

BASE PROSPECTUS



LANDSBANKINN HF.

(incorporated with limited liability in Iceland)

€2,000,000,000

Euro Medium Term Note Programme

Under this €2,000,000,000 Euro Medium Term Note Programme (the “**Programme**”), Landsbankinn hf. (the “**Bank**” or the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the “**Notes**”) denominated in any currency agreed between the Bank and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement (as defined in “*Subscription and Sale*”), subject to increase as described herein. The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Bank (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 Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

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

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under EU Directive 2003/71/EC as amended (including by Directive 2010/73/EU) (the “**Prospectus Directive**”). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area (the “**EEA**”).

Application has been made to the Irish Stock Exchange plc (the “**Irish Stock Exchange**”) for Notes issued under the Programme within 12 months of the date of this Base Prospectus to be admitted to the official list of the Irish Stock Exchange (the “**Official List**”) and to trading on its regulated market (the “**Main Securities Market**”). This prospectus constitutes a Base Prospectus for the purpose of the Prospectus Directive. References in this Base Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Main Securities Market.

Each Series (as defined in “*Overview of the Programme – Distribution*”) of Notes will be represented on issue by a temporary global note in bearer form (each a “**Temporary Global Note**”) or a permanent global note in bearer form (each a “**Permanent Global Note**”). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”). Global notes which are not issued in NGN form (“**Classic Global Notes**” or “**CGNs**”) will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depository**”). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in “*Form of the Notes*”.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer(s) and as specified in the applicable Final Terms, save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency (as defined below) and save that the minimum denomination of each Note admitted to trading on a regulated market situated or operating within the EEA and/or offered to the public in an EEA state in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see “*Subscription and Sale*”).

The Bank has been rated BBB by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”). The Programme has been rated BBB by Standard & Poor’s. 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 (“**ESMA**”) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by the rating agency referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme by Standard & Poor’s. 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.

Arranger

Deutsche Bank

Dealers

BofA Merrill Lynch

Citigroup

Goldman Sachs International

Morgan Stanley

Barclays

Deutsche Bank

J.P. Morgan

Nomura

UBS Investment Bank

The date of this Base Prospectus is 6 April 2017

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Notes issued under the Programme for the purposes of the Prospectus Directive.

The Bank accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Bank (having taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Bank in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Bank in connection with the Programme.

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

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Bank or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Bank 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 Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Base Prospectus may only be used for the purposes for which it has been published.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes 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 Notes may be restricted by law in certain jurisdictions. The Bank and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes 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

Bank or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes 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 Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the EEA (including the United Kingdom and Iceland), Japan and Hong Kong, see “*Subscription and Sale*”.

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Bank 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, in each case, in relation to such offer. Neither the Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank or any Dealer to publish or supplement a prospectus for such offer.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor’s currency;

- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

- References in this Base Prospectus to the “**Group**” are to the Bank and its consolidated subsidiaries, taken as a whole;
- “**U.S. dollars**”, “**USD**” and “**\$**” refer to United States dollars;
- “**ISK**” or “**krona**” refer to Icelandic Krona;
- “**Sterling**”, “**GBP**” and “**£**” refer to pounds sterling; and
- “**euro**”, “**EUR**” and “**€**” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

The language of the 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 applicable law.

DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus should be read and construed in conjunction with the following information which has been previously published or are published simultaneously with this Base Prospectus and which have been filed with the Irish Stock Exchange and the Central Bank of Ireland:

- (i) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2015 (the “**2015 Financial Statements**”), together with the audit report thereon;

<https://www.landsbankinn.is/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2015-EN.pdf>

- (ii) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2016 (the “**2016 Financial Statements**”), together with the audit report thereon;

<https://www.landsbankinn.is/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2016-EN.pdf>

- (iii) the Terms and Conditions of the Notes contained in the Base Prospectus dated 8 September 2015, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme; and

<https://www.landsbankinn.com/uploads/documents/bankinn/emtn/Landsbankinn-Base-Prospectus-2015-09-08.pdf>

- (iv) the Terms and Conditions of the Notes contained in the Base Prospectus dated 30 August 2016, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme.

<https://www.landsbankinn.com/uploads/documents/bankinn/emtn/Landsbankinn-Base-Prospectus-2016-08-30.pdf>

Such documents shall be incorporated in and form part of this Base Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus. Those parts of the documents incorporated by reference in this Base Prospectus which are not specifically incorporated by reference in this Base Prospectus are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Base Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus may be obtained without charge from the registered office of the Bank and are available for viewing on the website of the Bank following the links above.

SUPPLEMENTARY PROSPECTUS

Following the publication of this Base Prospectus, a supplement may be prepared by the Bank and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive.

The Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in “*Form of the Notes*” and “*Terms and Conditions of the Notes*” shall have the same meanings in this Overview.

Issuer:	Landsbankinn hf.
Risk Factors:	There are certain factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include the exposure of the Bank 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 Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	€2,000,000,000 Euro Medium Term Note Programme
Arranger:	Deutsche Bank AG, London Branch
Dealers:	Barclays Bank PLC Citigroup Global Markets Limited Deutsche Bank AG, London Branch Goldman Sachs International J.P. Morgan Securities plc Merrill Lynch International Nomura International plc Morgan Stanley & Co International plc UBS Limited and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Base Prospectus.
	Notes having a maturity of less than one year Notes having a maturity of less than one year will, if the

proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent - see “*Subscription and Sale*”.

Fiscal Agent:	Citibank, N.A., London Branch
Listing Agent:	Arthur Cox Listing Services Limited
Programme Size:	Up to €2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the “ Final Terms ”).
Currencies:	Notes may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Bank 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 Bank or the relevant Specified Currency.
Issue Price:	Notes 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.
Form of Notes:	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Bank 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 Bank and the relevant Dealer.

Floating Rate Notes:

Floating Rate Notes 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 the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes 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 Bank and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Bank 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 Bank and the relevant Dealer.

Change of Interest Basis:

Notes may be offered in circumstances where the provisions relating to Floating Rate Notes will apply for a certain period and, at the end of such period, the provisions relating to Fixed Rate Notes will apply until the Maturity Date (or vice versa), as set out in the applicable Final Terms.

Zero Coupon Notes:

Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Bank upon giving notice to the Noteholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the relevant Dealer. The Notes will only be redeemed at an amount other than 100 per cent. of their nominal amount in the case of certain Zero Coupon Notes.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution - see "*Certain Restrictions - Notes having a maturity of less than one year*" above.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the

minimum denomination of each Note 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 - see "*Certain Restrictions - Notes having a maturity of less than one year*" above - and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 6. In the event that any such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 6, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The terms of the Notes will not contain a negative pledge provision.

Cross Default:

The terms of the Notes will contain a cross default provision as further described in Condition 8.1(c).

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and will 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 Bank, from time to time outstanding.

Rating:

The Programme has been rated BBB by Standard & Poor's. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to the Programme. 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.

Standard & Poor's is established in the European Union and registered under Regulation 1060/2009/EC of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (as amended).

Listing:

Application has been made for the Notes to be admitted to listing on the Official List and to trading on the Main Securities Market.

Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading.

Governing Law:

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be

construed in accordance with, English law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Iceland), Japan and Hong Kong and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes - see "*Subscription and Sale*".

United States Selling Restrictions:

Regulation S, Category 2. TEFRA C or D/TEFRA not applicable, as specified in the applicable Final Terms.

RISK FACTORS

In purchasing Notes, investors assume the risk that the Bank may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Bank becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Bank may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Bank's control. The Bank has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.

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

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Bank's ability to fulfil its obligations under Notes issued under the Programme

As a result of its business activities, the Bank 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 Bank's business, financial condition and results of operations.

The Bank'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 Bank'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 Bank 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 Bank'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 Bank's business, financial condition and results of operations. The Bank'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 Bank 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 Bank'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 Bank's business, financial condition and results of operations.

The Bank operates in a competitive market and increased competition by Icelandic or foreign banks could increase downward pressure on interest rate margins. The Bank 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 banki 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 Bank-Competition*"). The Bank has a high market share, which it intends to maintain. The Bank 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 Bank 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 Bank's income generation and may have an adverse effect on the Bank's business, financial condition and results of operations.

In addition to the risk factors above, Iceland's economy remains vulnerable to other economic external factors such as the effects of the sovereign debt crisis in Europe, 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 subject to capital controls and is mostly funded by domestic deposits, a global recession is likely to affect demand for 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 Bank. This may affect the Bank 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 Bank which are in excess of 70 per cent. of the Bank'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 Bank's business, financial condition and results of operations.

In certain areas, Icelandic legislation provides for special rules that are relevant to the Bank due to the fact that the Icelandic State Treasury has the majority shareholding in the Bank. These rules do not apply to the Bank's main competitors as they are not majority-owned by the Icelandic State Treasury, except for Íslandsbanki, which became wholly owned by the Icelandic State Treasury in January 2016. These rules may impose a heavier regulatory burden on the Bank compared to its competitors and may thus have a negative impact on the Bank's competitive position and could affect the Bank's business, financial condition and results of operations. These rules are, for instance, provided for in, Article 6 of the Act on the Icelandic National Audit Office No. 86/1997 (the Bank's auditor is the National Audit Office), Article 2 of the Information Act No. 140/2012 (the Bank is subject to the provisions of this Act, but can obtain a temporary exemption from falling under the scope of this Act), and Article 14 of the Act on Public Archives No. 77/2014 (the Bank is subject to the provisions of this Act).

The Annual General Meeting ("**AGM**") of the Bank was held 14 April 2016. Following the changes in ownership of Íslandsbanki, with the corresponding shares relating to such ownership being administered by the same party as the shares in the Bank, namely the ISFI, the AGM entrusted the Board of Directors to add to its rules of procedures provisions on the competitive independence of the Bank towards other state-owned commercial banks.

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

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

In the October 2016 Financial Stability Report, the Central Bank concluded that under favourable external conditions, indicators of risk to the financial system have generally moved in a positive direction. The Central Bank highlights three risk factors in the report: (i) the mismatch between economic developments in Iceland and in other countries gives rise to a wide interest rate differential, which, over time, creates the risk of excessive inflows of short-term capital, (ii) signs of increasing tension in the housing and labour markets could signal increased risk in the financial system and (iii) Gross Domestic Product (“**GDP**”) growth has been driven to a large extent by strong growth of the tourism industry and a downturn in tourist arrivals could trigger loan losses.

In the most recent International Monetary Fund (the “**IMF**”) Article IV Consultation Staff Report from June 2016, the IMF identified “overheating” as the biggest risk for the Icelandic economy. Large wage increases on top of already “hot” economic readings relate to Iceland’s history of boom-bust. After years of expenditure-restraint, spending pressures could increase. Fiscal-easing while wages surge could increase domestic demand. If this were to coincide with rising import prices further fuelling inflation, interest rates driving in “hot money” and credit inflating asset prices, Iceland could be left vulnerable to a sudden stop triggered by outside factors.

In June 2016, the Central Bank published its Rules on Special Reserve Requirements for New Foreign Currency Inflows, No. 490/2016, as amended (the “**Special Reserve Requirement Rules**”), in accordance with the new Temporary Provision III of the Foreign Exchange Act, no. 87/1992, as amended, (the “**Foreign Exchange Act**”). The main purpose of this new Temporary Provision is to provide the Central Bank with a new 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. All new investments in bonds, bills, fund units and deposits will be subject to special reserve requirements, i.e. investors have to deposit a specific portion (currently 40 per cent.) in reserve accounts for a certain holding period (currently 12 months) at low interest (currently 0 per cent.).

The Icelandic Government’s 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 Bank. (see further *The Bank’s operating environment is subject to capital controls, which have mostly been lifted. If the capital control regime is removed in a manner which fails to*

protect the Icelandic economy from the negative impact of its removal this could have a material adverse effect on the Bank's business"). 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 or inflation, it could adversely affect the ability of the Bank's customers to repay their loans which in turn could have a material adverse effect on the Bank's business, financial conditions, results of operations, cash flows and prospects, and its ability to make payments in respect of the Notes.

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

The Bank, 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 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 further "*Description of the Bank - Funding*").

The Icelandic Government maintained a policy from October 2008 to September 2016 that deposits in banks domiciled in Iceland be guaranteed by the Icelandic Government. The basis of this guarantee was an announcement from the Prime Minister's Office of 6 October 2008 stating that deposits in domestic commercial and savings banks and their branches in Iceland would be fully covered. In September 2016 the Icelandic Government stated that it saw no reason to retain the declaration guaranteeing deposits in effect and stated that previous statements on this topic no longer apply.

In addition, 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. One of the main objectives of the threefold plan is maintaining economic and financial stability in Iceland, which includes 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 current capital controls. In March 2017, the Icelandic Government announced that the capital controls would to a large extent be removed. For further information see risk the factor below entitled "*The Bank's operating environment is subject to capital controls, which have mostly been lifted. If the capital control regime is removed in a manner which fails to protect the Icelandic economy from the negative impact of its removal this could have material adverse effect on the Bank's business*". There is no assurance that the lifting of the capital controls will not affect the funding of Icelandic banks as a result of the withdrawal of deposits by such customers. If the Icelandic Government's strategy for capital account liberalisation progresses too quickly, or in a manner which fails to protect the Icelandic financial sector from the negative impact of its removal, there is a risk that Icelandic banks could be adversely affected.

The New Banks could also 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. The economic and financial environment for borrowers may affect the Bank's levels of non-performing loans, determination of loan values and the level of write-offs.

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 Bank's business, financial condition and operating results.

The Bank's operating environment is subject to capital controls, which have mostly been lifted. If the capital control regime is removed in a manner which fails to protect the Icelandic economy from the negative impact of its removal, this could have a material adverse effect on the Bank's business

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. For this purpose, the Central Bank issued Rules No. 1082/2008 on Foreign Exchange imposing stringent capital controls on cross-border movement of capital and related foreign exchange transactions. The 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 recently further supplemented by Rules No. 200/2017 on Foreign Exchange ("**Rules on Foreign Exchange**"), which came into force on 14 March 2017.

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. First, 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, in which owners of ISK-denominated assets subject to special restrictions pursuant to Act No. 37/2017 were invited to participate; and thirdly, it was intended that, when conditions in the domestic market allowed, further capital account liberalisation was to be implemented.

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.

Further steps towards the removal of the capital controls were made in March 2017, when the Icelandic Government announced that the capital controls would to a large extent be removed and the Central Bank of Iceland published the Rules on Foreign Exchange that took effect as of 14 March 2017. The Rules on Foreign Exchange entail that the restrictions on foreign exchange transactions and cross-border movement of foreign domestic and foreign currency have largely been removed. In general, households and businesses will no longer be subject to the restrictions that the Foreign Exchange Act places on, among other things, foreign exchange transactions, foreign investment, hedging, and lending activity; furthermore, the requirement that residents of Iceland repatriate foreign currency has been removed. With the introduction of the Rules on Foreign Exchange, foreign investment by pension funds, funds for collective investment, and other investors who were subject to explicit exemptions by the Central Bank, will now be authorised. Furthermore, cross-border transactions with ISK are now authorised. Foreign financial undertakings will therefore be authorised to transfer ISK and financial instruments issued in domestic currency to and from Iceland. The Rules on Foreign Exchange are set in accordance with the authority contained in the Foreign Exchange Act. It is anticipated that the Icelandic Parliament will amend the Foreign Exchange Act to reflect the changes introduced by the Rules on Foreign Exchange.

The status of ISK-denominated assets subject to special restrictions pursuant to Act No. 37/2016 remain unchanged and special reserve requirements will remain in place for specified investments in connection with new inflows of foreign currency. Restrictions will remain in place on the following: (i) derivatives trading for purposes other than hedging, (ii) foreign exchange transactions carried out between residents and non-residents without the intermediation of a financial undertaking, and (iii) in certain instances, foreign

denominated lending by residents to non-residents. Such restrictions are still necessary in order to prevent carry trade on the basis of investments not being subject to special reserve requirements, pursuant to Temporary Provision III of the Foreign Exchange Act and the Special Reserve Requirement Rules.

The requirements obliging financial undertakings and other parties engaging in capital transactions to notify the Central Bank of capital movements will remain unchanged for the present. However, various foreign exchange transactions and capital transfers that have previously been subject to confirmation by the Central Bank will only be subject to a disclosure requirement. Concurrent with work on the revision of the Foreign Exchange Act, attempts will be made to simplify disclosure requirements to be applicable in the long term.

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 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.

Work on liberalising the capital account is nearly complete according to the comprehensive strategy implemented by the Icelandic Government in June 2015, 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 may be negative consequences for the Government’s fiscal position, the stability and recovery of Iceland’s financial sector, and the Icelandic economy as a whole. This could adversely affect the ability of the Bank’s customers to repay their loans which in turn could have a material adverse effect on the Bank’s business, and its ability to make payments in respect of the Notes.

Prospective investors must therefore consider the risk of further changes to the above currency controls and the impact this may have on the Bank’s business and an investment in the Notes.

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

Granting of credit is the Bank’s major source of income and credit risk is the Bank’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 Bank by failing to fulfil its obligations.

Adverse changes in the credit quality of the Bank’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 Bank’s assets and require an increase in the Bank’s provision for bad and doubtful debts and other provisions. Specific issues and events where credit risk could adversely affect revenues in 2016 and subsequent years include, but are not limited to:

- *Concentration of loan portfolio in certain sectors could adversely affect the Bank.* The Bank’s loan portfolio is relatively concentrated in key sectors. These are households, fisheries and construction and real estate companies. Downturns in these sectors that would influence customers’ ability to meet their

obligations may have an adverse effect on the Bank's business, financial condition and results of operations.

- *Deterioration of economic conditions could increase the required loan impairment for the Bank.* 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 Bank's loss reserves and future impairment charges.

The Bank is exposed to liquidity risk. The inability of the Bank to anticipate and provide for unforeseen decreases or changes in funding sources could have an adverse effect on the Bank's ability to meet its obligations as and when they fall due

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from maturity mismatch in financial liabilities and assets. The Bank'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 Bank.

The Bank follows rules No. 1031/2014 on Liquidity Ratios, as set by the Central Bank (the "**Rules on Liquidity Ratios**"). The Rules on Liquidity Ratios are based on the LCR developed by the Basel Committee. Information regarding the Bank's liquidity risk is further described in "*Description of the Bank - Risk Management Framework*"

The Central Bank also set rule No. 1032/2014 on Funding Ratios, which the Bank follows. The rules on funding ratios are based on the NSFR.

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

The Bank is predominantly funded by customer deposits, borrowing and share capital. The Bank has diversified its funding profile by issuing debt securities in the domestic and international markets. The inability of the Bank to refinance its outstanding debt in the future, at the right time and at a favourable interest rate, could affect the Bank's business. Information regarding the Bank's Funding is further described in "*Description of the Bank - Funding*".

The Bank 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 Bank's investment and trading portfolios.

- *Increased volatility in the equity markets.* The Bank's equity risk comes from both proprietary and securities trading for a third party. Elevated uncertainty in the financial markets could lead to increased volatility in the equity markets. This could lead to a devaluation of equities and investment funds held

by the Bank and have an adverse effect on the Bank's business, financial condition and results of operations.

- *A major portion of the Bank's assets and liabilities are interest-related.* The Bank's interest rate risk arises from the impact of interest rate changes on the Bank's assets and liabilities, since a major portion of the Bank's assets and liabilities are interest-related in one manner or another. Limited access to capital markets could have a negative effect on the Bank'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 Bank's profitability. The Bank 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 Bank's foreign exchange risk arises from exposure to unanticipated changes in the exchange rate between currencies and limitations to mitigate the foreign exchange risk due to capital controls. Increased volatility in the foreign exchange markets could have an adverse effect on the Bank's business, financial condition and results of operations.

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

The Bank 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 Bank's indexation risks arise from a considerable imbalance in its CPI indexed assets and liabilities. CPI indexation risk is the risk that the fair value or future cash flows of CPI indexed financial instruments may fluctuate due to changes in the Icelandic CPI. The majority of the Bank's mortgage loans and consumer loans are indexed to the CPI and the Bank 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 Bank.

Operational risks are inherent in the Bank'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 Bank's suppliers or counterparties.

The Bank has in place and maintains necessary rules and working procedures and keeps them accessible to all employees on the Bank'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 Bank's business.

Both current and former employees of the Bank can damage the Bank 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 Bank's reputation.

The Bank 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 Bank extensive damage and affect its performance.

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

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

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

Compliance is one of the Bank's support and risk management functions. It is intended to assist in managing the Bank's compliance risk on a consolidated basis. Compliance risk can be defined as the risk of legal or regulatory sanctions, financial loss or damage to the Bank's reputation as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice.

Compliance emphasises issues such as market abuse and fraud prevention, anti-money laundering, codes of ethics, avoidance of conflicts of interest and ensuring best practice. The Compliance Officer ensures that the Bank's rules on securities trading and insider dealing are followed, and that the Bank's operations comply with the Act on Securities Transactions, No. 108/2007, the Act on Actions to Combat Money Laundering and Terrorist Financing No. 64/2006 ("**Act on Actions to Combat Money Laundering and Terrorist Financing**") and other relevant legislation and regulations.

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

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

The Bank is dependent on its senior management. The departure of key members of its senior management or staff may significantly delay the Bank'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 Bank's business.

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

Damage to the Bank'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 Bank's image or reputation is present whenever it is the subject of discussion. Damage to its image or reputation could prompt the Bank's customers to direct their business elsewhere. This could have a negative impact on the Bank'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.

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

As Iceland's economy continues to recover and demand for new lending and other financial products increases, the Bank expects to face increased competition from other large Icelandic banks, pension funds and smaller specialised institutions (see "*Description of the Bank - Competition*"). In addition, as the capital controls continue to be eased and there is sufficient credit demand, the Bank may potentially face competition from foreign banks seeking to establish operations in Iceland, in particular with respect to Corporate Banking.

The Bank may have to comply with regulatory requirements that may not apply to such foreign competitors, creating an unequal competitive environment. Due to the small economy of Iceland and the Bank'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 Bank allowing foreign competitors to offer banking products at a lower price.

As at the date of this Base Prospectus, the New Banks, which are three out of the four commercial banks in Iceland, are partially or wholly owned by the Icelandic State Treasury. Íslandsbanki is wholly owned and the Bank and Arion are partially owned by the Icelandic State Treasury. In March 2017, it was announced that 29 per cent. of shares in Arion had been sold to foreign investment funds in a private placement. Further sales of shares in Arion through initial public offerings or private placements could take place in the coming months. Furthermore, it is also likely that the Icelandic State Treasury will want to sell part of its shares in the Bank and/or in Íslandsbanki. For further information, see the section entitled *"The Icelandic State Treasury is the largest shareholder of the Bank. This may affect the Bank and its business"*. Any changes in ownership of the New Banks can affect the competitive environment and the Bank's business, financial condition and result of operations.

The Bank will continue to offer a full range of specialized financial products to individuals, corporate entities and institutions as well as work on product development to meet increased competition. If the Bank is unable to provide attractive financial products and services, at a more competitive prices, it may lose its market share which could have a material adverse effect on the Bank's business, prospects, financial position, and its ability to make payments in respect of the Notes.

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

Although natural catastrophes and environmental disasters could threaten the Bank'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 Bank also has in place specific disaster recovery and business continuity plans.

The Bank'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 Bank'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 Bank's insurance coverage may not adequately cover all losses

The Bank has taken a conscious decision to insure itself against specific risks. The Bank holds all mandatory insurance coverage, including fire insurance and mandatory vehicle insurance, plus comprehensive vehicle insurance. The Bank 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 Bank 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 Bank's directors and senior management. The Bank 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

Bank 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. It should be borne in mind, however, that, despite the insurance policies carried by the Bank, there is no guarantee that the Bank will be fully compensated should it need to lodge claims. If the Bank did submit claims under its policies, the premiums it pays could be expected to increase in the future. The Bank's insurance policies are subject to the terms and conditions of the applicable policies.

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

The Bank 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 Bank'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 Bank's operation. Information regarding the Bank's risk management is further described in "*Description of the Bank — Risk Management Framework*".

Legal risk

The Bank's business operations are governed by laws and regulations and are subject to regulatory supervision. The Bank is regulated by the FME. The Bank's operating licence is subject to compliance with laws and regulations governing the Bank 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 Bank's licence.

The Bank 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 Bank's operations and its results of operations. Although the Bank 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 Bank's control.

The Bank 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 Bank, this could have a material adverse effect on its results. For further information on litigation please see "*Description of the Bank — Litigation*".

Changes to the Capital Requirements Directive could adversely affect the Bank'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 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.

A legislative bill on the third amendment, covering CRD IV's requirements on whistle-blowing, has been submitted to the Icelandic Parliament. The timeframe for implementation of the remaining aspects of CRD IV has not yet been published.

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

In the event of winding-up of the Bank, claims of Noteholders will be subordinated to the claims of certain of the Bank's depositors

Conforming to Article 101 of the Act on Financial Undertakings, the claims of senior ranking unsecured debt instruments, such as the Notes issued by the Bank are subordinated to the claims of certain depositors. Should the Bank enter into winding-up proceedings, it is possible that there may not be sufficient assets in the resulting estate to pay the claims of Noteholders in full or at all after the claims of those depositors have been paid.

The EU adopted the bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive and its impact on the Bank is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Notes

On 6 May 2014, the Council of the EU adopted a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "BRRD"). Iceland, Liechtenstein, Norway and Switzerland are members of the EFTA and Iceland, together with Liechtenstein and Norway (the "EEA EFTA States"), is also a party to the EEA Agreement by which the EEA EFTA States participate in the internal market of the EU.

The BRRD is marked EEA relevant in the Official Journal of the EU and thus should be incorporated into the EEA Agreement. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contains four resolution tools and powers which may be used alone or in combination where an institution is considered as failing or likely to fail: (i) sale of business – which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution – which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation – which enables resolution authorities to transfer impaired or problem assets to a bridge institution or one or more asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down; and (iv) bail-in – which gives resolution authorities the power to write down the claims of unsecured creditors of a failing institution and to convert unsecured debt claims to equity (subject to certain parameters as to which liabilities would be eligible for the bail-in tool).

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

The BRRD was applied by EU member states from 1 January 2015 and the bail-in tool was applied from 1 January 2016. In November 2016, the European Commission published a proposal to amend and supplement certain provisions of the BRRD. It is unknown if and when the directive would be implemented in Iceland. A bill regarding the BRRD has not been submitted to the Icelandic Parliament.

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

Changes in tax laws or in their interpretation could harm the Bank's business

The Bank'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 Bank, 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 Bank excluding tax liabilities in excess of ISK 50 billion at the end of the year. This levy has remained unchanged for the years 2014, 2015, 2016 and, to date, 2017. Non-financial subsidiaries are exempt from this tax. There can be no assurance that the levy will not be further increased. Any such increase could have a material adverse effect on the financial condition of the Bank.

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 Bank, to a foreign creditor, including holders of Notes who are not Icelandic, are taxable in Iceland and can be subject to withholding tax at the rate of 10.0 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the 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 Bank, 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 Icelandic Securities Depository (the "NCS D"), Euroclear and Clearstream, Luxembourg, within a member state of the 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 Bank, 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 Bank. The levy is set at 6 per cent. on income over ISK 1 billion, disregarding joint taxation and transferable losses.

Abnormal pricing as a consequence of capital controls

Since 2008, the Icelandic economy has been subject to capital controls, as more particularly described in the section entitled “*The Bank’s operating environment is subject to capital controls, which have mostly been lifted. If the capital control regime is removed in a manner which fails to protect the Icelandic economy from the negative impact of its removal this, could have material adverse effect on the Bank’s business*”. These capital controls were set up to result in domestic parties, primarily investors, not being allowed, with certain exemptions, to transfer their funds and investments outside of the Icelandic market, and consequently to confine them to and focus their investments on Iceland, which entails various risks, including a risk for abnormal pricing and financial bubbles occurring within several sectors of the Icelandic market. This applies both to investments in shares of listed and unlisted companies, investment funds, various other financial instruments and real-estate (primarily commercial) and may have a negative impact on the Bank’s business.

However, on 12 March 2017, the Icelandic Government announced that the capital controls would be to a large extent be removed, and, as of 14 March 2017, restrictions on foreign exchange transactions and cross boarder movement of domestic and foreign currency was largely lifted. It is not yet known what impact the removal of the capital controls will have on the Bank’s business or pricing on investment in shares in companies, investment funds, and various other financial instruments.

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, 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, Noteholders in some circumstances may experience different legal protections than they would expect as holders of securities issued by issuers in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes 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 Notes:

If the Bank has the right to redeem any Notes at its option, this may limit the market value of the Notes 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 Notes is likely to limit their market value. During any period when the Bank may elect to redeem Notes, the market value of those Notes 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 Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. 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 Notes 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 Bank has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

Fixed/Floating Rate Notes are Notes which 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 Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates

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

Risks related to Notes generally

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

The terms of the Notes contain provisions which may permit their modification without the consent of all investors

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

The value of the Notes could be adversely affected by a change in English law or administrative practice

The terms of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

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

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes 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 who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing

system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes 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 Notes are required to be issued

The Icelandic statutory exemption from withholding only applies to Notes held through a securities depository in an OECD state, an EU state, an EFTA state or the Faroe Islands. If Notes in definitive form are issued, holders should be aware that the tax exemption may not be available. However, the Bank will be required to pay the necessary additional amounts under Condition 6 in such circumstances to cover any resulting amounts deducted.

Reliance on Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be delivered to a common depository or common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

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

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes 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.

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

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

Risks related to the market generally

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

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes 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 Notes 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 Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

If an investor holds Notes which are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

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

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 Bank to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

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

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

Credit ratings assigned to the Bank or any Notes may not reflect all the risks associated with an investment in those Notes

One or more independent credit rating agencies may assign credit ratings to the Bank or the Notes. 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 Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated issuers are restricted under 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 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 is set out on the cover of this Base Prospectus.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will initially be issued in the form of a Temporary Global Note or, if so specified in the applicable Final Terms, a Permanent Global Note which, in either case, will:

- (i) if the Global Notes are intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg; and
- (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a Common Depository for Euroclear and Clearstream, Luxembourg.

Where the Global Notes issued in respect of any Tranche are in NGN form, the applicable Final Terms will also indicate/Euroclear and Clearstream, Luxembourg will be notified as to whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms.

Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Note if the Temporary Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Fiscal Agent.

On and after the date (the “**Exchange Date**”) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) definitive Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Note if the Permanent Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached upon either (a) only upon the occurrence of an Exchange Event or (b) at any time at the request of the Bank. For these purposes, “**Exchange Event**” means that (i) an Event of Default (as defined in Condition 8) has

occurred and is continuing, (ii) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Bank has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form. The Bank will promptly give notice to Noteholders in accordance with Condition 12 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Bank may also give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Notes which have an original maturity of more than one year and on all interest coupons and talons relating to such Notes:

“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 Notes, interest coupons and/or talons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, interest coupons and/or talons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under “*Terms and Conditions of the Notes*”), the Fiscal Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 8. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Bank on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the “**Deed of Covenant**”) dated 6 April 2017 and executed by the Bank.

The Bank may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplement to this Base Prospectus or a new Base Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

While any Global Note is held on behalf of a clearing system, then:

- (a) approval of a resolution proposed by the Bank given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**” as defined in the Agency Agreement) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which a higher quorum is required), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Agency Agreement) has been validly passed, the Bank shall be entitled to rely on consent or instructions given in writing directly to the Bank by accountholders in the clearing system with entitlements to such Global Note or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Bank has obtained commercially reasonable evidence to ascertain the validity of such holding and has taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Bank shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

APPLICABLE FINAL TERMS

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

[Date]

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in EU Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) (as amended, the “Prospectus Directive”). Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

LANDSBANKINN HF.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €2,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 6 April 2017 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “**Base Prospectus**”). [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.]¹ Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at [●].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [original date] [and the supplement to it dated [date]] which are incorporated by reference in the Base Prospectus dated 6 April 2017. [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 6 April 2017 [and the supplement[s] to it dated [date] [and [date]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus

¹ Delete where the Notes are 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.

Directive (the Base Prospectus), including the Conditions incorporated by reference in the Base Prospectus]². Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at [●].

- 1 (a) Series Number: []
- (b) Tranche Number: []
- (c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [provide issue amount/ISIN/maturity date/issue date of earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 18 below, which is expected to occur on or about [date]][Not Applicable]
- 2 Specified Currency or Currencies: []
- 3 Aggregate Nominal Amount:
- (a) Series: []
- (b) Tranche: []
- 4 Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
- 5 (a) Specified Denominations: []
- (Note – where 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 Notes in definitive form will be issued with a denomination above [€199,000].”)*
- (b) 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.)*
- 6 (a) Issue Date: []
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
- (N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*
- 7 Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to [specify month and year]]
- 8 Interest Basis: [[] per cent. Fixed Rate]

² Delete where the Notes are 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.

- [[[] month
 [LIBOR/EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR]] +/-
 [] per cent. Floating Rate]
 [Zero coupon]
 (see paragraph [13]/[14]/[15]below)
- 9 Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount
(N.B. The Notes will only be redeemed at an amount other than 100 per cent. of their nominal amount in the case of certain Zero Coupon Notes)
- 10 Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [13/14] applies][Not Applicable]
- 11 Put/Call Options: [Issuer Call]
 [Not Applicable]
 [(see paragraph 16 below)]
- 12 Status of the Notes: Senior

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 13 Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date
(Amend appropriately in the case of irregular coupons)
- (c) Fixed Coupon Amount(s): [] per Calculation Amount
- (d) Broken Amount(s): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (f) 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)
- 14 Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified [] [, subject to adjustment in accordance with the

- Interest Payment Dates: Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]
- (c) Additional Business Centre(s): []
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent): []
- (f) Screen Rate Determination:
- Reference Rate: [currency][] month [LIBOR/EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR].
 - Interest Determination Date(s): [•]
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR. Second Oslo, Stockholm, Reykjavik or Copenhagen (as the case may be) business day prior to the start of each Interest Period if NIBOR, STIBOR, REIBOR or CIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
- (h) 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)]
- (i) Margin(s): [+/-] [] per cent. per annum
- (j) Minimum Rate of Interest: [] per cent. per annum

- (k) Maximum Rate of Interest: [] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]
 [Actual/365 (Fixed)]
 [Actual/365 (Sterling)]
 [Actual/360]
 [30/360][360/360][Bond Basis]
 [30E/360][Eurobond Basis]
 [30E/360 (ISDA)]
(See Condition 3 for alternatives)
- 15 Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
 [Actual/360]
 [Actual/365]

PROVISIONS RELATING TO REDEMPTION

- 16 Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Optional Redemption Date(s): []
- (b) Optional Redemption Amount: [[] per Calculation Amount]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (d) Notice periods: Minimum period: [] days
 Maximum period: [] days
(N.B. When setting notice periods, the Bank 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 Bank and the Fiscal Agent)
- 17 Final Redemption Amount: [] per Calculation Amount
(N.B. Except in the case of Zero Coupon Notes 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)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 18 Form of Notes:
- (a) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[Permanent Global Note exchangeable for Definitive Notes [only upon an Exchange Event/at any time at the request of the Bank]]
- (N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: “[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000].” Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*
- (b) New Global Note: [Yes][No]
- 19 Additional Financial Centre(s): [Not Applicable/Applicable (*list relevant financial centres*)]
(Note that this paragraph relates to the date of payment and not Interest Period end dates to which sub-paragraph 14(c) relates)
- 20 Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

THIRD PARTY INFORMATION

[[Relevant third party information] has been extracted from [specify source]. The Bank 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 **LANDSBANKINN HF.**:

By:

Duly authorised

By:

Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading [Application has been made by the Bank (or on its behalf) to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market with effect from [] / [Not Applicable]].
- (ii) Estimate of total expenses related to admission to trading: []

2 RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes 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 [insert 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 Notes 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 Notes 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 Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Bank is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business - *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.)]

4 YIELD (Fixed Rate Notes only)

Indication of yield: [] per cent. per annum.
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5 HISTORIC INTEREST RATES (Floating Rate Notes only)

Details of historic [LIBOR/EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR] rates can be obtained from [Reuters].

6 OPERATIONAL INFORMATION

(i) ISIN: []
(ii) Common Code: []
(iii) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): []

[(vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes 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 the ECB being satisfied that 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 Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as

eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

7 DISTRIBUTION

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/*give names*]
- (iii) Stabilisation Manager(s) (if any): [Not Applicable/*give name*]
- (iv) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (v) U.S. Selling Restrictions: [Reg. S Compliance Category 2; TEFRA D/TEFRA C/TEFRA not applicable]]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Bank and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note 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 Note and definitive Note. 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 Notes.

This Note is one of a Series (as defined below) of Notes issued by Landsbankinn hf. (the “**Bank**” or the “**Issuer**”) pursuant to the Agency Agreement (as defined below).

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a “**Global Note**”), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement dated 27 August 2014 as amended by an amended and restated agency agreement dated 6 April 2017 (such Agency Agreement as further amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) and made between the Bank and Citibank, N.A., London Branch as fiscal agent (the “**Fiscal Agent**”, which expression shall include any successor agent) and the other paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agents).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the “**Conditions**”). References to the “**applicable Final Terms**” are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The expression “**Prospectus Directive**” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU).

Interest bearing definitive Notes have interest coupons (“**Coupons**”) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, 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. Global Notes do not have Coupons or Talons attached on issue.

Any reference to “**Noteholders**” or “**holders**” in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. 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 Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which (a) are expressed to be consolidated and form a single series and (b) 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.

The Noteholders and the Couponholders have the benefit of a Deed of Covenant (such Deed of Covenant as amended and/or supplemented and/or restated from time to time, the “**Deed of Covenant**”) dated 6 April 2017 and made by the Bank. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents.

Copies of the applicable Final Terms can be obtained during normal business hours, free of charge, at the registered office of the Bank and at the specified office of each of the Paying Agents, save that, if this Note 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 a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Bank or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, “**euro**” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1 FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the “**Specified Currency**”) and the denominations (the “**Specified Denomination(s)**”) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Bank and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note 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 but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (“**Euroclear**”) and/or Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any

certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes 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 Bank and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Bank and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “**Noteholder**” and “**holder of Notes**” and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

2 STATUS OF THE NOTES

The Notes and any relative Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Bank 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 Bank, from time to time outstanding.

3 INTEREST

3.1 Interest on Fixed Rate Notes

Each Fixed Rate Note 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 arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes 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 Notes 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 Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes 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 Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note 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 3.1:

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (i) in the case of Notes 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 Notes 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.

3.2 Interest on Floating Rate Notes

(a) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear 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 Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

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 Fiscal Agent under an interest rate swap transaction if the Fiscal Agent 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 Notes (the “**ISDA Definitions**”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a 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 Notes

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; 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 (being LIBOR, EURIBOR, NIBOR, STIBOR, REIBOR or CIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR and Copenhagen time, in the case of CIBOR) 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 Fiscal Agent. 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 Fiscal Agent 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, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR), the Fiscal Agent shall request each of the Reference Banks to provide the Fiscal Agent 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, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) 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, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) 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), the Norwegian inter-bank market (if the Reference Rate is NIBOR), the Swedish inter-bank market (if the Reference Rate is STIBOR), the Icelandic inter-bank market (if the Reference Rate is REIBOR) or the Danish inter-bank market (if the Reference Rate is CIBOR) 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, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) 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), the Norwegian inter-bank market (if the Reference Rate is NIBOR), the

Swedish inter-bank market (if the Reference Rate is STIBOR), the Icelandic inter-bank market (if the Reference Rate is REIBOR) or the Danish inter-bank market (if the Reference Rate is CIBOR) 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 NIBOR, the principal Oslo office of four major banks in the Norwegian inter-bank market, in the case of a determination of STIBOR, the principal Stockholm office of four major banks in the Swedish 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 and, in the case of a determination of CIBOR, the principal Copenhagen office of four major banks in the Danish 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 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 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 Notes for the relevant Interest Period by applying the Rate of Interest to:

- (i) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (ii) in the case of Floating Rate Notes 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 Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note 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 3.2:

- (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:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” 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 D₁ is greater than 29, in which case D₂ 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:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” 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 D₂ 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:

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

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” 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 D₁ will be 30; and

“D₂” 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 D₂ 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) Notification of Rate of Interest and Interest Amounts

The Fiscal 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 Bank and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 12 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 promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 12. 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.

(g) 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 3.2 by the Fiscal Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Fiscal Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Bank, the Noteholders 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.

3.3 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) 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 Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

4 PAYMENTS

4.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (b) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 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, as amended (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

4.2 Presentation of definitive Notes and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 4.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes 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)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below)) 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 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive 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 Note or Long Maturity Note 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. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date

on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note 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 Note.

4.3 Payments in respect of Global Notes

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

4.4 General provisions applicable to payments

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

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

- (a) the Bank 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 Notes 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 Bank, adverse tax consequences to the Bank.

4.5 Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 7) 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) in the case of Notes in definitive form only, the relevant place of presentation;

- (ii) each 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 (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

4.6 Interpretation of principal and interest

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

- (a) any additional amounts which may be payable with respect to principal under Condition 6;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 5.4); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Bank under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6.

5 REDEMPTION AND PURCHASE

5.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Bank at its Final Redemption Amount calculated as follows:

- (a) in the case of a Note (other than a Zero Coupon Notes where a Redemption/Payment Basis other than 100 per cent. of the nominal amount has been specified in the applicable Final Terms), at 100 per cent. of the Calculation Amount per Calculation Amount as specified in the applicable Final Terms; or
- (b) in the case of a Zero Coupon Note where a Redemption/Payment Basis other than 100 per cent. of the nominal amount has been specified in the applicable Final Terms, at the amount specified in the applicable Final Terms,

in each case in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

5.2 Redemption for tax reasons

Subject to Condition 5.4, the Notes may be redeemed at the option of the Bank in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 and not more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 12, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 6 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 6) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (b) such obligation cannot be avoided by the Bank taking reasonable measures available to it,

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

Prior to the publication of any notice of redemption pursuant to this Condition 5.2, the Bank shall deliver to the Fiscal Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Bank has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 5.2 will be redeemed at their Early Redemption Amount referred to in Condition 5.4 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

5.3 Redemption at the option of the Bank (“Issuer Call”)

If Issuer Call is specified as being applicable in the applicable Final Terms, the Bank may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes 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 Notes, the Notes to be redeemed (“**Redeemed Notes**”) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, 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). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption.

5.4 Early Redemption Amounts

For the purpose of Condition 5.2 above and Condition 8, each Note will be redeemed at an amount (the “**Early Redemption Amount**”) calculated as follows:

- (a) in the case of a Note (other than a Zero Coupon Note), at the Final Redemption Amount thereof;

- (b) in the case of a Zero Coupon Note, at an amount (the “**Amortised Face Amount**”) calculated in accordance with the following formula:

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

^y is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be 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 Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

5.5 Purchases

The Bank or any Subsidiary of the Bank may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Bank, surrendered to any Paying Agent for cancellation.

5.6 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 5.5 above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

5.7 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 5.1, 5.2 or 5.3 above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 5.4(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note 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 Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

6 TAXATION

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

- (a) presented for payment in Iceland; or
- (b) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4.5).

As used herein:

- (i) **“Tax Jurisdiction”** means Iceland or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **“Relevant Date”** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 12.

7 PRESCRIPTION

The Notes and Coupons 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 five years (in the case of interest) after the Relevant Date (as defined in Condition 6) therefor.

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 4.2 or any Talon which would be void pursuant to Condition 4.2.

8 EVENTS OF DEFAULT

8.1 Events of Default

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

- (a) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes 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 Bank 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 Noteholder on the Bank of notice requiring the same to be remedied; or
- (c) if (i) any Financial Indebtedness (as defined below) of the Bank or any of its Principal Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Bank or any of its Principal Subsidiaries 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 Bank or any of its Principal Subsidiaries for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Bank or any of its Principal Subsidiaries 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 Bank or such Principal Subsidiary 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 Bank or such Principal Subsidiary has been given in the case of (iv) above, is at least €25,000,000 (or its equivalent in any other currency);
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Bank or any of its Principal Subsidiaries, save for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the Principal Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent); or
- (e) if the Bank or any of its Principal Subsidiaries ceases or threatens to cease to carry on (in the case of the Bank) the whole or a substantial part of its business or (in the case of a Principal Subsidiary) the whole or substantially the whole of its business, (save in each case for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the Principal Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent) or the Bank or any of its Principal Subsidiaries 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 Bank or any of its Principal Subsidiaries 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 Bank or any of its Principal Subsidiaries or, as the case may be, in relation to all or substantially all of the undertaking or assets of any of them, or an encumbrance takes possession of all or substantially all of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force

against all or substantially all of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or

- (g) if the Bank or any of its Principal Subsidiaries 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 holder of a Note may, by written notice to the Bank at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare any Note 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.

8.2 Definitions

For the purposes of the Conditions:

“**Financial Indebtedness**” 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 Group which is cash collateralised);
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;
- (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;

“**Group**” means the Bank and its consolidated subsidiaries, taken as a whole;

“**IFRS**” means International Financial Reporting Standards; and

“**Principal Subsidiary**” means at any time a Subsidiary of the Bank:

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries)

represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated gross revenues, or, as the case may be, consolidated total assets, of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, non-consolidated) of such Subsidiary and the then latest audited consolidated accounts of the Bank and its Subsidiaries, provided that in the case of a Subsidiary of the Bank acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Bank and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Bank;

- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Bank which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Bank and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, generate gross revenues equal to) not less than 10 per cent. of the consolidated gross revenues, or represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets, of the Bank and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate gross revenues equal to) not less than 10 per cent. of the consolidated total gross revenues, or its assets represent (or, in the case aforesaid, are equal to) not less than 10 per cent. of the consolidated total assets, of the Bank and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Bank and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition,

all as more particularly defined in the Agency Agreement.

A report by two Authorised Signatories of the Bank that in their opinion a Subsidiary of the Bank is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, shall, in the absence of manifest error, be conclusive and binding on all parties.

9 REPLACEMENT OF NOTES, COUPONS AND TALONS

Should any Note, 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 Bank may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

10 PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional 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 Bank 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 Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or 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 Bank is incorporated.

In addition, the Bank shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4.4. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Bank in accordance with Condition 12.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Bank and do not assume any obligation to, or relationship of agency or trust with, any Noteholders 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.

11 EXCHANGE 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 Fiscal 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 Note to which it appertains) a further Talon, subject to the provisions of Condition 7.

12 NOTICES

All notices regarding the Notes will be deemed to be validly given if (a) published in a leading English language daily newspaper of general circulation in London, and (b) if and for so long as the Notes are

admitted to trading on and listed on the Official List of the Irish Stock Exchange and if the guidelines of that exchange so require, filed with the Companies Announcements Office of the Irish Stock Exchange. It is expected that such publication will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes 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.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are 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. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Fiscal Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

13 MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Bank and shall be convened by the Bank if required in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes 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 Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons (including modifying the date of maturity of the Notes 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 Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes 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 Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Fiscal Agent and the Bank may agree, without the consent of the Noteholders or Couponholders, to:

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

- (b) any modification of the Notes, the Coupons or the 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 Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

14 FURTHER ISSUES

The Bank shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or 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 and so that the same shall be consolidated and form a single Series with the outstanding Notes.

15 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

16 GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing law

The Agency Agreement, the Deed of Covenant, the Notes, the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Notes and the Coupons are governed by, and construed in accordance with, English law.

16.2 Submission to jurisdiction

- (a) Subject to Condition 16.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons (a “**Dispute**”) and accordingly each of the Bank and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 16.2, the Bank waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

16.3 Appointment of Process Agent

The Bank irrevocably appoints the Embassy of Iceland, London as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of the Embassy of Iceland, London being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Bank agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

16.4 Waiver of immunity

The Bank irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

16.5 Other documents

The Bank has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent for service of process in terms substantially similar to those set out above.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Bank for its general corporate purposes, which include making a profit.

DESCRIPTION OF THE BANK

Overview

The Bank 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 Bank was established on 7 October 2008 as a limited liability company, but the history of its predecessor, Landsbanki Islands hf. (“**LBI hf.**” or “**LBI ehf.**”), dates back to 1886.

The Bank has been granted an operating license to act as a commercial bank pursuant to the Act on Financial Undertakings No. 161/2002 and it operates pursuant to the provisions of the Act on Financial Undertakings, 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 Bank is supervised by the FME.

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

In October 2016, the international rating agency Standard & Poor’s (“**S&P**”) raised both the long and short term rating of the Bank from BBB-/A-3 to BBB/A-2 with a “positive outlook”. The previous rating was from November 2015, where S&P raised both the long and short term rating of the Bank from BB+/B to BBB-/A-3 with “positive outlook”.

For the year ended 31 December 2016, the Group’s net interest income was ISK 34.7 billion compared to ISK 32.3 billion in 2015, its operating income was ISK 48.2 billion compared to 72.4 billion in 2015 and profit for the year ended 31 December 2016 was ISK 16.6 billion compared to ISK 36.5 billion in 2015. As at 31 December 2016, the Group’s total assets were ISK 1,111 billion compared to ISK 1,119 billion at 31 December 2015.

Recent Developments

In the consolidated financial report for 2016, the Board of Directors proposed that a dividend of ISK 0.55 per outstanding share, being a total amount of ISK 13 billion, be paid before the end of March 2017 and, at the annual general meeting held on 22 March 2017, payment of this dividend was approved for 29 March 2017. Additionally, the Board of Directors proposed in the consolidated financial report for 2016 that a special dividend be paid in September 2017. The annual general meeting held 22 March 2017, approved a special dividend to shareholders of ISK 0.50 per share, being a total of ISK 11.8 billion, to be paid on 20 September 2017. Total dividends paid by the Bank in 2017 will thus amount to ISK 24.8 billion. For further information, please see the section entitled “*Shareholder and Share Capital- Share Capital*”.

Historical Background

LBI hf. was changed to the holding company LBI ehf., in 2016. LBI ehf., the Bank’s predecessor, was established by the Icelandic Parliament on 1 July 1886. In establishing LBI ehf., the Icelandic Parliament hoped to boost monetary transactions and encourage the country’s nascent industries. LBI ehf.’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 the bank grew and developed in parallel to the nation. In the 1920s, LBI ehf. became Iceland’s largest bank and was made responsible for issuing Iceland’s bank notes. After the

issuing of bank notes was transferred to the then newly established Central Bank of Iceland in 1961, LBI ehf. continued to develop as a commercial bank, expanding its branch network in the ensuing decades.

Liberalisation of financial services in Iceland, beginning in 1986, opened up new opportunities which LBI ehf. managed to take advantage of, despite some economic adversity. In 1997, LBI ehf. was incorporated as a limited liability company, and the ensuing privatisation was concluded in 2003. From 2003 to 2008, LBI ehf. operated as a private bank with substantial international activities in jurisdictions such as the UK and the Netherlands 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 ehf. on 7 October 2008. Subsequently, LBI ehf. was split into two entities comprising LBI ehf. and the Bank. The Bank, wholly owned by the Icelandic State, was established around the domestic deposits and the majority of the Icelandic assets of LBI ehf. All liabilities and assets not transferred to the Bank were retained in LBI ehf. and a Resolution Committee was appointed to supersede the board of directors of LBI ehf.

SHAREHOLDERS AND SHARE CAPITAL

Shareholders

As at 28 February 2017, the Bank had 935 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 Bank in accordance with its publicly available ownership policy. The second largest shareholder is the Bank, which holds 360,460,639 (1.50 per cent.) of its own shares after acquisition by the Bank of its own shares under its buy-back Programme (the “**Buy-Back Programme**”). Current and former employees of the Bank and also former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses. hold 72,525,583 (0.30 per cent.) shares and the corresponding voting rights in the Bank, after the Bank exercised an authorisation to purchase shares under the Buy-Back Programme. The shares and the corresponding voting rights of current and former employees of the Bank and also former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses are held by each shareholder individually.

	Shares 28.02.2017	% of the Bank's share capital
Icelandic State Treasury	23,567,013,778	98.20
Landsbankinn's own shares	360,460,639	1.50
Current and former employees of Landsbankinn and current and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses.	72,525,583	0.30
Total shares	<u>24,000,000,000</u>	<u>100.00</u>

The Icelandic Parliament has authorised a sale of all of the Icelandic State Treasury's shares in the Bank which are in excess of 70 per cent. of the Bank's total share capital – see also “*Risk factors- The Icelandic State Treasury is the largest shareholder of the Bank. This may affect the Bank and its business*”.

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

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

Share Capital

The Bank's total share capital is ISK 24,000,000,000 of which 23,639,539,361 shares are outstanding. Each share is of the nominal value of one ISK and entitles the owner to one vote at shareholders' meetings.

The Bank's AGM held on 14 April 2016 authorised the Bank to acquire up to 10 per cent. in nominal value of its share capital, in accordance with Art. 55 of Act No. 2/1995 on Public Limited Liability Companies. The minimum and maximum amounts the Bank is authorised to pay for each share shall be equivalent to the ratio of equity held by the Bank's shareholders to share capital as disclosed in the most recent annual or interim financial statements published before any such purchase of own shares take place. This authorisation is valid until the AGM of the Bank in 2017.

On 15 September 2016, the Bank's Board of Directors decided to exercise an authorisation to purchase the Bank's own shares. Under the Buy-Back Programme, the acquisition amounted to a total of 480 million shares, or the equivalent of 2 per cent. of its issued share capital. The Bank offered to repurchase shares from shareholders in three repurchasing periods. The first period was from 19 September to 30 September 2016. The second period was from 31 October to 9 December 2016 and third period was from 13 February to 24 February 2017.

The purchase price was determined by the internal value of the Bank's shares, according to its most recently published financial results prior to the commencement of the repurchase period concerned. The purchase price of the shares therefore changed between repurchase periods in accordance with the outcome of its quarterly or annual results preceding the respective repurchase period. The share price during the first repurchase period was based on the Bank's interim results for the first half of 2016 and was ISK 10.3966. During the first repurchase period the Bank purchased a total of 119,925,631 of its own shares, for a total amount of ISK 1,246,818,815. The share price during the second repurchase period was based on the Bank's interim results for the nine months ended 30 September 2016 and was ISK 10.6123. During the second repurchase period the Bank purchased a total of 13,596,241 of its own shares, for a total amount of ISK 144,287,388. The share price during the third repurchase period was 10.6226. During the third repurchase period the Bank purchased a total of 8,509,625 of its own shares, for a total amount of ISK 90,394,085. During the third repurchase period, 119,524 of the Bank's own shares were transferred to the Bank, due to enforcement of pledges. At the conclusion of the third repurchase period, the Bank held 360,460,639 of its own shares. The Bank acquired a total of 142,031,497 of its own shares under the Buy-Back Programme, or the equivalent of 0.6 per cent. of all issued shares in the Bank.

The Bank's AGM held on 22 March 2017 approved a motion to pay dividends to shareholders amounting to ISK 0.55 per share or around ISK 13 billion, which is equivalent to 78 per cent. of the Bank's overall profit for the financial year ended 2016. Payment of the dividend will be made on 29 March 2017. The AGM also approved a special dividend to shareholders of ISK 0.50 per share, a total of ISK 11.8 billion. The special dividend will be paid on 20 September 2017. Total dividends paid by the Bank in 2017 will thus amount to ISK 24.8 billion.

Furthermore, the Bank's AGM held on 22 March 2017, authorised the Bank, 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. The minimum and maximum amount the Bank is authorised to pay for each share shall be the book value of individual shares, i.e. equivalent to the ratio of equity held by the Bank's shareholders to share capital, as disclosed in the most recent annual or interim financial statement published before the purchase of its own shares takes place. This authorisation is valid until the AGM of the Bank in 2018. Allocation by the Bank of its own shares purchased based on this authorisation is subject to shareholder approval.

ORGANISATIONAL STRUCTURE

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

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

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

Strategy

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

- The customer comes first;
- Effective collaboration and continuous improvement; and
- Each individual is responsible for achieving results.
- The strategy is being implemented through seven equally important initiatives:

1 Frontline excellence in retail:

Retail frontline with full focus on customer centricity including sales and advisory.

2 Frontline excellence in Corporate and Markets:

Collaborative and transparent operations between Corporate and Markets for a holistic view on customers.

3 Customer centric processes and channel migration:

Digital delivery model with increased customer choice through self-service options.

4 Effective central operations:

Collaborative and lean central operations with short internal process time for effective support and decision making regardless of task.

5 Modernised IT platform:

Modernised IT systems that allow for quick response to market needs and support for next generation solutions and technology.

6 Balance sheet and capital optimisation:

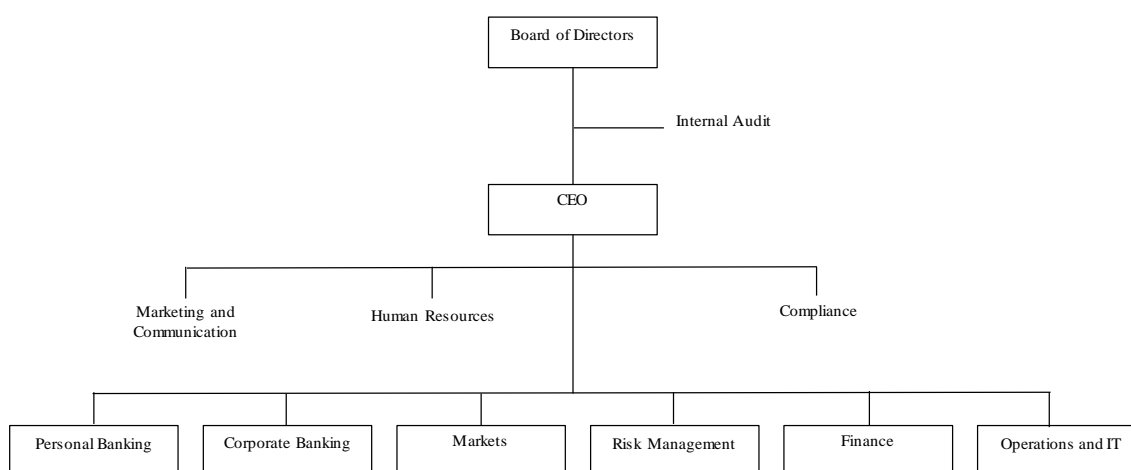
Optimised balance sheet structure with a clear risk prudency combined with shareholder focus.

7 Action minded organisation focused on implementation and change:

A performance culture with defined targets and clear responsibility for results. Empowered and action minded employees.

Business

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



The Bank 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 two support units: the Business Solutions and Business Development.

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 Bank 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 Bank's customers have access to financial services through its Customer Service Centre and, online banking system and mobile solutions.

Among the Bank's customers are around 119,000 individuals and around 11,000 SMEs. Its market share is over 37.1 per cent. with respect to individuals and 32.0 per cent. with respect to SMEs, according to a survey conducted by Gallup in December 2016.

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 in and around Reykjavík through a SMEs Centre. 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 December 2016, is stable at 33,4 per cent.

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

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

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

Legal Services 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 Bank, 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.

A 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 Bank’s wealthiest customers. Activities involve the management of customer’s 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 advise 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 Bank'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 Bank 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 Bank's credit risk, to assess market risk, liquidity risk and operational risk, and monitor these risk factors in the Bank's operations. The Risk Management division is responsible for maintenance and analysis of the Bank's risk assessment systems. The division comprises five departments: Credit Management, Credit Risk & Economic Capital, Market Risk, Operational Risk and Restructuring.

The Credit Management department reviews credit decisions made by the Bank's business units when credit applications exceed the relevant business units' limits. The department has confirmation and veto rights on those credit applications. Confirmation by Credit Management implies that Credit Management has reviewed the credit application and does not exercise its veto rights. Credit applications exceeding the confirmation limits of the Risk Management divisions are referred to the Bank's Credit Committee.

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

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

The Operational Risk department is responsible for ensuring that the Group's operational risks are monitored and that the Bank implements and maintains an effective operational risk management framework. The

department assists the Bank's managers with operational risk assessment incidents related to normal operations and operational loss incidents analysis, and oversees continuity plans. The department is partly responsible for the security system of online banking and leads the work on the Group's certification under the ISO 27001 standard for information security.

Restructuring is responsible for corporate and individual debt restructuring – both for over-indebted individuals as well as those who are unable to service their loans due to illness or humanitarian reasons – and for appropriated assets. This includes selling and renting out real estate assets which the Bank has acquired through foreclosure or as part of debt restructuring. In addition, the department sells vehicles, equipment and other items that the Bank has acquired through foreclosure.

Finance

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

Treasury is responsible for the Bank's funding, liquidity management and market making in money markets. Treasury manages the Bank'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 Bank's internal and external interest rate pricing.

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

The Bank's Legal department handles legal aspects of the Bank's operations. The Legal department provides the Bank and its subsidiaries with legal advice, representation in district courts, preparation of cases reviewed by the Complaints Committee on Transactions with Financial Undertakings and preparation of documents and communication with regulators, especially the FME and the Icelandic Competition Authority. The Bank's Legal department is also responsible for collection of all payments in arrears owed to the Bank.

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

The Economic Research department monitors financial markets and economic trends of relevance to the Bank 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 the foreign-exchange, fixed income and equity markets.

Operations & IT

Operations & IT comprises eight departments: Information Technology (“**IT**”), Web Development, Customer Relationship Management (“**CRM**”) Implementation, Strategy and Project Management Office (“**Strategic PMO**”), Process Improvements, Transaction Services, Loan Administration and Properties.

The IT department is responsible for developing, operating and advising on the Bank's information systems and solutions. The IT department oversees all internally developed and third-party software, as well as hardware such as data centres, telephone systems, ATMs, etc.

Web Development is responsible for all web and multimedia development for the Bank. All user interfaces are designed and developed by the Web Development department, the most important one being the internet

banking. The Bank communicates with its customers increasingly through its online platform, meaning business is increasingly carried out through the internet.

CRM Implementation's main project is to implement Microsoft CRM into the Bank's business. As well as leading the implementation, CRM Implementation is responsible for adjusting the software to the Bank's business.

Strategic PMO is responsible for running all the main strategic projects for the Bank. The Bank is implementing a 2020 Strategy and Strategic PMO's key project is its implementation. Furthermore, Strategic PMO plays a key role in the Bank's project demand management.

Process Improvements role is to lead change in the Bank's main processes, with the main emphasis on developing streamlined processes and reducing waste in processes. The department is also responsible for printing services and administration of the archives.

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

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

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

Other divisions

CEO's Office

The CEO's Office works closely with the CEO to assist him in his duties. Among its primary responsibilities are arranging meetings of the Bank's senior management and Board of Directors, and following-up on the implementation of decisions.

Compliance, Human Resources ("**HR**"), and the Marketing & Communication Department 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 Bank's marketing strategy and planning. It is also responsible for internal and external communication.

Compliance is responsible for identifying, assessing and monitoring the compliance risks faced by the Bank and to support and advise management and employees in the fulfilment of their duties. Compliance's main responsibilities are to:

- Monitor and regularly assess the functionality of measures established to maintain relevant policies and procedures designed to detect any risk that the Bank might fail to fulfil its obligations pursuant to legislation on securities transactions.
- Assist, support and advise management in the fulfilment of their duties. This includes providing those employees of the Bank, who are responsible for securities transactions, with the training, advice and

assistance necessary to enable them to fulfil the Bank’s obligations in accordance with legislation on securities transactions.

- Enforce provisions of the Act on Actions to Combat Money Laundering and Terrorist Financing and make sure that co-ordinated procedures are developed to ensure the correct execution of the above referenced Act.
- Identify, assess and monitor the compliance risks faced by the Bank.
- Implement a document management policy and ensure its compliance within the Bank.

Internal Audit

The internal audit function is a part of the Bank’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 Bank’s operations.

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

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 the internal audit activity of the Bank 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 31 December 2016 and 2015, classified by type of loan.

	2016	2015
	<i>(ISKm)</i>	
Bank accounts with financial institutions.....	14,539	15,096
Money market loans.....	2,209	1,281
Overdrafts.....		1,482
Other loans.....	3,660	2,932
Total	20,408	20,791

The table below sets out details of the Group’s loans and advances to customers as at 31 December 2016 and 31 December 2015 classified by type of loan. During the reporting period the Group was not permitted to sell or repledge any collateral in absence of default by the owner of the collateral.

	2016	2015
	<i>(ISKm)</i>	
Public entities.....	10,028	8,969
Individuals.....	326,844	303,349

	2016	2015
	(ISKm)	
Corporations.....	537,496	532,888
Less: Allowance for impairment	(20,951)	(33,657)
Total.....	853,417	811,549

Notes:

- (1) During the reporting period the Group was not permitted to sell or repledge any collateral in absence of default by the owner of the collateral.
- (2) Further disclosures on loans and advances are provided in the risk management section of the notes of the Consolidated Financial Statements.

The following tables show the Group's maximum credit risk exposure at 31 December 2016 and 31 December 2015. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

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

At 31 December 2016	Corporations												Carrying amount
	Financial institutions	Public entities ⁽¹⁾	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	ITC ⁽²⁾	Manufacturing	Agriculture	Other	
	(ISKm except %)												
Cash and balances with Central Bank.....	—	30,662	—	—	—	—	—	—	—	—	—	—	30,662
Bonds and debt instruments.....	2,031	142,956	—	—	8,294	80	—	—	—	—	—	1,531	154,892
Derivative instruments.....	220	14	—	—	—	24	—	—	—	—	—	20	278
Loans and advances to financial institutions.....	20,408	—	—	—	—	—	—	—	—	—	—	—	20,408
Loans and advances to customers.....	—	9,783	320,690	123,626	188,327	40,490	42,235	74,743	19,220	24,167	10,135	1	853,417
Other financial assets.....	3,246	282	301	—	1,329	61	5	1,008	2	290	3	1	6,528
Total on-balance sheet exposure.....	25,905	183,697	320,991	123,626	197,950	40,655	42,240	75,751	19,222	24,457	10,138	1,553	1,066,185
Off-balance sheet exposure.....	5,640	16,385	29,109	17,421	49,953	2,392	18,704	15,999	4,159	9,996	1,149	382	171,289
Financial guarantees and underwriting commitments.....	2,022	634	819	6,345	3,648	64	2,959	2,179	895	525	10	365	20,465
Undrawn loan commitments.....	—	9,080	—	7,295	42,301	1,392	10,724	6,052	2,017	7,246	249	—	86,356
Undrawn overdraft/credit card facilities.....	3,618	6,671	28,290	3,781	4,004	936	5,021	7,768	1,247	2,225	890	17	64,468
Maximum exposure to credit risk.....	31,545	200,082	350,100	141,047	247,903	43,047	60,944	91,750	23,381	34,453	11,287	1,935	1,237,474
Percentage of carrying amount.....	2.5	16.2	28.3	11.4	20.0	3.5	4.9	7.4	1.9	2.8	0.9	0.2	100

Notes:

- (3) Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.
(4) ITC consists of corporations in the information, technology and communication industry sectors.

At 31 December 2015	Corporations												Carrying amount
	Financial institutions	Public entities ⁽¹⁾	Individuals	Fisheries	Construction and real estate companies	Holding companies	Retail	Services	ITC ⁽²⁾	Manufacturing	AgricultureC	Other	
	<i>(ISKm except %)</i>												
Cash and balances with Central Bank	—	25,164	—	—	—	—	—	—	—	—	—	—	25,164
Bonds and debt instruments.....	1,356	192,275	—	—	8,516	123	—	—	—	—	—	1,414	203,684
Derivative instruments	47	2	1	90	108	—	—	—	—	—	—	39	287
Loans and advances to financial institutions.....	20,791	—	—	—	—	—	—	—	—	—	—	—	20,791
Loans and advances to customers.....	—	8,738	290,961	159,514	155,334	47,612	36,021	60,469	15,502	27,205	10,118	75	811,549
Other financial assets	4,178	582	438	8	866	31	119	452	1	230	1	12	6,918
Total on-balance sheet exposure.....	26,372	226,761	291,400	159,612	164,824	47,766	36,140	60,921	15,503	27,435	10,119	1,540	1,068,393
Off-balance sheet exposure.....	689	16,940	25,095	23,018	43,835	1,158	15,615	15,537	3,797	9,597	620	154	156,055
Financial guarantees and underwriting commitments.....	26	1,422	777	7,210	2,022	60	2,278	1,993	1,070	653	27	99	17,637
Undrawn loan commitments.....	—	8,111	100	11,511	37,647	723	6,888	6,726	1,584	6,518	167	—	79,975
Undrawn overdraft/credit card facilities.....	663	7,407	24,218	4,297	4,166	375	6,449	6,818	1,143	2,426	426	55	58,443
Maximum exposure to credit risk	27,061	243,701	316,495	182,630	208,659	48,924	51,755	76,458	19,300	37,032	10,739	1,694	1,224,448
Percentage of carrying amount.....	2.2	19.9	25.8	14.9	17.0	4.0	4.2	6.2	1.6	3.0	0.9	0.1	100

Notes:

- (1) Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.
(2) ITC consists of corporations in the information, technology and communication industry sectors.

The table below sets out details of the carrying amount of the loans and advances to customers as at 31 December 2016 and 31 December 2015, classified by customer sector.

	2016	2015
Financial institutions	2.3%	2.5%
Public entities.....	1.1%	1.0%
Individuals.....	36.7%	35.0%
Fisheries	14.1%	19.2%
Construction and real estate companies	21.6%	18.7%
Services	8.6%	7.3%

	2016	2015
Retail	4.8%	4.3%
Holding companies	4.6%	5.7%
Manufacturing	2.8%	3.3%
Agriculture	1.2%	1.2%
ITC ⁽¹⁾	2.2%	1.9%
Other	0.0%	0.0%
Total	100.0%	100.0%

Note:

(1) ITC consists of corporations in the information, technology and communication industry sectors.

The table below shows the credit exposure, allowances and impairment by industry and customer segments as at 31 December 2016 and 31 December 2015.

At 31 December 2016	Gross carrying amount	Gross not individually impaired	Collective allowance	Individually impaired				Carrying amount
				Of which performing		Of which non-performing ⁽¹⁾		
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
				<i>(ISKm)</i>				
Financial institutions	20,408	20,408	—	—	—	—	—	20,408
Public entities	10,028	9,565	(48)	—	—	464	(198)	9,783
Individuals	326,844	317,614	(1,499)	2,170	(738)	7,059	(3,916)	320,690
Corporations								
Fisheries	124,094	123,314	(145)	326	(71)	452	(250)	123,626
Construction and real estate companies	192,819	186,529	(1,204)	2,352	(1,347)	3,938	(1,941)	188,327
Holding companies	41,148	40,503	(251)	156	(35)	489	(372)	40,490
Retail	43,436	41,629	(224)	756	(291)	1,050	(685)	42,235
Services	80,833	71,762	(401)	3,601	(2,029)	5,471	(3,661)	74,743
Information, technology and communication	19,383	19,308	(115)	27	(6)	49	(43)	19,220
Manufacturing	25,535	19,929	(91)	2,695	(632)	2,912	(646)	24,167
Agriculture	10,247	10,164	(45)	40	(35)	43	(32)	10,135
Other	1	1	—	—	—	—	—	1
Total	894,776	860,726	(4,023)	12,123	(5,184)	21,927	(11,744)	873,825

Note:

(1) Non-performing past due more than 90 days.

At 31 December 2015	Individually impaired							
	Gross carrying amount	Gross not individually impaired	Collective allowance	Of which performing		Of which non-performing ⁽¹⁾		Carrying amount
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
				(ISKm)				
Financial institutions	20,791	20,791	—	—	—	—	—	20,791
Public entities.....	8,969	8,507	(8)	429	(204)	32	(18)	8,738
Individuals	303,349	283,634	(1,967)	4,937	(2,273)	14,777	(8,147)	290,961
Corporations								
Fisheries.....	162,160	157,546	(224)	1,762	(901)	2,853	(1,519)	159,517
Construction and real estate companies	162,090	150,708	(1,431)	6,468	(2,618)	4,914	(2,708)	155,333
Holding companies	48,649	47,671	(343)	266	(155)	713	(540)	47,612
Retail.....	38,069	35,198	(325)	1,489	(923)	1,382	(800)	36,021
Services.....	66,233	57,857	(719)	6,133	(3,712)	2,243	(1,333)	60,469
Information, technology and communication.....	15,787	15,526	(137)	12	(3)	249	(145)	15,502
Manufacturing.....	29,384	22,052	(231)	6,466	(1,335)	867	(615)	27,204
Agriculture.....	10,440	9,631	(71)	571	(166)	237	(85)	10,117
Other.....	76	76	(1)	—	—	—	—	75
Total.....	865,997	809,197	(5,457)	28,533	(12,290)	28,267	(15,910)	832,340

Note:

(1) Non-performing past due more than 90 days.

The table below shows the credit quality of the Bank's financial assets, including its loans and advances as at 31 December 2016 and 31 December 2015. The allowance for impairment includes both the allowance for individual impairment and the allowance for collective impairment.

At 31 December 2016	Gross carrying amount				Allowance for impairment ⁽¹⁾	Carrying amount
	Neither past due not individually impaired	Past due but not individually impaired	Individually impaired	Total		
	(ISKm)					
Cash and balances with Central Bank.....	30,662	—	—	30,662	—	30,662
Bonds and debt instruments	154,731	161	—	154,892	—	154,892
Derivative instruments	278	—	—	278	—	278
Loans and advances to financial institutions.....	20,408	—	—	20,408	—	20,408
Loans and advances to customers.....	815,881	24,437	34,050	874,368	(20,951)	853,417
Other financial assets	6,528	—	—	6,528	—	6,528
Total.....	1,028,448	24,598	34,050	1,087,136	(20,951)	1,066,185
At 31 December 2015						
Cash and balances with Central Bank.....	25,164	—	—	25,164	—	25,164

	Number of large exposures	Large exposures
		(ISKm, except %)
At 31 December 2016		
Large exposures between 10% and 20% of the Group's capital base	2	51,310
Large exposures between 0% and 10% of the Group's capital base	1	—
Total	3	51,310
Total large exposure to capital base		20%
At 31 December 2015		
Large exposures between 10% and 20% of the Group's capital base	3	66,094
Large exposures between 0% and 10% of the Group's capital base	3	212
Total	6	66,306
Total large exposure to capital base		25%

Funding

The Bank is predominantly funded by three main sources: customer deposits, borrowing and share capital.

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

The Bank has in place this EUR 2,000,000,000 EMTN Programme which is utilised to broaden and strengthen the Bank's funding in foreign currencies, with *inter alia* the purpose of refinancing the Bank's outstanding bonds secured to LBI ehf.

In addition, the Bank has in place a ISK 100,000,000,000 Covered Bond Programme that is listed for trading on Nasdaq Iceland. The purpose of the programme is to provide funding for the Bank's mortgage loan portfolio and hedge the Bank's fixed interest rate exposure.

Furthermore the Bank set up an ISK 50,000,000,000 debt issuance programme in May 2015 that is listed for trading on Nasdaq Iceland. The Bank primarily issues bills in the domestic market in ISK under the debt issuance programme.

Significant progress was achieved during 2016 in diversifying the Bank's funding profile. The Bank completed a EUR 500 million issuance in September 2016 and a SEK 1 billion issuance in November 2016 under this EMTN Programme. The proceeds were predominately used to repay maturities on secured bonds issued to LBI ehf. The secured bonds issued to LBI ehf. were issued as part of settlement when assets and liabilities of LBI ehf. were transferred to the Bank. The outstanding amount on the remaining two secured bonds is denominated in USD with maturities in 2020 and 2024. Interest rates will remain at a 2.9 per cent. margin until October 2018, stepping up to a 3.5 per cent. margin for the 2020 tranche to end at a 3.65 per cent. margin for the final maturity in 2024. The Bank is authorised to make full or partial prepayment, without cost, at any time during the term of the bonds. In March 2017, the Bank completed a EUR 300 million issuance

of senior unsecured Notes under this EMTN Programme. The proceeds were used to pre-pay part of the Bank's existing funding and to further strengthen its liquidity.

Deposits are expected to continue to form a significant part of the Bank's funding in the future. External factors might however affect the Bank's deposit base in the short and medium term, such as further easing of capital controls and the increased availability of other investment opportunities for investors who currently hold deposits with the Bank. To reduce the risk of these external factors, the Bank 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 assessing and quantifying the identified risks for management and monitoring purposes. Finally, risk controls and limits ensure compliance with rules and procedures, as well as compliance with the 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 risk is managed to ensure that it will remain within limits and that the risk appetite adopted by the Group will comply with regulatory requirements. In order to ensure that fluctuations that might affect the Group's equity and performance are kept limited and manageable, the Group has adopted several policies regarding the risk structure of its asset portfolio.

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

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

The Credit Committee deals with credit risk, including individual credit decisions, credit limits for customers and credit risk policy issues 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 also responsible for enforcing the Group's risk appetite and risk limits, and reviews and approves changes to risk models before they are presented to the Board of Directors. The Executive Management Committee serves as a forum for consultation and communication between the CEO and the managing directors, addressing the main current issues in each division, and takes decisions that are on operating matters not being considered in other standing committees. The Operational Risk Committee is a forum for discussions and decisions on key operational risk issues and review of the effective implementation of the operational risk framework.

The risk appetite is defined as the level and nature of risk that the Bank is willing to take in order to pursue its articulated strategy. It is determined by various constraints reflecting the views of the Board of Directors and the CEO and Executive Management Committee. 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 Bank's credit risk models which include Probability of Default (“**PD**”), Loss Given Default (“**LGD**”) and Exposure of Default (“**EAD**”). These three models are used for various purposes, e.g. in management reporting.

Credit risk identification

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

The Group's activities may involve 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 loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts and aforementioned settlement risk.

Credit risk assessment

Credit risk is measured in three main dimensions: PD, LGD and EAD. For the purpose of measuring PD, the 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 play are essential in the risk management and decision-making process, and in the credit approval and corporate governance functions.

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

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

The credit rating models' discriminatory power significantly exceeds the Basel II requirement of 0.5. Furthermore, the model is well calibrated, in other words, the weighted probability of default for each rating grade is equal to the actual default rate with respect to reasonable error limits.

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

“Exposure at default” in relation to any particular borrower is an estimate of the amount that would be outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in the event that such borrower were to default.

Credit risk management

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 through detailed lending rules approved by the CEO. The risk appetite statement and credit policy includes limits on large exposures to individual borrowers or groups of borrowers, on concentration of risk and on exposures to specific industries. The CEO ensures that the risk policy is reflected in the Group's internal framework of regulation and guidelines. The Group's executives are responsible for seeing that the Group's business units implement the risk policy appropriately and the CEO is responsible for the oversight of the process as a whole.

Incremental credit authorisation levels are defined based on the size of units, type of customers and lending experience of credit officers. The Group has also implemented industry policies relating to the credit decision process by applying a target share and monitoring limits for specific industries as, for example, a percentage of the loan portfolio, probability of default targets for specific industries and LGD values. 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 Bank.

Credit risk mitigation

Mitigating risks in the credit portfolio is a key element of the Group's credit policy as well as an inherent part of the credit decision process. Securing loans with collateral is the main method of mitigating credit risk for many loan products and, in some cases, collateral is mandatory by law (e.g. 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 Group regularly assesses the market value of collateral received through models developed to estimate the value of the most common types of collateral. For collateral for which no valuation model exists, the estimate is the market value less a "haircut". The haircut represents a conservative estimate of the cost of disposing of the appropriated asset. Selling costs 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 marked-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 exposures 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 of four risk groups (green, yellow, orange and red). The colour classification is the following:

- Green customers are considered those whose loans are performing without signs of repayment problems;
- Yellow customers are on “Watch list 1”. They have temporary difficulties and may need some instalments postponed or modification of terms or loan covenants;
- Orange customers are on “Watch list 2”. They are still under the supervision of the relevant business unit but are likely to undergo debt restructuring or postponement of instalments; and
- Red customers are under supervision by Corporate Solutions and need restructuring or are in legal collection. Restructuring options may include deferring payments, interest and/or debt forgiveness, collecting collateral or guarantees or the takeover and subsequent sale by the Bank of the management of the customer's operations.

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

Impairment process

The Group's policy requires that individual financial assets above materiality thresholds are reviewed at least quarterly, and more frequently when circumstances require. Impairment allowances on individually assessed accounts are determined on a case-by-case basis by evaluating incurred losses at the reporting date. Collectively assessed impairment allowances are permitted in the following cases: (i) portfolios of homogenous loans that are individually below materiality thresholds; and (ii) losses that have been incurred but not yet identified, using the available historical experience together with experienced judgement and statistical techniques.

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

Total allowance for impairment totalled ISK 21 billion as at 31 December 2016 as compared to ISK 34 billion in year ended 31 December 2015. Allowances decreased in nearly all industry sectors in 2016 while the overall carrying amount increased. The decrease in allowances is mainly due to written-off loans, lower probability of default, improved collaterals and lower past due rate. As at 31 December 2016, 93 per cent. of the portfolio consisted of claims that were neither past due nor impaired. The accumulated impairment amounted to ISK 5 billion.

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 Bank, 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 Bank's operating environment to further measure the Bank'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.
- 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 LCR and the NSFR and it also applies measurements that best suit the operating environment of the Bank.

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

The Group complies with the liquidity and funding rules set by the Central Bank No. 1031/2014, 1032/2014 and No. 266/2017, as well as the guidelines of the FME No. 2/2010 on best practices for managing liquidity in banking organisations. Rule No. 1031/2014 requires the Group to maintain a LCR minimum of 90 per cent. total and 100 per cent. for foreign currencies in the year 2016 and Rule No. 1032/2014 sets requirements for a minimum of 90 per cent. NSFR in foreign currencies for the year 2016. The LCR total minimum and the minimum NSFR requirements in foreign currencies will then increase by 10 percentage points, reaching 100

per cent. in 2017. On 31 March 2017, new regulation No 233/2017, on prudential requirements for the operations of financial undertakings, which implements the EU CRR No. 575/2013, took effect. Regulation No. 233/2017 and regulation No. 266/20107 requires the Bank, as a credit institution, to maintain a LCR minimum of 100 per cent. The Group submits monthly reports on its liquidity position to the Central Bank and the FME.

	<u>LCR – Total</u>	<u>LCR – FX</u>	<u>NSFR – FX</u>
As at 31 December 2016.....	128%	743%	154%
As at 31 December 2015.....	113%	360%	136%

Market Risk

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

The Board of Directors is responsible for determining the Group’s overall risk appetite, including market risk. The CEO of the Bank 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 Bank, and is monitored by the Market Risk Department. In the current economic environment, the Bank has limited access to derivative instruments and other tools for managing interest rate risk.

Sensitivity analysis for trading portfolios

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

Sensitivity analysis for non-trading portfolios

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and liabilities to various interest rate scenarios. The Bank employs a quarterly 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 Bank offers non-CPI-indexed loans and CPI-indexed deposits. CPI indexation risk is managed centrally within the Bank by the Treasury of the Bank, and is monitored by the Market Risk Department.

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

Currency risk (all portfolios)

The Bank follows the Rules No. 950/2010 on Foreign Exchange Balances, as set by the Central Bank. These rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within 15 per cent. of the Bank's capital base, in each currency and for all currencies combined. The Bank 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 Bank 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 Bank ensures that operational risk management stays consistent throughout the Bank 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 Bank intends to ensure that all of the Bank'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 its most important 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 Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms (amending Regulation (EU) No 648/2012) (the "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 weighted assets (“**RWA**”) for credit risk, market risk and operational risk. In conformity with Pillar II of the Basel framework, the Bank annually assesses its own capital needs through the Internal Capital Adequacy Assessment Process (“**ICAAP**”). The ICAAP results are subsequently reviewed by the FME in the Supervisory Review and Evaluation Process (“**SREP**”). The Group Total Capital Requirement (the “**Total Capital Requirement**”), as determined by the FME, is the sum of Pillar I and Pillar II requirements.)

On 14 April 2015, the Icelandic Financial Stability Council defined the Bank as a systematically important institution in Iceland.

In July 2015, legislation amending the Icelandic Act on Financial Undertakings No. 161/2002 entered into force, implementing the capital buffer requirements under the CRD IV. Under the new legal framework, the FME can impose proportionate restrictions on a credit institution’s dividend payments, variable remuneration to employees and/or other payments of similar nature, if its capital adequacy ratio falls below the Total Capital Requirement plus capital buffers.

In September 2016, legislation further amending the Icelandic Act on Financial Undertakings No. 161/2002 entered into force, whereby a minimum 3.0 per cent. leverage ratio requirement was implemented.

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

	SREP based on data from	
	31 December 2015	31 December 2014⁽¹⁾
Pillar I.....	8.0%	8.0%
Pillar II.....	6.0%	6.3%
Total Capital Requirement	14.0%	14.3%
Systemic risk buffer.....	2.7%	3.0%
Capital buffer for systematically important institutions.....	2.0%	2.0%
Countercyclical capital buffer.....	0.9%	0.0%
Capital conservation buffer.....	2.5%	2.5%
Total capital buffers	8.1%	7.5%
Total Capital Requirement plus capital buffers	22.1%	21.8%

Note:

- (1) As a part of the annual SREP process, the FME requested that the Bank maintained a capital ratio that would reflect the fully phased-in capital buffers

On 22 January 2016 (and on 3 October 2016), the Icelandic Financial Stability Council made recommendations to the FME, in accordance with the new legislation, to formally impose the new CRD IV capital buffers in the following steps:

	1.4.2016	1.6.2016	1.1.2017	Q1 2017	Q4 2017
Systemic risk buffer ⁽¹⁾	3.00%	3.00%	3.00%	3.00%	3.00%

	<u>1.4.2016</u>	<u>1.6.2016</u>	<u>1.1.2017</u>	<u>Q1 2017</u>	<u>Q4 2017</u>
Capital buffer for systemically important institutions	2.00%	2.00%	2.00%	2.00%	2.00%
Countercyclical capital buffer*.....	0.00%	0.00%	0.00%	1.00%	1.25%
Capital conservation buffer.....	1.00%	1.75%	2.50%	2.50%	2.50%
Total capital buffers.....	6.00%	6.75%	7.50%	8.50%	8.75%

Note:

- (1) The systemic risk buffer and the countercyclical capital buffer only applies to domestic assets

The Bank's target for the Group's minimum total capital ratio is to be comfortably above the fully phased-in FME capital requirements plus capital buffers. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

Competition

The Icelandic competitive landscape is comprised of four commercial banks, four savings banks and five credit institutions. The financial markets also include ten securities companies, one securities brokerage and ten 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 Bank provides. Such competition is affected by various factors including, but not limited to, consumer demand, technological changes, new entrants, regulatory actions and impact of consolidation.

The Bank's main competitors are the other large commercial banks in Iceland, namely Íslandsbanki, Arion Bank and Kvika Bank. With the recovery of the Icelandic economy, demand for new lending and other financial products has increased. Competition from smaller specialised institutions as well as shadow banking has intensified in the last few years. 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 Bank's Business*"). The pension funds also provide competition for deposits, as a proportion of an individual's savings (proportion of person's salary and contribution from employers) are held in pension funds rather than in bank deposits, since it is a requirement 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 Bank 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 increased competition from domestic competitors as well as foreign banks potentially seeking to establish operations in Iceland.

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

Litigation

The Bank is party to litigation cases, which arise due to the nature of its business and are not expected to have material effect on the Bank's financial position. The Bank 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 Bank takes the necessary steps to mitigate any adverse effects which the claims may have on its financial standing.

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

Inflation-indexation of financial obligations

In January 2013, a customer commenced litigation against the Bank, seeking acknowledgement of the unlawfulness of a consumer price indexation provision in a bond issued by him to the Bank and that it is not permissible for the Bank to revalue the principal amount of the bond on a monthly basis in accordance with the consumer price index. The District Court of Reykjavík on 19 February 2016, acquitted the Bank of the plaintiff's claims. The aspect of the case concerning whether the Bank may revalue the principal amount of the bond on a monthly basis in accordance with the consumer price index has been appealed to the Supreme Court. The Supreme Court has ruled that the case will not be heard by the Supreme Court.

Investigation of the Icelandic Competition Authority into lending terms

In March 2013, the Icelandic Competition Authority submitted to the Bank its preliminary assessment concerning certain preferential terms and conditions offered during 2004-2010 by LBI ehf. and, subsequently, by the Bank in 2004 to 2010 to clients for retail banking services, in particular for household mortgage loans. In June 2013, the Bank gave its response and refuted allegations of a breach of competition rules. In September 2015, the Bank and the Competition Authority entered into discussions on the resolution of the case. On 7 July 2016, the Competition Authority introduced initial proposals for measures to strengthen competition in the financial market. On 21 November 2016, the Competition Authority submitted a draft settlement in the case to the Bank. The Bank presented to the Competition Authority its preliminary view on the draft on 24 November 2016.

Claim for damages by a payment card company

In June 2013, a payment card company commenced litigation against the Bank and certain other financial undertakings claiming tort liability in the amount of around ISK 1.2 billion plus interest. The plaintiff argues that the defendants are liable in tort for alleged violation of competition rules. The Bank refutes the allegations and the claims. Assessors were appointed by the District Court of Reykjavík to appraise certain aspects of the case and work on the appraisal was completed on 30 June 2016. The Bank submitted its defence in the case on 6 October 2016 and requested, together with other defendants, a revised appraisal. The case was heard by the District Court on 18 November 2016 and postponed until 1 March 2017 although judgment is still pending.

Recalculation of foreign currency indexed loans

In October 2015, the Supreme Court ruled in favour of the Bank in two cases (cases No. 34/2015 and 35/2015) where a company had brought lawsuits against the Bank demanding recalculation of previous calculations of foreign currency indexed loans in accordance with Supreme Court rulings No. 600/2011 and No. 464/2012 relating to so-called final receipts of payment. In November 2015 and in January and May 2016, the District Court of Reykjavík ruled in favour of the Bank in seven similar disputes. In 2016 and 2017, the Supreme Court confirmed the conclusions of the District Court in two of the seven cases (cases No. 34/2016 and 241/2016). However, in 2016 and 2017, the Supreme Court reversed the conclusions of the District Court in four of the seven cases (cases No. 82/2016, 149/2016, 150/2016 and 242/2016). In the latter cases, the Supreme Court found the impact of the additional claim to be so severe for the companies involved that the Bank should absorb the disputed interest margin, caused by illegal foreign currency indexation of the loans in question. In these cases, the Supreme Court thus upheld the claims of the companies. These rulings

may set a precedent for cases involving other foreign currency indexed loans to companies, where circumstances are similar, yet further rulings are necessary to clarify the precedent. As a result, the assessment of the financial impact of the rulings might change to reflect future rulings. Consequently, expenses in the amount of ISK 5,435 million were recognised in the Consolidated Income Statement of the Bank at the end of the fourth quarter of 2016.

Administrative, Management, and Supervisory Bodies

As at the date of this Base Prospectus, the Senior Management and Directors of the Bank, 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 Yggdrasill ehf. and Samtök atvinnulífsins
Mr. Árni Þór Þorbjörnsson	Managing Director of Corporate Banking	Board member of Motus ehf., Greiðslumiðlun Íslands ehf. and the Icelandic Bar Association.
Mr. Helgi Teitur Helgason	Managing Director of Personal Banking	Board member of Motus ehf. and Greiðslumiðlun Íslands ehf. Advisory board member of Framtakssjóður Íslands GP hf. (“FSÍ”).
Ms. Hrefna Ösp Sigfinnsdóttir	Managing Director of Markets	N/A
Mr. Hreiðar Bjarnason	Managing Director of Finance (“CFO”)	Alternate board member of The Depositors and Investors Guarantee Fund (“TIF”).
Ms. Perla Ösp Ásgeirsdóttir	Managing Director of Risk Management, CRO	N/A
Ms. Ragnhildur Geirsdóttir	Managing Director of Operations & IT	Board member of Frumtak GP ehf.
Board of Directors		
Ms. Helga Björk Eiríksdóttir	Chairman	Chairman of the Board of Directors of Firkir ehf. General Manager and Board Member of Integrum ehf. Board Member of Budz Boot Camp ehf. General Manager and Alternate Board Member of Förli ehf. Alternate Board Member of Slysabætur ehf., Fösull ehf. and Fenlogi ehf.
Mr. Magnús Pétursson	Vice Chairman	Chairman of the Board of Directors of Fylki ráðgjöf ehf.

Ms. Berglind Svavarsdóttir	Board Member	Lawyer at Lögmannstofa Reykjavíkur. Board Member of Kulygin ehf.
Mr. Einar Þór Bjarnason	Board Member	General Manager and Board Member of Gyrus ehf. Chairman of the Board of Directors of Intellecta ehf. Alternate Board Member of Glöggvir ehf
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.
Mr. Jón Guðmann Pétursson	Board Member	General Manager and Board Member of Krumur ehf.
Ms. Sigríður Benediktsdóttir	Board Member	N/A
Ms. Ásta Dís Óladóttir	Alternate	Assistant Professor in Faculty of Business Administration of the University of Iceland and independent consultant. Chairman of the Board of Directors Norðurafl fasteignafélag ehf. Director of Norðurafl ehf. Board member of the Icelandic Competition Authority.
Mr. Samúel Guðmundsson	Alternate	General Manager and Board Member of S67 ehf. and Food Diagnostic Ísland ehf. General Manager of Sjávarkaup hf. Chairman of the Board of Directors of SILO ehf. Board Member of Lagardére travel retail ehf.

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.

THE REPUBLIC OF ICELAND

Geography and Environment

Iceland is one of the Nordic countries, located in the North Atlantic between Greenland and Scotland. The main island, which lies south of the Arctic Circle, covers a land area of some 103,000 square kilometres and a 200-nautical-mile exclusive economic zone (“EEZ”) extending over 758,000 square kilometres in the surrounding waters. This makes Iceland the second largest island in Europe and the third largest in the Atlantic Ocean. The country is one of the world’s most sparsely populated countries. The inhabited areas are on the coast, particularly in the southwest; the central highlands are totally uninhabited. Reykjavik is the capital of Iceland and it is the most northern capital in the world. It is situated in the south-western region and is inhabited by two-thirds of the country’s population, making it the largest city in Iceland.

Iceland is rich in natural resources such as abundant hydroelectric and geothermal energy resources and also fishing grounds around the island. The country is volcanically and geologically active and is the world’s largest electricity producer per capita, due to its geothermal and hydroelectric energy sources. The interior consists mainly of a plateau characterised by sand and lava fields, mountains and glaciers, while many glacial rivers flow to the sea through the lowlands. Iceland’s climate is subpolar oceanic, meaning it has cold winters and cool summers, although the winters are milder than most places of similar latitude thanks to the Gulf Stream, which ensures a more temperate climate to coastal areas all year round.

History

The recorded history of Iceland began in the ninth century when settlers of Norse and Celtic origin came to the island. In the year 930, the settlers established their central parliament or *thing*. It was given the name *Althingi* which simply means general assembly. The parliament is a general legislative and judicial assembly which still convenes today and is believed to be the world’s oldest national assembly. In 1262, Iceland entered into a union with the Norwegian monarchy. Norway in turn was united with Sweden in 1319 and then with Denmark in 1376. When Norway came under the rule of Denmark, Iceland became a Danish dominion. Iceland was granted limited home rule in 1874, which was extended in 1904. With the Act of Union in 1918, Iceland became an autonomous state in monarchical union with Denmark. Iceland proclaimed its independence from Denmark in 1944 when it adopted a parliamentary republic regime. The country has a parliamentary system of government. In the Icelandic Parliament the legislative and executive power is vested in a cabinet headed by a prime minister. Icelandic is the official language of Iceland, which is an Indo-European language, belonging to the sub-group of North Germanic. It is closely related to Norwegian and Faroese. The language is considered one of the cornerstones of the Icelandic culture.

External Relations

Today Iceland is a modern welfare state, in the spirit of its Scandinavian neighbours and cousins. The country is an active participant in international cooperation with the Scandinavian and other Nordic countries. These countries co-operate in a variety of fields such as economic affairs and international representation. Iceland is a member of the Nordic Council and specialised institutions such as the Nordic Investment Bank.

Iceland is also a member of the United Nations, the North Atlantic Treaty Organisation, the International Monetary Fund (“IMF”), the World Bank and the OECD. It is also a party to a number of other multinational organisations, including the Nordic Council and the Council of Europe. The country joined EFTA in 1970 and is a member of the EEA, which is a 31-nation free-trade zone of the EU and the EFTA countries. Iceland is also a contracting party to the General Agreement on Tariffs and Trade and ratified the agreement establishing

the World Trade Organisation in December 1994. Iceland is part of the EU's internal market and the Schengen Area and, in July 2009, Iceland submitted a formal application for accession to the EU. In July 2010, Iceland's accession negotiations with the EU were formally opened and are currently on hold. Just over half the chapters to be negotiated have been opened for formal negotiations and a third had been provisionally closed in October 2012. In 2013, Iceland's major political parties took the position that any future accession to the EU should be subject to a popular referendum. At beginning of 2014, the governing parties agreed to formally withdraw the membership application, without first holding a referendum on the matter and submitted a bill to parliament seeking their approval to do so. In March 2015, the foreign Minister of Iceland stated that he had sent a letter to the EU withdrawing the application for membership without first seeking the approval of the parliament.

The Icelandic Economy

Background

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 2,422 billion in 2016. The population is also small, numbering just under 340,000. According to World Bank data, GDP per capita, measured in terms of purchasing power parities, amounted to nearly USD 46,500 in 2015, 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 2016, services accounted for roughly 56 per cent. of total export revenues, while exports of marine products accounted for 19 per cent. and exports of aluminium and aluminium products accounted for 15 per cent.

In 2008, the Icelandic economy entered into a deep recession after a five-year period of robust but unsustainable economic growth. The growth was initially spurred by investments in the aluminium and power sectors, followed by 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 26 per cent. from its peak in 2007 to its trough in 2010.

After a period of austerity measures and restructuring of the financial sector, growth resumed in 2011 as GDP grew by 2.0 per cent.; in 2012, growth continued at 1.2 per cent. Unemployment peaked at 9.3 per cent. in early 2010 but was down to 3.0 per cent. in March 2017, well below the EU average. The exchange rate of the ISK has risen significantly after losing almost 50 per cent. of its value against the euro from January 2008 to November 2009. At the end of December 2016, the ISK had appreciated by roughly 34 per cent. since its lowest level in November 2009.

Preliminary annual national accounts for 2016 show 7.2 per cent. GDP growth in real terms. The Central Bank forecasts an average annual GDP growth of 3.7 per cent. in 2017 to 2019, driven by growing investment and private consumption.

Annual CPI inflation in February measured 1.9 per cent., below the 2.5 per cent. inflation target of the Central Bank. The Central Bank forecast assumes that CPI inflation will accelerate in the coming years to 2.1 per cent. in 2017, 2.5 per cent. in 2018 and 2.8 per cent. in 2019.

The trade account surplus measured 6.6 per cent. of GDP in 2016 and the CA balance was positive by 8.0 per cent. of GDP. The Central Bank forecasts an average of 5.8 per cent. of GDP trade surplus and 4.4 per cent. of GDP CA forecast in 2017 to 2019.

Key Icelandic industries and sectors

The Icelandic Scandinavian-type economy consists of a capitalist structure and free market principles with an extensive welfare system. Public ownership has systematically been reduced by privatisation and the main role of the public sector is in energy, health, education and social welfare. The export sectors in Iceland are largely based on natural resources, including fisheries, energy intensive industries and tourism. The tourism industry has increased substantially over the past few years and has become one of the main engines of export growth. In the last decade, the economy has been diversifying into manufacturing and service industries, particularly within the fields of software production, biotechnology and tourism. Abundant geothermal and hydropower sources have attracted substantial foreign investment in the aluminium sector, boosted economic growth and sparked some interest from high-tech firms looking to establish data centres using cheap green energy, but the financial crisis in 2008 put some of the foreign direct investments on hold. Foreign investment is mainly concentrated in export-orientated sectors with increasing possibilities in new emerging sectors such as information technology (e.g. in software production), environmentally friendly energy dependent industries, agriculture, water based industries and tourism which has grown increasingly in the last few years.

The marine sector

Iceland's EEZ, endowed with rich fishing grounds, made the marine sector key to the Icelandic economy throughout most of the 20th century, driving much of the country's economic growth. Fisheries and fish processing are still one of the main pillars of export activities in Iceland, accounting for 42 per cent. of goods exported in the period 2009 to 2016. Marine products accounted for 24 per cent. of goods and services exported in the same period. However, as exports of manufactured goods have been growing rapidly over the past 20 years, the share of the marine sector in goods exports has fallen from around 75 per cent. in the 1990's. The sector's contribution to GDP also fell, from 14 per cent. in the 1990s to 7.2 per cent. in 2016.

Manufacturing and power intensive industries

The Icelandic manufacturing sector is highly geared towards two sub-sectors, food processing and aluminium production, which together contribute to roughly 80 per cent. of total manufacturing production. In a country rich in natural resources and hydroelectric and geothermal energy resources, the power intensive industry (mainly aluminium) is the largest manufacturing industry in Iceland and produces exclusively for export. Almost all of the electricity consumed in Iceland is produced from indigenous energy resources. The industry is based primarily on competitive energy cost, strategic location and a skilled labour force. Exports of aluminium and aluminium products have increased substantially over the past decade, generating 38 per cent. of goods exports in 2016, from 19 per cent. in 2000. Production has risen sharply in the last 10 years, from 210,000 metric tonnes per year (“**mtpy**”) in 2000 to 880,000 mtpy in 2015. The other main sub-sector is food production which is directed partly at the domestic market, but a larger share, or two thirds, is in seafood production for export. Exports of other manufactured goods (e.g. excluding aluminium and aluminium products) accounted for 20 per cent. of exports of goods in 2016.

The tourism sector

The tourism sector has increasingly become a more significant part of Iceland's economy. A total of 1,792,201 tourists visited the country in 2016, which is a 39 per cent. increase from the previous year. The cumulative growth in tourist arrivals between 2010 and 2016 amounts to 267 per cent. In recent years, this industry has been among the fastest growing industries in Iceland, generating around 39 per cent. of total export revenues in 2016, or ISK 466 billion.

The agricultural and farming sector

The agricultural sector accounted for 1.3 per cent. of GDP in 2016. Icelandic agriculture is heavily subsidised, with total on-budget transfers to farmers amounting to 0.6 per cent. of GDP in 2015. The total area of Iceland that is arable land or pasture is around 20 per cent. and less than 5 per cent. of this area is cultivated. The

remainder is used for grazing or left undeveloped. The principal crops are hay cereal for animal feed, root vegetables and green vegetables which are primarily cultivated in greenhouses heated with geothermal water. Meat and dairy products are mainly for domestic consumption. Imports of meat, dairy products, and some vegetables that compete with domestic production are subject to tariffs, import quotas, and non-tariff import restrictions.

The financial sector

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 early 2009, 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 newly restructured banking system is much smaller at approximately 1.7 times Iceland's GDP as of 31 December 2015. There are now four commercial banks and four savings banks currently operating in Iceland and their main focus is on the domestic market. The state is the major owner of two of the commercial banks, namely the Bank and Íslandsbanki, and holds a minority stake in Arion Bank.

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, Landsbanki Íslands hf. (now LBI ehf.) 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 between 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 June 2015, the Icelandic Government announced a comprehensive strategy for capital account liberalisation, which entailed a threefold plan towards the removal of capital controls. For further information see the risk factor entitled *“The Bank’s operating environment has been subject to capital controls, which have mostly been lifted. If the capital control regime is removed in a manner which fails to protect the Icelandic economy from the negative impact of its removal, this could have a material adverse effect on the Bank’s business”*.

FINANCIAL MARKETS IN ICELAND

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 3,286 billion as at 30 November 2016 according to the Central Bank, of which foreign assets were ISK 277 billion, or 8 per cent. The Icelandic financial market is therefore highly exposed to the Icelandic economy.

The total assets of the three largest commercial banks, namely the Bank, Íslandsbanki and Arion Bank, comprised around 75 per cent. of the total assets of the Icelandic credit institutions (excluding the Central Bank)³ as at 30 June 2016 according to the Central Bank. The proportion of total assets of the HFF was 19 per cent. calculated on that basis.

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 ten securities companies, one securities brokerage and ten management companies of UCITS, as well as three other supervised entities (HFF, Depositors' and Investors' Guarantee Fund and Savings Bank Depositors' Guarantee Fund).

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, and one securities depository, Nasdaq CSD Iceland. Nasdaq Iceland operates under Act No. 110/2007, on Stock Exchanges.

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. 98/1999, on the Payment of Cost Due to the Official Supervision of Financial Activities.

The Central Bank is in charge of monetary policy implementation in Iceland and performs a wide range of functions to this end. The main objective of monetary policy is price stability. The activities of the Central Bank are largely governed by Act No. 36/2001, on the Central Bank. The Central Bank imposes a reserve requirement on all the commercial and savings banks. The purpose of this limitation is to ensure that credit institutions have sufficient margin to the reserve requirement account to meet fluctuations in their liquidity positions. Foreign exchange transactions have been subject to capital controls since the banking system collapse in 2008. In June 2014, the Government of Iceland presented a comprehensive strategy for capital account liberalisation. The Central Bank oversees surveillance of the rules on foreign exchange. For further information see *"The Bank's operating environment is subject to capital controls, which have mostly been*

³ The total assets of the three largest commercial banks comprise 66 per cent. of the banking system and other credit institutions including the Central Bank. The HFF proportion is 17 per cent. when taking into account the Central Bank.

lifted. If the capital control regime is removed in a manner which fails to protect the Icelandic economy from the negative impact of its removal this could have a material adverse effect on the Bank's business"

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

TAXATION

Iceland

The comments below are of a general nature based on the Bank's understanding of current law and practice in Iceland. Prospective holders of Notes 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.

Furthermore, investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Prospective investors are advised to consult their tax advisers as to the consequences, under the tax law of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption.

The summary below is of a general nature based upon the law and practice of Iceland as in effect on the date of this Base Prospectus. It should not be construed as providing specific advice as to Icelandic taxation and is subject to any change in law or practice in Iceland that may take effect after such date.

Non-Icelandic Tax Residents

As a general rule, Article 3 (8) of the ITA provides that any interest received from Iceland (outbound payments), such as the interests payable according to the Notes, 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) 10 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 125,000.00); and (b) 10 per cent. for legal entities.

From the general rule of Article 3 (8) of the ITA, there are certain exemptions listed in the provision, e.g. if an applicable double taxation treaty states otherwise. Also, according to Article 3 (8), cf. Article 3 (3) of Regulation no. 630/2013, the Bank is not required by Icelandic law to deduct or withhold tax from interest payments on notes or bonds that are issued by a financial institution, in its own name, registered with a securities depository in 1) a member state of the OECD, 2) a member state of the EEA, 3) a member state of EFTA, or 4) the Faroe Islands, and do not constitute business covered by Articles 13. b – 13. n of Act No. 87/1992 on Foreign Exchange, as amended (which contain some restrictions on cross-border capital movements since Iceland is under foreign exchange restrictions subject to Icelandic law). The Bank has obtained confirmation from the Directorate of Internal Revenue in Iceland (the "RSK") that the Programme is within the scope of the exemption contained in paragraph 3 of Article 3 (8) of the ITA, although an exemption will need to be applied for in respect of each Tranche of Notes. Accordingly, the Bank will, based on this confirmation, register any Notes issued under the Programme with the RSK and request that the RSK provide a certificate confirming that the relevant Notes are exempt from such taxation.

In the absence of an applicable exemption, the Bank will be making the relevant withholding at source in accordance with the provisions of Regulation No. 630/2013, on the taxation and withholding of interest to parties subject to limited tax liability (as based on Article 3 (8) of the ITA and Article 41 of the Act No. 45/1987 on Withholding of Public Levies at Source).

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

Capital gains on the sale of the Notes are classified as interest under Icelandic tax law. Accordingly, based on the wording of Article 3 (8) of the ITA, cf. Article 3 (3) of Regulation no. 630/2013, capital gains on the sale

of the Notes should not be subject to Income tax in Iceland, provided a tax exemption is in place in accordance with the above.

No Icelandic issue tax or stamp duty will be payable in connection with the issue of any Notes.

Icelandic Tax Residents

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

Capital gains on the sale of the Notes are subject to the same tax as interest income of Icelandic residents.

Subject to certain exemptions (which apply, inter alia, to most banks and pension funds), the Bank is required to withhold a 20 per cent. tax on the interest paid to the holders of Notes who are Icelandic residents, cf. Act No. 94/1996 on Withholding of Tax on Financial Income. Such withholding is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder. However, the Bank should generally not be held responsible for withholding tax on income related to bonds that have been registered as exempted with the Director of Revenue, unless the Bank has knowledge that the bonds have been acquired by an Icelandic tax resident, cf. *inter alia* explanatory notes accompanying Act No. 39/2013, amending the ITA. This exemption of the withholding obligation does not affect the tax obligations of the relevant bondholder.

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 Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, 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 Notes, such withholding would not apply prior to 1 January 2019 and Notes 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 Notes are (i) materially modified after such date or (ii) treated as equity for U.S. federal income tax purposes. However, if additional notes (as described under “*Terms and Conditions—Further Issues*”) that are not distinguishable from outstanding Notes 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 notes in such Series, including grandfathered Notes, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

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 (each, other than Estonia, a “**participating Member State**”). Estonia has since ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes 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 Notes 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 Notes are advised to seek their own professional advice in relation to the FTT and its potential impact on the Notes.

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as amended and/or supplemented and/or restated from time to time, the “**Programme Agreement**”) dated 6 April 2017, agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “*Form of the Notes*” and “*Terms and Conditions of the Notes*”. In the Programme Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

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

The Notes 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 (the “**Code**”) and U.S. Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether the Notes will be issued (i) 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) (“**TEFRA C**”) rules or 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 Code) (“**TEFRA D**”) or (ii) under circumstances pursuant to which the Notes will not constitute registration required obligations under the U.S. Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”) such that TEFRA is not applicable. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, 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, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering

contemplated by this Base Prospectus as completed by the final terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Directive; and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Public Offer Selling Restriction under the Prospectus Directive

Prior to 1 January 2018, in relation to each state of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further 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 Notes 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 Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) 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 Bank for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Notes referred to in (a) to (c) above shall require the Bank 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 Notes to the public**” in relation to any Notes 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and
- 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 Notes 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 Notes 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 Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Bank;
- (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 Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; 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 Notes 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.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the “**FIEA**”) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term 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 resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any of the Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; 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 or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) 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 Notes, 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 Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Bank nor any of the other Dealers shall have any responsibility therefor.

None of the Bank and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

GENERAL INFORMATION

Authorisation

The establishment of the Programme has been duly authorised by a resolution of the Board of Directors of the Bank dated 30 June 2014 and this update of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Bank dated 30 March 2017.

Listing of Notes

Application has been made to the Irish Stock Exchange for Notes issued under the Programme during the 12 months from the date of the Base Prospectus to be admitted to the Official List and trading on its regulated market. However, Notes may be issued pursuant to the Programme which will not be listed on the Irish Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection, electronically, from the registered office of the Bank and from the specified office of the Paying Agent for the time being in London:

- (a) the articles of association and certificate of incorporation (with an English translation thereof) of the Bank;
- (b) the 2015 Financial Statements and the 2016 Financial Statements (with an English translation thereof) in each case, together with the audit reports prepared in connection therewith. The Bank currently prepares audited consolidated accounts on an annual basis. The Bank does not currently prepare non-consolidated accounts;
- (c) the most recently published audited annual financial statements of the Bank and the most recently published unaudited interim financial statements (if any) of the Bank (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Bank currently prepares unaudited consolidated interim accounts on a quarterly basis;
- (d) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (e) a copy of this Base Prospectus;
- (f) the Terms and Conditions of the Notes contained in the Base Prospectus dated 8 September 2015, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme;
- (g) the Terms and Conditions of the Notes contained in the Base Prospectus dated 30 August 2016, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme; and
- (h) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Bank and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Group since 31 December 2016 and there has been no material adverse change in the prospects of the Bank since 31 December 2016.

Litigation

Except as disclosed in “*Description of the Bank—Litigation*” on pages 85 and 86 of this Base Prospectus, neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Auditors

The Bank’s AGM held on 18 March 2015 elected the National Audit Office as the Issuer’s statutory auditor for the financial years 2015 and 2016. The National Audit Office outsourced the audit of the Issuer for the financial years ended 31 December 2015 and 2016 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 Authorised Public Accountants in Iceland.

Dealers Transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer’s affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the

creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Availability of Prospectus

This Base Prospectus is available on the Central Bank of Ireland's website at www.centralbank.ie.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

BANK

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Iceland

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United Kingdom

To the Dealers as to English law

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To the Dealers as to Icelandic law

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United Kingdom

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United Kingdom

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LISTING AGENT

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