed, that further capital account liberalisation was to be implemented, which was the case in March 2017, when the Icelandic Government announced that the capital controls would, to a large extent, be removed and the Central Bank issued new rules which provide for general exemptions to most of the existing restrictions pursuant to the Foreign Exchange Act. For further information see *“Capital Controls”*.

Capital controls

On 28 November 2008, the Icelandic Parliament passed Act No. 134/2008 amending 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, in response to the financial crisis. For this purpose, the Central Bank issued new Rules No. 1082/2008 on Foreign Exchange imposing stringent capital controls on cross-border movement of capital and related foreign exchange transactions. Rules No. 1082/2008, on Foreign Exchange were codified with the adoption of Act No. 127/2011 in 2011, amending the Foreign Exchange Act. The Foreign Exchange Act and rules on foreign exchange have been reviewed and amended several times since then. The Foreign Exchange Act was further supplemented by Rules No. 200/2017 on Foreign Exchange (“**Rules on Foreign Exchange**”), which came into force in March 2017 and were amended with Rules no. 568/2017 and Rules 311/2019.

In June 2015, the Icelandic Government announced a comprehensive strategy for capital account liberalisation, which entailed a threefold plan towards the removal of capital controls. In October 2016, an important step towards removal of the capital controls was made, when the Icelandic Parliament passed Act No. 105/2016, amending the

Foreign Exchange Act, which entailed increased authorisation for foreign exchange transactions and cross-border movement of capital, in addition to the removal of specific restrictions that had previously applied to foreign exchange transactions and cross-border movement of capital.

Rules No. 200/2017 on Foreign Exchange largely removed the restrictions on foreign exchange transactions and cross-border movement of foreign domestic and foreign currency. In general, households and businesses are no longer subject to the restrictions that the Foreign Exchange Act placed on, among other things, foreign exchange transactions, foreign investment, hedging, and lending activity. In addition, the requirement for residents of Iceland to repatriate foreign currency has been removed. With the introduction of Rules No. 200/2017 on Foreign Exchange, foreign investment by pension funds, fund for collective investment, and other investors who were subject to explicit exemption by the Central Bank, is now authorised. In addition, cross-border transactions with ISK are now authorised. Foreign financial undertakings are therefore authorised to transfer ISK and financial instruments issued in domestic currency to and from Iceland.

Even since the reforms in 2017, restrictions are still in place on the following: (i) Cross-border transfers of domestic currency due to transactions with offshore króna assets that are subject to special restrictions pursuant to the Act on the Treatment of Krona-Denominated Assets Subject to Special Restrictions, no. 37/2016, (ii) Foreign exchange transactions carried out between residents and non-residents without the intermediation of a financial institution, if domestic currency is a constituent of the transaction, (iii) Derivatives transactions involving domestic currency against foreign currency and undertaken for purposes other than hedging against risk or hedging in connection with foreign issuance of krona-denominated bonds (glacier bonds).

In accordance with Temporary Provision I in Act. 87/1992 on Foreign Exchange, the Minister of Finance and Economic Affairs published a report, dated 3 May 2019, on the progress of plans to remove restrictions on cross-border capital movements and foreign currency trading. According the report the above restrictions will be revised as a part of a holistic revision of the legal framework for the foreign exchange in Iceland.[25]

The requirements obliging financial undertakings and other parties engaging in capital transactions to notify the Central Bank of capital movements will also remain unchanged for the present. However, various foreign exchange transactions and capital transfers that have previously been subject to confirmation by the Central Bank are now only subject to a disclosure requirement.

A bill was passed on 4 March 2019 and the act No. 14/2019, which amends the Foreign Exchange Act and the Act on the Treatment of Krona –Denominated Assets Subject to Special Restrictions No. 37/2016 entered into force on the 5 March 2019. Due to the amendments to the Foreign Exchange Act on Special Reserve Requirements for New Foreign Currency Inflows the Central bank set new rules No 233/2019 on Special Reserve Requirements for New Foreign Currency Inflows and rules No. 224/2019, on the Treatment of Krona –Denominated Assets Subject to Special Restrictions. The new rules, which took effect on the 6 March 2019, include new provisions and necessary amendments due to the aforementioned amending legislation. The new Rules on Special Reserve Requirements for New Foreign Currency Inflows lowers the special reserve ratio provided for the previous rules from 20 per cent. to 0 per cent. See further "*Taxation and Capital Inflow Restrictions- Rules on Reserve Requirements for new foreign currency inflows - capital inflow restrictions.*

With the aforementioned amendments to the Foreign Exchange Act and the Act on the Treatment of Króna-Denominated Assets subject to special restrictions, a separate offshore market for Krona no longer exist and the vast majority of the capital controls introduced in November 2008 have been lifted.

The restrictions on capital movements imposed in Iceland constitute protective measures under Article 43 of the EEA Agreement (the "**EEA Agreement**") and have as such been notified to the European Free Trade Association (the "**EFTA**") Standing Committee under the procedures provided for in Protocol 18 of the EEA Agreement in

[25] Source: Progress of the Plan for Removal of Capital Controls: https://www.government.is/lisalib/getfile.aspx?itemid=f64a54f7-6dd5-11e9-943a-005056bc4d74

conjunction with Protocol 2 of the EEA 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 "**District Court**"), the Court of Justice of the EFTA States (the "**EFTA Court**") issued a reasoned opinion on 14 December 2011 (case E-3/11) 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.

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 37 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, Landsbanki Íslands hf. ("**LBI**") dates back to 1886.

The Issuer has been granted an operating licence to act as a commercial bank and 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 July 2019, the international rating agency Standard & Poor's ("**S&P**") affirmed the long term and short term ratings of the Issuer as BBB+/A-2, but revised its outlook from stable to negative. The previous rating was from July 2018, where S&P affirmed the long- term and short-term rating of the Issuer BBB+/A-2 with an unchanged "stable outlook".[26]

In the first nine months of 2019, the Group's net interest income was ISK 30.09 billion compared to ISK 29.85 billion for same period in 2018. Its operating income was ISK 39.25 billion compared to ISK 41.07 billion for the same period in 2018 and profit for the first nine months of 2019 was ISK 14.36 billion compared to ISK 15.39 billion for the first nine months in 2018. As at 30 September 2019, the Group's total assets were ISK 1,415 billion compared to ISK 1,326 billion, at 31 December 2018.

No material adverse changes in the prospects of the Issuer have occurred since the date of its last published audited financial statement on 31 December 2018.

No significant changes in the financial or trading position of the Issuer have occurred since the end of the last financial period on 30 September 2019.

HISTORICAL BACKGROUND

LBI was a public limited liability company (hf.) but changed to a private limited liability company (ehf.) in 2016. LBI the Issuer's predecessor, was established by the Icelandic Parliament on 1 July 1886. In establishing LBI, the Icelandic Parliament hoped to boost monetary transactions and encourage the country's nascent industries. LBI'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 grew and developed in parallel to the nation. In the 1920s, LBI became Iceland's largest bank and was made responsible for issuing Iceland's bank bonds. The issuance of bank bonds was transferred to the then newly established Central Bank of Iceland in 1961 and LBI continued to develop as a commercial bank, expanding its branch network in the ensuing decades.

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[26] Standard & Poor's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs), in accordance with the CRA Regulation.

Liberalisation of financial services in Iceland, beginning in 1986, opened up new opportunities which LBI managed to take advantage of, despite some economic adversity. In 1997, LBI was incorporated as a limited liability company, and the ensuing privatisation was concluded in 2003. From 2003 to 2008, LBI 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 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 and a Resolution Committee was appointed to supersede the board of directors of LBI.

SHAREHOLDERS, SHARE CAPITAL AND DIVIDEND POLICY

As at 30 September 2019, the Issuer had 883 shareholders. The ISFI manages 23,567,013,778 (98.2 per cent.) shares and the corresponding voting rights on behalf of the largest shareholder, the Icelandic State Treasury. The ISFI manages its holdings in the Issuer in accordance with its publicly available ownership policy. The second largest shareholder is the Issuer, which holds 375,460,240 (1.56 per cent.) of its own shares after acquisition by the Issuer of its own shares under its buy-back programme (the "**Buy-Back Programme**") initiated in December 2018. Current and former employees of the Issuer and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses hold 57,525,982 (0.24 per cent.) shares and the corresponding voting rights in the Issuer, after the Issuer exercised an authorisation to purchase shares under the Buy-Back Programme (see section "*Share Capital*"). The shares and the corresponding voting rights of current and former employees of the Issuer and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses. are held by each shareholder individually.

	Shares as of 30 September 2019	**% of the Issuer's share capital**
Icelandic State Treasury	23,567,013,778	98.20
Landsbankinn's own shares	375,460,240	1.56
Current and former employees of Landsbankinn and current and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurland ses	57,525,982	0.24
Total shares	24,000,000,000	100.00

The Icelandic Parliament has authorised a sale of 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 – see also "*Risk factors - The Icelandic State Treasury is the largest shareholder of the Issuer. This may affect the Issuer and its business*".

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

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

Share Capital

The Issuer's total share capital is ISK 24,000,000,000 of which 23,624,539,760 shares are outstanding. Each share has a nominal value of one ISK and the owner is entitled to one vote at shareholders' meetings.

The Issuer's AGM held on 4 April 2019, authorised the Issuer, in accordance with Article 55 of the Act on Public Limited Companies, No. 2/1995, to acquire its own shares, up to 10 per cent. of the nominal value of the Issuer's share capital. The minimum and maximum amount the Issuer is authorised to pay for each share shall be equivalent to the Issuer's book value, i.e. the ratio of shareholder equity to share capital, as disclosed in the most recently published annual or interim financial statements published before the purchase of own shares takes place. This authorisation is valid until the AGM of the Issuer in 2020. Disposition of own shares purchased by the Issuer based on this authorisation is subject to approval by a shareholders' meeting. On 6 December 2018, the Issuer's Board of Directors decided to exercise an authorisation to purchase the Issuer's own shares. Under the Buy-Back Programme, the maximum purchase amounted to 72.5 million shares, or the equivalent of 0.3 per cent. of issued shares. Before the aforementioned Buy-Back Programme, the Issuer has previously offered shareholders the chance to sell their shares in the Issuer on three previous occasions, most recently in February 2017. Under the Buy-Back Programme which was announced on the 6 December 2018, the Issuer offered to purchase shares from shareholders during a repurchase period, from 10 December 2018 up to and including 20 December 2018. Based on the Issuer's interim results for the first nine months of 2018, the equity held by the Issuer's shareholders amounted to ISK 235,892 million and 23,640 million outstanding shares. In accordance with the aforementioned, the Issuer offered to purchase each share at a price of ISK 9.9787 during the repurchase period. Prior to the repurchase period in December 2018, the Issuer held 360,465,119 of its own shares or the equivalent of around 1.50 per cent. of issued share capital in the Issuer. At the end of the repurchase period the Issuer held 375,460,240 of its own shares, or the equivalent of around 1.56 per cent. of issued share capital.

Dividend policy

In December 2018, the board of directors approved a dividend policy for the Issuer. The Issuer aims to pay regular dividends to shareholders amounting to greater than 50 per cent. of the previous year's profit. In line with the Issuer's target capital ratio, the Issuer also aims to make special dividend payments to optimise the Issuer's capital structure. When determining the level of dividends, the Issuer's considers its financial position. Risks in relation to the Issuer's internal and external environment, growth prospects, the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time are also considered.

The Issuer's AGM held on 4 April 2019 authorised the Issuer to pay a dividend amounting to ISK 0.42 per share for the accounting year 2018 and that the payment be in two instalments. The first date of payment took place on 10 April 2019 and amounted to ISK 0.21 per share. The latter date of payment took place on 2 October 2019 and amounted to ISK 0.21 per share. Both payments were based on the register of shareholders at end of business on the day of the AGM held 4 April 2019, unless the Issuer received notification of the assignment of dividend through the transfer of shares. The total amount of the dividend payments based on the outstanding shares is ISK 9,922 million, which represents around 51.5% of profit for the year 2018.

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 (the **Group**):

Principal subsidiaries	**Principal area of activity**	**Ownership interest**
Eignarhaldsfélag Landsbankans ehf.	Holding company	100%
Landsbréf hf.	Management company for mutual funds	100%
Hömlur ehf.*	Holding company	100%

*Hömlur ehf. is a parent of a number of subsidiaries, which are neither individually nor combined significant in the context of the Group's business.

STRATEGY

The strategy sets the agenda for the next year until 2020.

Role: Trusted financial partner

Vision: Landsbankinn is exemplary

Strategic focal points

The strategic focal points are based on the Issuer's core pillars and serve as the Issuer's guide towards a digital future. The Issuer will emphasise initiative in customer relations and provide customers with exemplary service to maintain long-term business relationships.

Accessibility

Customers can easily monitor and have access to all the main banking business from anywhere and at anytime. They have easy access to information and a good overview of their finances. The Issuer's main tasks include:

- Creating a banking platform that allows all of the Issuer's customers, both private individuals and corporates, to tend to all main banking business via electronic online solutions
- Facilitating the on-boarding of new customers using online, straight-through processes
- Tailoring the Issuer's services to fit the needs of its customers

Efficiency

Customers save time and effort through use of the Issuer's electronic online solutions. Their business is tended to expediently and securely using the service platform of the customer's choosing. The Issuer's aims include:

- Simplification and digitalisation of those processes that are most important to its customers
- Shortening processing time and finalising requests, if possible, at first touch
- Developing models that automate decisions in key processes
- Designing the flow of information to allow customers to review their status in real time
- Creating a one system solution that works for both customers and employees
- Co-operation between divisions and departments

Value-adding

Customers receive personalised services tailored to meet their needs. They experience their relationship with the Issuer as valuable and see that their business history is taken into account. The Issuer's challenges include:

- Listening to customers, discerning their needs and identifying solutions that suit each customer
- Leveraging technology and utilising data to tailor service and advice offered to its customers, including analysing customers' needs and the use of preapproved limits
- Developing products and services that are value-adding for both parties
- Being data-driven and utilising such information in the Issuer's decision-making processes

Initiative

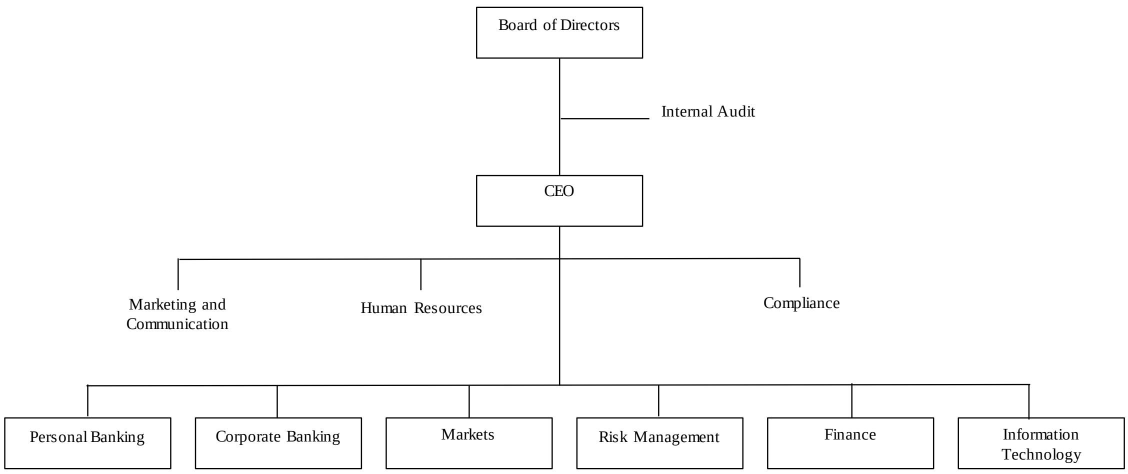
The Issuer is attentive to its customers. Customers notice that the Issuer's employees conduct their work in a professional manner and show initiative. The Issuer's tasks include:

- Building a vibrant and positive corporate culture that is characterised by initiative in communications
- Attracting employees that have the knowledge and capability to take the Issuer towards a digital future

- Emphasising product development and innovation, both in-house and through external collaboration
- Creating a work environment that supports flexible work space where collaboration is key

BUSINESS

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



The Issuer has three reporting segments: Personal Banking, Corporate Banking and Markets.

Personal Banking

The Personal Banking division ("**Personal Banking**") comprises three departments: the Branch Network, the Customer Service Centre and Leasing (vehicle and equipment financing). Personal Banking has one support unit: 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.

The Issuer operates 37 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, online banking system and mobile solutions.

Among the Issuer's customers are around 129,000 individuals and around 11,000 SMEs. Its market share is around 38 per cent. with respect to individuals, and 34 per cent with respect to SMEs, according to a survey conducted by Gallup in 2019.

Corporate Banking

Corporate Banking ("**Corporate Banking**") provides comprehensive financial services to large, small and medium sized corporate clients and municipalities, as well as tailored services to meet customer specific needs. Corporate Banking also handles corporate and SMEs' services in the capital region through a SMEs' Center.

Corporate Banking holds a strong position among the largest companies and institutions in Iceland. The market share in Corporate Banking, according to an annual survey conducted by Gallup in 2018, is stable at 34 per cent.

Corporate Banking comprises four business units and four 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 four support units: Business Support, Credit Assessment, Corporate Debt Restructuring 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.

Corporate Debt Restructuring analyses and manages problematic assets in the corporate loan portfolio such as cash flow, debt service capacity, collaterals and asset valuation. The team also manages negotiations with all stakeholders (shareholders, liquidators, etc.).

Legal Services, which sits 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 advisory services. The division provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Landsbréf hf. a subsidiary of the Issuer, is included in 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.

Part of the product offering provided by Asset Management is securities and investment funds run by Landsbréf hf. 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 customers' asset portfolios in addition to general accounting 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 in the market and best practice.

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.

Capital Markets 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.

Market Making acts as a market maker for a number of issuers 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 in 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 by providing business development.

Support divisions

The Issuer has three support divisions: Risk Management, Finance, 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 to monitor these risk factors in the Issuer's operations. The Risk Management division is responsible for the maintenance and analysis of the Issuer's risk assessment systems. Subsidiaries of the Issuer have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group exposures. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions to various internal departments and committees and supervisory authorities.

As of December 2018, the Risk Management Division was comprised of seven departments.

- The Credit Management Department is responsible for reviewing credit decisions made by the Issuer's business units when credit applications exceed the business units' limits. The department has veto rights on those credit applications. Confirmation by Credit Management implies that Credit Management has reviewed the credit application and has decided not to exercise its veto rights. Credit applications exceeding the confirmation limits of the Risk Management Division are referred to the Issuer's Credit Committee. The department also sets and maintains the Issuer's rules regarding the lending process.

- The Credit Risk Department is responsible for measuring and monitoring credit risk as well as for providing the Issuer with systems and processes to measure, monitor and control credit risk in credit and policy decisions. Credit Risk is also responsible for analysis and reporting on credit risk, economic capital and impairment. Credit Risk also sets rules and procedures regarding credit risk, such as procedures for impairment measurement, credit mitigation and forbearance.

- The Market Risk Department is responsible for measuring, monitoring and reporting on market risk, liquidity risk and interest rate risk in the Issuer's banking book along with limit monitoring and reporting. The department develops and maintains the Issuer's market risk models and maintains the Issuer's Market Risk Policy and Liquidity Risk Policy, as well as implementing processes to measure and monitor market risk and liquidity risk within the Issuer. Market Risk is also responsible for monitoring all derivatives trading the Issuer enters into, both for hedging and trading purposes, as well as FX balance monitoring for the Issuer.

- 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 business continuity plans. The department is responsible for the Issuer's policy on operational risk as well as the rules on new products. The department is partly responsible for the security system of online banking. The Operational Risk Department leads the work on the Issuer's certification under the ISO 27001 standard for information security.

- The Risk Manager for Pension Funds is responsible for development and implementation of risk policy and risk governance, execution of risk assessment and correspondence with regulators such as the Central Bank and the Financial Supervisory Authority ("**FME**"). The Risk Manager monitors regulatory compliance, reviews calculations and results and performs tolerance interval monitoring. The Risk Manager has direct access to the boards of the pension fund and reports to their managing directors.

- The Internal Modeling Department is responsible for providing the Issuer with Internal Rating Based ("**IRB**") and Economic Capital ("**EC**") models and related processes to estimate credit risk and link the risk to equity, as well as for providing support during the implementation of those models and processes within the Issuer. The department is also responsible for the development of models for pre-approved limits.

- The Risk Solutions Department is responsible for developing and operating solutions used by the Risk Management Division, as well as maintaining the development and reporting environments of the Risk Division. The department is also responsible for maintaining, monitoring and executing the business logic/programming code developed within the Risk Division (e.g. the operation of the programming code that creates data source for the common reporting framework ("**COREP**") for large exposures), by the Risk Division and reporting to supervisory parties. In addition, the department is responsible for the implementation of the Basel Committee on Banking Supervision for the effective risk data aggregation and risk reporting standard or Basel Committee on Banking Supervision standard number 239 ("**BCBS 239**").

Finance

Finance is a division that incorporates both support and profit functions. The division comprises eight departments: Treasury, Accounting & Financial Reporting, Legal, Financial Administration, Economic Research, Transaction Services, Loan Products and Development and Operations.

Treasury is responsible for the Issuer's funding, liquidity management and market making in money markets. Treasury manages the Issuer's exchange rate, interest rate and inflation risks, within limits that are set by the Board of Directors. In addition, Treasury handles investor relations, dealings with the Central Bank and communications with domestic and overseas financial institutions, as well as rating agencies. Treasury is also responsible for the Issuer's internal and external interest rate pricing.

The Accounting & Financial Reporting ("**A&FR**") is responsible for the overall financial accounting of the Issuer and maintaining financial controls, which includes, *inter alia,* reconciliations of subsystems to the general ledger and transactions control. The A&FR is also responsible for the Group's monthly financial reporting, including the Group's quarterly and annual financial statements. In addition, the A&FR is responsible for the accounts payable process which involves routing supplier or vendor invoices to accounts payable for processing and payment of invoices.

The Issuer's Legal department handles legal aspects of the Issuer's operations. The Legal department, *inter alia,* provides the Issuer with legal advice, represents the Issuer in district courts, prepares cases reviewed by the Complaints Committee on Transactions with Financial Undertakings, reviews and confirms standardised documents relating to the Issuer´s operations, and prepares documents and communications with regulators, in particular the FME and the Icelandic Competition Authority. The Issuer's Legal department also oversees the handling of collection of payments in arrears owed to the Issuer.

Financial Administration manages the Issuer's budgets and forecasting. Compilation and dissemination of management information is a key part of the department's responsibilities. Financial Administration also handles analysis and control for the Issuer´s operations; it manages and edits the Issuer's Internal Capital Adequacy Assessment Process ("**ICAAP**") and Internal Liquidity Assessment Process ("**ILAAP**").

The Economic Research department monitors financial markets and economic trends of relevance to the Issuer and its clients. The department follows the development in the domestic and global economy and on most import markets. The department publishes research reports on all major domestic macro-developments as well as foreign-exchange, fixed income and equity markets.

Transaction Services provides services to the income divisions of the Issuer and to the Issuer's customers. The main activities include international payments, clearing and settlement of securities and foreign exchange transactions, fund accounting for securities and pension funds and back-office functions for pension savings.

Loan Products and Development 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.

The Operations division comprises two departments: Properties and Appropriated Assets. The Properties department oversees the Issuer's internal operations and facilities, i.e. the operation and maintenance of all its properties, including sales or purchases. The Properties 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.

Appropriated Assets is responsible for selling and renting out real estate assets which the Issuer has acquired through foreclosure or as a part of debt restructuring. In addition, the Appropriated Assets department sells vehicles, equipment and other items that the Issuer has acquired through foreclosure.

Information Technology

The Information Technology ("**IT**") division is responsible for developing, operating and advising on the Issuer's information systems and solutions. The IT division comprises six departments: Architecture, Application Management and Software Development, Information Intelligence, IT Service, Operations, and Web Development.

The Architecture department comprises several units which are responsible for several different tasks such as providing process improvement, procurement, strategic planning and project management, data and software architecture and physical document storage supervision.

The Application Management and Software Development department comprises eight different domain units. The department oversees all business software, both internally developed and third-party software.

The Information Intelligence department is the driving force behind the use of information for decision-making and improved customer service. This department is responsible for the data warehouse, BI-reports and data analytics.

The IT Service department comprises two units: the Help desk unit, which provides first and second level service to internal users and the Information Technology Infrastructure Library ("**ITIL**") process management unit.

The Operations department comprises several different units: operations, system administration, database administration, hardware support, software distribution, net, phone, access control, batch processing and security as well as hardware such as data centres, telephone systems, ATMs, etc.

The Web Development department designs, maintains and develops all front end web solutions that clients use such as mobile app, online banking and the Issuer's webpages.

Other divisions

CEO's Office

The CEO's Office works closely with the CEO to assist him with his duties. Its primary responsibilities are arranging meetings for the Issuer's senior management and Board of Directors and following-up on the implementation of decisions. Compliance, Human Resources ("**HR**"), and Marketing & Communication report directly to the CEO.

HR is responsible for all employee-related issues, such as salary and benefits, recruitment, training and job development.

The Marketing & Communication Department is responsible for formulating and implementing the Issuer's marketing strategy and planning. It is also responsible for internal and external communication.

Compliance is an independent management unit placed directly under the CEO in the Issuer's organizational chart, operating in accordance with the letter of appointment from the Board of Directors. The Data Protection Officer works independently from Compliance, in accordance with the letter of appointment from the Board of Directors.

Compliance is part of the Issuer's second level control and is responsible for:

- monitoring laws and actions against money laundering and financing of terrorist activities, laws on securities trading and laws on data protection. Compliance also monitors the efficiency of the Issuer's policy on compliance with laws, regulations and internal rules: and
- consulting and instructing management on the effects of changes to the legal environment on the Issuer's operations, measures to prevent conflicts of interest and actions necessary to ensure that the Issuer operates in accordance with proper and sound business practices, with an aim of strengthening the credibility of and confidence in financial markets.

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 audit activity is accountable both administratively and functionally to the Board of Directors. The Board of Directors employs the chief audit executive, who annually confirms to the board the organisational independence of the internal audit activity. According to an external quality assessment, conducted in January 2019, the internal audit activity of the Issuer generally conforms to the Standards, Definition of Internal Auditing and Code of Ethics, issued by the Institute of Internal Auditors ("**IIA**").

LOAN PORTFOLIO

The table below sets out details of the Group's loans and advances to financial institutions, as at 30 September 2019 and 31 December 2018, classified by type of loan.

	30.9.2019	**31.12.2018**
Bank accounts with financial institutions	15,440	40,913
Money market loans	53,916	29,455
Other loans	1,867	1,019
Allowance for impairment	(1)	(2)
Total	**71,222**	**71,385**

The table below sets out details of the Issuer's loans and advances to customers at amortised cost, as at 30 September 2019 and 31 December 2018.

	30.9.2019			**31.12.2018**		
	Gross carrying amount	**Allowance for impairment**	**Carrying amount**	**Gross carrying amount**	**Allowance for impairment**	**Carrying amount**
Public entities	4,089	(18)	4,071	4,865	(145)	4,720
Individuals	458,011	(2,363)	455,648	416,040	(2,341)	413,699
Mortgage lending	379,048	(938)	378,110	336,685	(886)	335,799
Other	78,963	(1,425)	77,538	79,355	(1,455)	77,900
Corporates	679,544	(12,535)	667,009	646,762	(10,319)	636,443
Total	**1,141,644**	**(14,916)**	**1,126,728**	**1,067,667**	**(12,805)**	**1,054,862**

The following tables show the Group's maximum credit risk exposure at 30 September 2019, and 31 December 2018. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the condensed consolidated Interim statement of financial position. Off-balance sheet amounts, in the tables below, are the maximum amounts the Group 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[27] industry classification for corporate customers.

				Corporations										
As at 30 September 2019	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction companies**	**Real estate companies**	**Holding companies**	**Retail**	**Services**	**ITC****	**Manu-facturing**	**Agriculture**	**Other**	**Carrying amount**
Cash and balances with Central Bank	-	56,680	-	-	-	-	-	-	-	-	-	-	-	56,680
Bonds and debt instruments	8,968	77,183	-	-	-	9,656	67	-	-	-	-	-	912	96,786
Derivative instruments	1,741	-	80	10	46	80	458	22	-	-	-	-	91	2,528
Loans and advances to financial institutions	71,222	-	-	-	-	-	-	-	-	-	-	-	-	71,222
Loans and advances to customers	-	4,071	455,648	153,258	95,145	140,410	28,340	64,916	138,124	30,416	18,500	7,974	2	1,136,804
Other financial assets	5,047	-	51	-	-	2,453	30	2	2,491	1	53	-	1	10,129
Total on-balance sheet exposure	86,978	137,934	455,779	153,268	95,191	152,599	28,895	64,940	140,615	30,417	18,553	7,974	1,006	1,374,149
Off-balance sheet exposure	3,643	4,945	32,097	10,678	49,363	14,954	841	16,117	13,459	5,788	24,385	3,012	30	179,312
Financial guarantees and underwriting commitments	353	46	783	3,121	3,741	1,301	19	2,690	3,200	1,634	791	1	-	17,680
Undrawn loan commitments	-	-	-	5,560	43,087	12,072	616	8,658	2,879	2,933	20,454	2,169	-	98,428
Undrawn overdraft/credit card facilities	3,290	4,899	31,314	1,997	2,535	1,581	206	4,769	7,380	1,221	3,140	842	30	63,204
Maximum exposure to credit risk	90,621	142,879	487,876	163,946	144,554	167,553	29,736	81,057	154,074	36,205	42,938	10,986	1,036	1,553,461
Percentage of maximum exposure to credit ris	5.8%	9.2%	31.4%	10.6%	9.3%	10.8%	1.9%	5.2%	9.9%	2.3%	2.8%	0.7%	0.1%	100%

* 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.

				Corporations										
As at 31 December 2018	**Financial institutions**	**Public entities***	**Individuals**	**Fisheries**	**Construction companies**	**Real estate companies**	**Holding companies**	**Retail**	**Services**	**ITC****	**Manu-facturing**	**Agriculture**	**Other**	**Carrying amount**
Cash and balances with Central Bank	-	70,854	-	-	-	-	-	-	-	-	-	-	-	70,854
Bonds and debt instruments	3,507	63,222	-	-	-	9,336	69	-	-	-	-	-	924	77,058
Derivative instruments	1,529	-	11	4	48	76	165	39	1	-	-	-	50	1,923
Loans and advances to financial institutions	71,385	-	-	-	-	-	-	-	-	-	-	-	-	71,385
Loans and advances to customers	-	4,720	413,699	146,912	87,510	137,343	30,971	63,644	119,439	29,799	21,936	8,559	0	1,064,532
Other financial assets	1,903	27	108	-	159	229	31	3	2,320	45	39	-	0	4,864
Total on-balance sheet exposure	78,324	138,823	413,818	146,916	87,717	146,984	31,236	63,686	121,760	29,844	21,975	8,559	974	1,290,616
Off-balance sheet exposure	3,760	2,936	31,099	12,935	56,891	22,057	1,884	19,502	21,511	5,659	23,994	1,082	31	203,341
Financial guarantees and underwriting commitments	255	-	784	827	3,829	1,109	8	2,524	4,653	2,092	593	79	-	16,753
Undrawn loan commitments	-	0	,15	9,217	49,903	19,457	1,319	11,910	9,644	2,317	20,020	195	-	123,997
Undrawn overdraft/credit card facilities	3,505	2,936	30,300	2,891	3,159	1,491	557	5,068	7,214	1,250	3,381	808	31	62,591
Maximum exposure to credit risk	82,084	141,759	444,917	159,851	144,608	169,041	33,120	83,188	143,271	35,503	45,969	9,641	1,005	1,493,957
Percentage of maximum exposure to credit ris	5.5%	9.5%	29.8%	10.7%	9.7%	11.3%	2.2%	5.6%	9.6%	2.4%	3.1%	0.6%	0.1%	100%

* 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.

[27] The Icelandic Classification of Economic Activities. ISAT08 is based on the European Classification of Economic Activities („NACE"), NACE Rev.2, classification standard

The table for 30 September 2019 and year end 2018 shows both gross carrying amount and Expected Credit Loss ("**ECL**"), by industry sectors, and the three stage criteria under IFRS 9.

		Stage 1		Stage 2		Stage 3				
As at 30 September 2019	**Gross carrying amount**	**Gross carrying amount**	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Allowance for impairment**	**Fair Value**	**Carrying amount**
Financial institutions	71,223	71,217	(1)	6	-	-	-	(1)	-	71,222
Public entities	4,089	4,041	(18)	48	0	-	-	(18)	-	4,071
Individuals	458,011	414,412	(511)	37,764	(544)	5,835	(1,308)	(2,363)	-	455,648
Mortgages	379,048	349,159	(260)	26,533	(342)	3,356	(336)	(938)	-	378,110
Other	78,963	65,253	(251)	11,231	(202)	2,479	(972)	(1,425)	-	77,538
Corporates	689,620	592,804	(1,558)	57,373	(810)	29,367	(10,167)	(12,535)	10,076	677,085
Fisheries	153,533	147,144	(95)	2,942	(17)	654	(163)	(275)	2,793	153,258
Construction companies	96,933	75,448	(612)	17,563	(160)	3,922	(1,016)	(1,788)	-	95,145
Real estate companies	142,680	126,334	(531)	10,821	(218)	5,525	(1,521)	(2,270)	0	140,410
Holding companies	28,409	28,243	(53)	88	(1)	78	(15)	(69)	-	28,340
Retail	66,164	57,332	(45)	3,755	(53)	2,842	(1,150)	(1,248)	2,235	64,916
Services	142,127	112,300	(119)	17,353	(272)	10,651	(3,612)	(4,003)	1,823	138,124
Information, technology and communication	30,514	26,997	(67)	243	(3)	49	(28)	(98)	3,225	30,416
Manufacturing	21,219	13,220	(28)	2,667	(67)	5,332	(2,624)	(2,719)	-	18,500
Agriculture	8,039	5,785	(8)	1,940	(19)	314	(38)	(65)	-	7,974
Other	2	1	-	1	-	-	-	-	-	2
Total	**1,222,943**	**1,082,474**	**(2,088)**	**95,191**	**(1,354)**	**35,202**	**(11,475)**	**(14,917)**	**10,076**	**1,208,026**

		Stage 1		Stage 2		Stage 3				
As at 31 December 2018	**Gross carrying amount**	**Gross carrying amount**	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Allowance for impairment**	**Fair value**	**Carrying amount**
Financial institutions	71,387	71,384	(2)	3	-	-	-	(2)	-	71,385
Public entities	4,865	1,859	(8)	3,006	(137)	-	-	(145)	-	4,720
Individuals	416,040	363,967	(561)	47,581	(602)	4,492	(1,178)	(2,341)	0	413,699
Mortgages	336,685	301,920	(240)	32,390	(343)	2,375	(303)	(886)	-	335,799
Other	79,355	62,047	(321)	15,191	(259)	2,117	(875)	(1,455)	-	77,900
Corporates	656,432	582,067	(1,714)	38,809	(468)	25,886	(8,137)	(10,319)	9,670	646,113
Fisheries	147,295	135,868	(83)	8,373	(42)	1,458	(258)	(383)	1,596	146,912
Construction companies	89,305	79,649	(620)	6,112	(110)	3,544	(1,065)	(1,795)	-	87,510
Real estate companies	138,951	127,569	(569)	5,575	(82)	4,829	(957)	(1,608)	978	137,343
Holding companies	31,165	30,818	(84)	199	(4)	148	(106)	(194)	-	30,971
Retail	64,457	56,974	(88)	4,391	(28)	1,591	(697)	(813)	1,501	63,644
Services	122,383	102,188	(169)	10,514	(159)	7,558	(2,616)	(2,944)	2,123	119,439
Information, technology and communication	29,922	26,210	(61)	141	(1)	99	(61)	(123)	3,472	29,799
Manufacturing	24,220	17,003	(32)	1,205	(18)	6,012	(2,234)	(2,284)	-	21,936
Agriculture	8,734	5,788	(8)	2,299	(24)	647	(143)	(175)	-	8,559
Other	-	-	-	-	-	-	-	-	-	0
Total	**1,148,724**	**1,019,277**	**(2,285)**	**89,399**	**(1,207)**	**30,378**	**(9,315)**	**(12,807)**	**9,670**	**1,135,917**

The table below shows the gross carrying amount of loans and advances to financial institutions and customers by past due status as at 30 September 2019 and 31 December 2018.

	Gross carrying amount							
	Days past due							
As at 30 September 2019	**Not past due**	**1-5**	**6-30**	**31-60**	**61-90**	**over 90**	**Allowance for impairment**	**Carrying amount**
Financial institutions	71,223	-	-	-	-	-	(1)	71,222
Public entities	4,069	20	-	-	-	-	(18)	4,071
Individuals	442,530	4,239	6,074	905	1,375	2,888	(2,363)	455,648
Mortgages	371,281	6	4,871	549	1,015	1,326	(938)	378,110
Other	71,249	4,233	1,203	356	360	1,562	(1,425)	77,538
Corporates	657,154	4,103	8,596	3,399	4,078	12,290	(12,535)	677,085
Fisheries	152,207	181	739	108	19	279	(275)	153,258
Construction companies	94,008	186	1,548	11	46	1,134	(1,788)	95,145
Real estate companies	134,554	331	3,433	504	518	3,340	(2,270)	140,410
Holding companies	28,345	37	16	4	-	7	(69)	28,340
Retail	64,019	523	172	152	192	1,106	(1,248)	64,916
Services	130,157	2,586	2,443	2,234	2,215	2,492	(4,003)	138,124
Information, technology and communication	30,381	33	45	6	7	42	(98)	30,416
Manufacturing	15,672	193	165	350	1,075	3,764	(2,719)	18,500
Agriculture	7,810	32	35	30	6	126	(65)	7,974
Other	1	1	-	-	-	-	-	2
Total	**1,174,976**	**8,362**	**14,670**	**4,304**	**5,453**	**15,178**	**(14,917)**	**1,208,026**

	Gross carrying amount							
	Days past due							
As at 31 December 2018	**Not past due**	**1-5**	**6-30**	**31-60**	**61-90**	**over 90**	**Allowance for impairment**	**Carrying amount**
Financial institutions	71,387	-	-	-	-	-	(2)	71,385
Public entities	4,848	-	16	1	-	-	(145)	4,720
Individuals	402,153	2,842	2,780	4,204	879	3,182	(2,341)	413,699
Mortgages	329,665	-	1,984	2,996	590	1,450	(886)	335,799
Other	72,488	2,842	796	1,208	289	1,732	(1,455)	77,900
Corporations	629,832	9,059	4,243	2,549	1,035	9,714	(10,319)	646,113
Fisheries	146,381	371	20	50	3	470	(383)	146,912
Construction companies	84,409	990	785	64	212	2,845	(1,795)	87,510
Real estate companies	134,799	162	1,238	1,109	215	1,428	(1,608)	137,343
Holding companies	30,853	104	8	114	18	68	(194)	30,971
Retail	62,378	283	532	155	49	1,060	(813)	63,644
Services	113,694	2,630	1,550	919	361	3,229	(2,944)	119,439
Information, technology and communication	29,758	63	3	2	8	88	(123)	29,799
Manufacturing	19,308	4,345	88	88	11	380	(2,284)	21,936
Agriculture	8,252	111	19	48	158	146	(175)	8,559
Other	-	-	-	-	-	-	-	0
Total	**1,108,220**	**11,901**	**7,039**	**6,754**	**1,914**	**12,896**	**(12,807)**	**1,135,917**

The table below shows large exposures as at 30 September 2019 and 31 December 2018, after credit mitigation. As at 30 September 2019, five customer groups were rated as large exposures in accordance with rules on large exposures. Customers are rated as large exposures if their total obligations, or those of financially or administrative connected parties, exceed 10 per cent. of the Group's eligible capital. According to these rules, no exposure, after credit risk mitigation, may exceed 25 per cent. of the eligible capital.

As at 30 September 2019	Number of large exposures	Large exposures
Large exposures between 10% and 20% of the Group's eligible capital	3	101,693
Large exposures between 0% and 10% of the Group's eligible capital	2	-
Total	5	101,693
Total large exposures to eligible capital		41%
As at 31 December 2018		
Large exposures between 10% and 20% of the Group's eligible capital	3	83,842
Large exposures between 0% and 10% of the Group's eligible capital	1	-
Total	4	83,842
Total large exposures to eligible capital		34%

Further information on the aforementioned tables in this section is disclosed in the notes in the Condensed Consolidated Interim Financial Statement 2019, which is incorporated by reference to this Base Prospectus.

FUNDING

The Issuer is predominantly funded by three main sources: deposits from customers, market funding and share capital.

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

The Issuer has in place a EUR 2,000,000,000 Euro Medium Term Note ("**EMTN**") Programme that is listed on the Irish Stock Exchange. The EMTN Programme is utilised to broaden and strengthen the Issuer's funding in foreign currencies and all senior unsecured and subordinated bonds in foreign currencies issued by the Issuer to date are issued under the EMTN programme.

In addition, the Issuer has in place a ISK 200,000,000,000 covered bond programme, that is listed for trading on Nasdaq Iceland. Covered Bonds are issued under a licence from the Icelandic FME, and in accordance with reference to Act No. 11/2008 and FME Rules No. 528/2008. The purpose of the programme is to provide funding for the Issuer's mortgage loan portfolio and to hedge the Issuer's fixed interest rate exposure.

Furthermore, the Issuer has in place an ISK 50,000,000,000 Debt Issuance Programme that is listed for trading on Nasdaq Iceland. The Issuer primarily issues Commercial Paper in the domestic market in ISK under the Debt Issuance Programme. Additionally, the Issuer can raise unsecured Unsubordinated and Subordinated Bonds under the Debt Issuance Programme.

The Issuer issued its inaugural Tier 2 issuance of EUR 100 million notes in September 2018 under its EMTN Programme. The notes mature in September 2028 and are callable in September 2023. The issuance is rated BBB- by S&P Global Ratings. The notes have a fixed 3.125 per cent. coupon for the first five years and were sold at terms equivalent to a 285 basis point spread over mid-swaps in euros.

In October 2018, the Nordic Investment Bank ("**NIB**") granted the Issuer a loan of USD 75 million maturing in October 2025.

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, the increased availability of other investment opportunities for depositors who currently hold deposits with the Issuer. To reduce the risk of such external factors, the Issuer will continue to diversify its funding profile, subject to market conditions, by issuing bonds in the domestic and international bond markets.

RISK MANAGEMENT FRAMEWORK

Risk is inherent in the Group'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 Group's operations and undertakings. Risk measurement entails measuring the identified risks for management and monitoring purposes. Finally, risk controls and limits promote compliance with rules and procedures, as well as adherence with the Group's risk appetite.

The objective of the Group'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 Group will comply with regulatory requirements. In order to ensure that fluctuations which might affect the Group's equity as well as performance are kept limited and manageable, the Group has adopted policies regarding the risk structure of its asset portfolio which are covered in more detail under each risk type.

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

The Board of Directors of the Issuer has overall responsibility for the establishment and oversight of the Group's risk management framework and risk appetite and risk limit setting. The CEO is responsible for the effective implementation of the framework and risk appetite through the corporate governance structure and committees. The CEO 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 – while the Risk & Finance Committee covers primarily market risk, liquidity risk and legal risk. The Risk & Finance Committee monitors the Group’s overall risk position, is responsible for enforcing the Group's risk appetite and risk limits, reviewing and approving changes to risk models before they are presented to the Board of Directors. The Executive Board serves as a forum for consultation and communication between the CEO and managing directors, addressing the main current issues in each division and takes decisions on operating matters not being considered in other standing committees.

The Operational Risk Committee is a forum for discussions and decisions on operational risk issues and review of the effective implementation of the operational risk framework.

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

The material risks which the Group 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 at Default (“**EAD**”). These models are used for various purposes, e.g. in provisioning and management reporting.

Credit risk identification

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to fulfil their agreed obligations and the estimated value of pledged collateral does not cover existing claims.

The Group’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 Group and arises principally from (i) loans and advances to customers; (ii) investments in debt securities; (iii) commitments, guarantees and documentary credits; (iv) counterparty credit risk in derivatives contracts; and (iv) the 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 Group 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, or 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’ is used for defaulted obligors. The rating assignment is supported by rating models, which takes 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.

The credit rating models' discriminatory power significantly exceeds the Basel framework requirement of 0.5. Furthermore, the models are 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 an internal LGD model for the purpose of EC calculations. The internal LGD model takes into account more types of collateral and is more sensitive to the collateralisation level than the 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 Group‘s credit risk management objective is to ensure compliance with the Group‘s credit policy, which entails that the only risks taken are the ones that the Issuer can understand, measure and manage.

The Group’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 the Risk Management Division and the business units. The Group 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 Group’s internal framework of regulations and guidelines. The Issuer’s executives are responsible for ensuring that the Issuer's business units execute the risk policy appropriately and the CEO is responsible for any oversight in 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 Group 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 Group'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 risk in the credit portfolio is a key element of the Group'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 some 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, vessels and financial assets (shares or bonds).

The amount and type of collateral required depends on an assessment of the credit risk associated with the counterparty. Valuation parameters and the acceptability of different types of collateral are defined in the Group's credit policy. Credit extended by the Group may be secured on residential or commercial properties, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, etc. The Group also secures its loans by means of receivables, inventory and operating assets, such as machinery and equipment. Residential mortgages involve the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

The Group regularly assesses the market value of collateral received. The Group has developed models to estimate the value of the most frequent types of collateral. For collateral without a valuation model, the Group estimates the value as the market value less a haircut. Haircuts represent a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs in the period during 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 Group monitors the market value of mark-to-market collateral and may require additional collateral in accordance with the underlying loan agreements.

Derivative financial instruments

In order to mitigate credit risk arising from derivatives, the Group chooses the counterparties for derivatives trading based on stringent rules, according to which clients must meet certain conditions set by the Group. The Group 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 Group enters into. Collateral management and monitoring is performed daily and derivative contracts with clients are fully hedged.

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

Amounts due to and from the Group are offset when the Group 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 Group uses fair value estimates based on available information and the Group's own estimates.

Credit risk control and monitoring

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

- Green: the customer is considered as performing without signs of repayment problems;
- Yellow: the customer shows indication of deteriorating financial strength, which could lead to financial difficulties;
- Orange: the customer is or has been in financial difficulties or default; and
- Red: the customer is in default and in legal collection and/or restructuring.

The Credit Risk department within Risk Management, together with the business units, is responsible for the colour classification of the customers and transfer of customers from business units to Restructuring if necessary.

Impairment process

As at 1 January 2018, the Group implemented the three-stage expected credit loss model under IFRS 9. Allowance is calculated as the 12-month expected credit loss or the lifetime expected credit loss. Expected credit losses depend on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the loss allowance equals the expected credit losses resulting from loss events that are possible within the next 12 months (Stage 1). If the credit risk has increased significantly, the allowance measured equals the lifetime expected credit losses (Stage 2 and 3). When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information.

The expected credit loss is calculated for all loans as a function of PD, EAD and LGD, and is discounted using the effective interest rate ("**EIR**"), and incorporates forward-looking information. The forward-looking information reflects the expectations of the Valuation Team and the Issuer's Economic Research department and involves the creation of scenarios of relevant economic variables, including an assessment of the probability for each scenario.

Staging and ECL estimation for individually significant loans is done manually on a quarterly basis. When assessing individually significant loans manually, the Group considers reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information. Only Stage 3 loans are manually estimated for ECL.

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at fair value through (i) profit or loss ("**FVTPL**"): cash and balances with Central Bank, bonds and debt instruments, loans and advances to financial institutions and loans and advances to customers; and (ii) off-balance sheet exposures: financial guarantees and underwriting commitments, undrawn loan commitments and undrawn overdraft/credit card facilities.

When measuring ECL, the Group uses a forward-looking model in compliance with IFRS 9. This requires considerable judgement over how changes in economic factors affect ECL. ECL reflects the present value of cash shortfalls due to possible default events either over the following twelve months or over the expected lifetime of a financial instrument, depending on credit deterioration from inception.

The Credit Risk Department is responsible for assessing impairment on loans and receivables and a Valuation Team, comprised of the CEO, the managing directors of Finance, Risk Management, Corporate Banking and Personal Banking, reviews and approves the assessment.

Total allowance for impairment was ISK 15.3 billion, as at 30 September 2019, as compared to ISK 13.1 billion at end of year 2018. Allowances have thus increased during 2019. The increase in allowances is mainly due to defaults.

Liquidity Risk

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

A liquidity policy for the Group 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 Group 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 Group 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 Group'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 Group. The Risk & Finance Committee monitors the Group's liquidity risk, while the Internal Audit assesses whether the liquidity management process is designed properly and operating effectively.

The Group monitors intraday liquidity risk, short-term 30-day liquidity risk, liquidity risk for one year horizon and risk arising from mismatches of longer term assets and liabilities.

The Group'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; and
- 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 on Banking Supervision e.g. the liquidity coverage ratio ("**LCR**") and net stable funding ratio ("**NSFR**") and it also applies measurements that best suit the operating environment of the Issuer.

Various stress tests have been constructed to try to efficiently model how different scenarios affect the Group's liquidity position and liquidity risk. The stress tests are based on the Group's balance sheet mixture as well as taking the Group's current operating environment into account. The Group's own subjective views, historical trends and expert opinion are key factors in constructing the stress tests. The Group also performs other internal stress tests that may vary from time to time.

The Group complies with the liquidity Rules set by the Central Bank of Iceland No. 266/2017. The liquidity rules are based on the liquidity requirements set forth in the CRD IV/CRR framework, which was fully implemented in Iceland in 2017 (Regulation No. 233/2017). Rule No. 266/2017 requires the Group to maintain a LCR minimum of 100 per cent. total and 100 per cent. for foreign currencies and Rule No. 1032/2014 sets requirements for a minimum of 100 per cent. NSFR in foreign currencies. As mentioned above, the Group also complies with Rules No. 1032/2014 on funding set by the Central Bank of Iceland including the guidelines No. 2/2010 from the Icelandic Financial Supervisory Authority on best practice for managing liquidity in banking organisation. The guidelines further promote sound management and supervision of liquidity within the Group which is reflected in the Group's risk appetite and internal processes and policies. The Group submits regular reports on its liquidity position to the Central Bank and the FME.

The table below sets out the Issuer's LCR as at 30 September 2019 and 31 December 2018 respectively:

	LCR – Total	**LCR – FX**	**NSFR – FX**
As at 30 June 2019	186%	577%	158%
As at 31 December 2018	158%	534%	166%

Market Risk

Market risk is the risk that changes in market prices will adversely impact the fair value or future cash flows of financial instruments. Market risk arises from open positions in currency, equities 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, inflation, foreign exchange rates and equity prices. The majority of the Group's exposures that entail market risk consist of equities, equity derivatives bonds, fixed income products and open currency positions.

The Board of Directors is responsible for determining the Group'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 Group and the market risk policies set the overall limits that govern market risk management within the Group.

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 Group 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 Group'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 Group by the Treasury of the Issuer and is monitored by the Market Risk Department.

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 Group employs a monthly stress test of the interest rate risk in the Group's banking book by measuring the impact on profit of shifting the interest rate curves for every currency. 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 Group's imbalance in its CPI-indexed assets and liabilities, the Issuer offers non-CPI-indexed loans and CPI-indexed deposits. CPI indexation risk is managed centrally by the Treasury of the Issuer and is monitored by the Market Risk Department.

Management of the Group'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 complies with the Rules No. 784/2018 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 10 per cent. of the Issuer's capital base, in each currency and for all currencies combined. Furthermore, the Issuer' total foreign exchange balance (whether long or short) shall not exceed ISK 25 billion. The Group 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 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 Adequacy

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

The Group's capital requirements are defined in Icelandic law and regulations, on the one hand, and by the FME, on the other. The requirements are based on the European legal framework for capital requirements (CRD IV and CRR) implementing the Basel III capital framework. The regulatory minimum capital requirement under Pillar I of the Basel framework is 8 per cent. of risk exposure amount (**"REA")** for credit risk, market risk and operational risk. In conformity with Pillar II R requirements of the Basel framework, the Issuer annually assesses its own capital needs through the ICAAP. The ICAAP results are subsequently reviewed by the FME in the Supervisory Review and Evaluation Process (**"SREP").** The Group's minimum capital requirement, as determined by the FME, is the sum of Pillar I and Pillar II R requirements.

In addition to the minimum capital requirement, the Issuer is required by law to maintain certain capital buffers determined by the FME, which may, depending on the situation, be based on recommendations from the Icelandic Financial Stability Counsel ("**FSC**"). The FSC has defined the Issuer as a systematically important financial institution in Iceland.

The Group's most recent capital requirements, as determined by the FME, are as follows (as a percentage of REA):

	CET1	**Tier 1**	**Total**
Pillar I	4.5%	6.0%	8.0%
Pillar II R	1.9%	2.6%	3.4%
Minimum requirement under Pillar I and Pillar II R	**6.4%**	**8.6%**	**11.4%**

Systemic risk buffer	2.84%	2.84%	2.84%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	1.68%	1.68%	1.68%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirement	**9.02%**	**9.02%**	**9.02%**
Total Capital Requirement	**15.4%**	**17.6%**	**20.4%**

- The combined buffer requirement ("**CBR**") shall be met in full with Common Equity Tier 1 ("**CET1**") capital
- Tier 1 capital is the sum of Common Equity Tier 1 (CET1) capital and Additional Tier 1 (AT1) capital
- Total capital is the sum of Tier 1 capital and Tier 2 capital

The Issuer's target for the Group's minimum total capital ratio is to maintain at all times capital ratios above the fully phased-in FME capital requirements, in addition to the management capital buffer that is defined in the Issuer's risk appetite. The Issuer also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

As at 30 September 2019, the Group's total capital ratio was 23.6 per cent., compared to 24.9 per cent. as at 31 December 2018. As at 30 September 2019, the Group's total CET 1 ratio was 22.3 per cent., compared to 23.6 per cent. as at 31 December 2018. Further information can be found in paragraph 42 in the Condensed Consolidated Interim Financial Statements for the firs nine months ended 30 September 2019, which is incorporated by reference into this Base Prospectus.

LITIGATION

The Issuer and its subsidiaries are from time to time party to litigation cases, which arise due to the nature of its business. The Issuer has formal controls and policies for managing legal claims. Once 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.

In June 2013, a payment card company commenced litigation against the Issuer and certain other financial undertakings claiming tort liability in the amount of around ISK 1.2 billion, plus interest. The plaintiff argued that the defendants were liable in tort for alleged violation of competition rules in the determination of payment card interchange fees. On 1 June 2017, the Supreme Court confirmed the decision of the District Court of Reykjavík to dismiss the case on grounds of insufficient substantiation. In September 2017, the same payment card company commenced litigation against the same defendants as in the previous case claiming tort liability in the amount of around ISK 923 million, plus interest. The plaintiff, again, argued that the defendants should be held liable in tort for alleged violation of competition rules. The Supreme Court dismissed this case on 13 June 2018. In November 2018, a former owner of the payment card company, having had the alleged rights assigned to him from the payment card company, brought a new case against the same parties and demanded acknowledgement of the defendants' tort liability due to alleged breach of competition rules. In April 2019 the Court of Appeal confirmed a decision of the District Court to dismiss the case on grounds of insufficient substantiation. At the beginning of

October 2019 the same former owner of the payment card company brought a new case against the same parties claiming tort liability in the amount of around ISK 923 million, plus interest. The Issuer considers that the case should be dismissed on the same grounds as in the previous cases.

In January 2017, the Issuer commenced proceedings before the Reykjavík District Court against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf. and the then CEO of Borgun hf. The Issuer considers the defendants to have been in possession of information about the shareholding of Borgun hf. in Visa Europe Ltd., at the time, when the Issuer sold its 31.2 per cent. shareholding in Borgun hf. that they failed to disclose to the Issuer. The Issuer demands acknowledgement of the defendants' liability for losses incurred by the Issuer on these grounds. The defendants demanded dismissal of the case which was rejected by a ruling of the District Court in June 2017. That ruling could not be appealed, and the defendants have submitted their written defences, responding to the substance of the Issuer's pleadings. On 10 September 2018, the District Court of Reykjavik ruled on the appointment of assessors to evaluate certain issues regarding Borgun hf.'s annual financial statements. The Court of Appeal (Landsréttur) confirmed the ruling on 30 October 2018.

In September 2018, the Icelandic Bankers' Pension Fund commenced litigation against the Issuer, the Icelandic Central Bank, the Icelandic State and certain companies and associations. The Pension Fund demands that an agreement on the settlement of obligations of the then participating companies from 1997 be amended such that, firstly, the defendants shall pay a total of around ISK 5,600 million to the Fund, out of which the Issuer shall pay around ISK 4,100 million, and, secondly, that the defendants shall guarantee the obligations of the Fund's Rate Department (Hlutfallsdeild) which are higher than its asset at any time. At a hearing of the case in January 2019 before the District Court of Reykjavík the Issuer submitted a statement of defence, rejecting all claims. On 24 April 2019 the District Court decided to dismiss all claims against the Issuer due to procedural reasons. The Pension Fund appealed the decision to the Court of Appeal in May 2019. On 6 June 2019 the Court of Appeal decided to invalidate the decision of the District Court and order the case to be brought again before the District Court for substantive resolution. On 10 September 2019 the case was heard by the District Court where new documents were presented. Moreover, at the hearing, the Pension Fund presented a request for an appointment of assessors to evaluate certain actuarial matters relating to the calculation of the alleged claims against each of the defendants

COMPETITION

The Icelandic competitive landscape is comprised of four commercial banks, four savings banks, and five credit undertakings. The financials market also includes ten securities companies, one securities brokerage and nine management companies of undertakings for collective investment in transferable securities ("**UCITS**"). In addition, 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. Such competition is affected by various factors such as, consumer demand, technological changes, new entrants, regulatory actions and impact of consolidation.

The Issuer's main competitors are the other large commercial banks in Iceland, Íslandsbanki, Arion Bank and Kvika Bank. With the recovery of the Icelandic economy, demand for new lending and other financial products has increased. The Issuer is subject to considerable regulatory scrutiny that can hinder competitiveness, in particular vis-à-vis Fintech firms, which are not subject to the same regulatory burden. Within the next couple of years, Iceland is expected to implement PSD2, which enables banks' customers, both consumers and businesses, to use third party providers to manage their finances. Issuers, however are obligated to provide these third-party providers access to their customers' accounts through open application program interface ("**API**"), which enables third-parties to build financial service on top of banks' data and infrastructure. It is likely that this will introduce increased competition. An emerging source of competition for the Issuer comes from smaller specialised institutions, such as Fintech companies and shadow banking, where online solutions may have greater impact on the market. The Icelandic pension funds have also become more active competitors after they started increasing their mortgage lending to the public at aggressive interest rates, partially as a result of the fact that they are not subject to the special tax which was placed on financial institutions (see. "*Changes in Tax laws or in their interpretation could harm the Issuer's Business*"). The pension funds also provide competition for deposits, as a proportion of an individual's savings (proportion of persons' salary and contribution from employers) are held in pension funds rather than in bank deposits, since it is required to do so by law. Furthermore, foreign banks are creating competition in the Icelandic corporate market with loan offerings to larger companies. If merger activity among smaller financial institutions manages to produce larger, better capitalised companies that are able to offer a wider array of products and services at more competitive prices, competition may intensify even further in the coming years.

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 consumer demands and face increased competition from domestic competitors, as well as foreign banks potentially seeking to establish operations in Iceland.

The AGM of the Issuer held on 14 April 2016 entrusted the Board of Directors to add to its protocols provisions on the competitive independence of the Issuer towards other state- owned commercial banks.

ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

As at the date of this Base Prospectus, the Senior Management and Directors of the Issuer, their functions and their principal outside activities (if any) are as follows:

Name	Function	Principal Outside Activities
Senior Management		
Ms. Lilja Björk Einarsdóttir	CEO	Board member of the Icelandic Financial Services Association, and Háskólasjóðurinn.
Mr. Arinbjörn Ólafsson	Managing Director of Information Technology ("**IT**")	Board member of Flygildi ehf. and Aðgerðarannsóknafélag Íslands.
Mr. Árni Þór Þorbjörnsson	Managing Director of Corporate Banking	Board member of Motus ehf. Greiðslumiðlun Íslands ehf.
Mr. Helgi Teitur Helgason	Managing Director of Personal Banking	Board member of Motus ehf. and Greiðslumiðlun Íslands ehf.
Ms. Hrefna Ösp Sigfinnsdóttir	Managing Director of Markets	N/A
Mr. Hreiðar Bjarnason	Managing Director of Finance ("**CFO**") and deputy CEO	N/A
Ms. Perla Ösp Ásgeirsdóttir	Managing Director of Risk Management, CRO	N/A
Board of Directors		
Ms. Helga Björk Eiríksdóttir	Chairman	General Manager and Board Member of Integrum ehf. Board Member of Budz Boot Camp ehf. General Manager and Alternate Board Member of Förli ehf.
Ms. Berglind Svavarsdóttir	Board Member	Attorney and partner at Reykjavík Law Firm. Chairman of the Board of Icelandic Bar Association.
Mr. Einar Þór Bjarnason	Board Member	Partner at Intellecta ehf. General Manager and Board Member of Gyrus ehf. Chairman of the Board of Directors of Intellecta ehf. Alternate Board Member of Glöggvir ehf.
Mr. Guðbrandur Sigurðsson	Board Member	CEO of Borgarplast hf.

Name	Function	Principal Outside Activities
		Director of the board of Reykjavík Creamery ehf. and Talnakönnun hf.
Mr. Hersir Sigurgeirsson	Board Member	Associate Professor in the Faculty of Business Administration of the University of Iceland, and independent consultant. Board Member of Endurreisnarsjóðurinn ehf. and Auðfræðasetur sf. General Manager and Board Member of Kvant ehf.
Ms. Sigríður Benediktsdóttir	Board Member	Senior lecturer and director of undergraduate studies of Global Affairs at Yale University in the US, where she was awarded her doctorate in economics in May 2005. Board member of non-profit organization New Have Reads.
Mr. Thorvaldur Jacobsen	Board Member	Executive Vice President of System Operations and IT at Landsnet. Board Member of Sensa ehf. and Sunnuvegur 13 ehf
Ms. Guðrún Ó. Blöndal	Alternate	CEO of Nasdaq CSD from 2013-2018. Board Member of Eimskipafélag Íslands hf.
Mr. Sigurður Jón Björnsson	Alternate	CFO at the Housing Financing Fund „HFF“ from 2011-2017.

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, other than one of the alternates to the board of directors is the brother of one of the head of a business unit in Corporate Banking.