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 prospectus (the "**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has been approved by the Central Bank of Ireland as competent authority under EU Directive 2003/71/EC as amended or superseded (including by Directive 2010/73/EU) (the "**Prospectus Directive**").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 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**") 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 trading as Euronext Dublin ("**Euronext Dublin**") for Notes issued under the Programme within 12 months of the date of this Base Prospectus to be admitted to the official list of Euronext Dublin (the "**Official List**") and to trading on its regulated market (the "**Regulated 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 Regulated 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 SA/NV ("**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 depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**"). The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Form of the Notes*".

MIFID II PRODUCT GOVERNANCE / TARGET MARKET – The Final Terms in respect of any Notes and any drawdown prospectus may include a legend entitled "*MiFID II Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration

the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the 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 MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, 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 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 | **Barclays**

Citigroup | **Deutsche Bank**

Goldman Sachs International | **J.P. Morgan**

Morgan Stanley | **Nomura**

UBS Investment Bank

The date of this Base Prospectus is 27 March 2019

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.

Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced and, as far as the Bank is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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.

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

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.

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/2011 (the "**Benchmarks Regulation**"). If any such reference rate does constitute such a benchmark, the applicable Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the relevant Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the relevant Final Terms to reflect any change in the registration status of the administrator.

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 Euronext Dublin and the Central Bank of Ireland:

(i) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2017 (the "**2017 Financial Statements**"), together with the audit report thereon;

https://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppgjor/Consolidated-Financial-Report-2017-EN.pdf

(ii) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2018 (the "**2018 Financial Statements**"), together with the audit report thereon;

https://www.landsbankinn.com/uploads/documents/arsskyrsluroguppgjor/Consolidated-Financial-Report-2018-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 (the "**2015 Terms and Conditions**");

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 (the "**2016 Terms and Conditions**");

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

(v) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2017, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme (the "**2017 Terms and Conditions**"); and

https://corporate.landsbankinn.com/Uploads/Documents/Bankinn/EMTN/2017-04-06-Landsbankinn-Base-Prospectus.pdf

(vi) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2018, pages 50 to 79 (inclusive) prepared by the Bank in connection with the Programme (the "**2018 Terms and Conditions**"), as supplemented by the Terms and Conditions of the Notes included in the Supplemental Prospectus dated 30 May 2018.

https://www.landsbankinn.com/Uploads/Documents/Bankinn/EMTN/2018-04-06-Landsbankin-Base-Prospectus.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.
Legal Entity Identifier ("LEI")	549300TLZPT6JELDWM92
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 "*Risk Factors*" 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 "*Risk Factors*" 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 Ireland PLC Barclays Bank PLC BofA Securities Europe SA 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 Europe SE 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 "*Subscription and Sale*") 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 "*Form of the Notes*".

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.

Reset Notes: Reset Notes have reset provisions pursuant to which the relevant Reset Notes will, in respect of an initial period, bear interest at an initial fixed rate of interest specified in the applicable Final Terms. Thereafter, the fixed rate of interest will be reset on one or more date(s) by reference to a mid-market swap rate for the relevant Specified Currency, and for a period equal to the Reset Period, in each case as may be specified in the applicable Final Terms.

The margin (if any) in relation to Reset Notes will be agreed between the Issuer and the relevant Dealer for each Series of Reset Notes and will be specified in the applicable Final Terms.

Interest on Reset Notes in respect of each Interest Period as agreed prior to issue by the Issuer and the relevant Dealer, will

	be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than following a Tax Event, an Event of Default or, in the case of Subordinated Notes, upon the occurrence of a Capital Event) 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.
Benchmark Discontinuation	In the case of Reset Notes or Floating Rate Notes, if the Bank determines that a Benchmark Event has occurred, the Bank may, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate (which shall include consultation with an Independent Adviser) determine that (i) the relevant benchmark or screen rate may be replaced by a Successor Rate or (ii) if there is no Successor Rate but the Bank determines there is an Alternative Rate, such Alternative Rate. An Adjustment Spread may also be applied to the Successor Rate or the Alternative Rate (as the case may be), together with any Benchmark Amendments (which shall be determined by the Bank, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which shall include consultation with an Independent Adviser). This is further described in Condition 3.6.
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 7. In the event that any

	such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 7, 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 9.1(c).
Status of the Notes:	The Notes may be issued on an unsubordinated ("**Unsubordinated Notes**") or a subordinated ("**Subordinated Notes**") basis, as described in Conditions 2.1 and 2.2, respectively, and as specified in the applicable Final Terms.
Status of the Unsubordinated Notes:	The Unsubordinated 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.
Status of the Subordinated Notes:	The Subordinated Notes will constitute subordinated and unsecured obligations of the Bank and will at all times rank *pari passu* without any preference among themselves. In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Bank, the rights of the Noteholders to payments on or in respect of the Subordinated Notes shall rank: (i) *pari passu* without preference among themselves; (ii) *pari passu* with present or future claims in respect of Parity Securities; (iii) in priority to any present or future claims in respect of Junior Securities; and (iv) junior to any present or future claims in respect of Senior Creditors.
Point of Non-Viability Loss Absorption:	If a Non-Viability Event occurs at any time on or after the Issue Date and prior to the date on which any Applicable Statutory Loss Absorption Regime becomes effective in respect of the Notes, the Prevailing Principal Amount of the Notes may be Written-Down by the Bank as further discussed in Condition 6.
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 Regulated 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 except for the subordination provisions of Condition 2.2 and Condition 2.3 which shall, in each case, be governed by, and construed in accordance with, Icelandic 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 bank hf. ("**Kvika Bank**") and the Icelandic Housing Financing Fund (the "**HFF**"). There is always a risk of new entrants to the market, foreign or domestic, or for smaller competitors to merge and increase their strength. Such competition could develop in individual market sectors, or in the market as a whole (see further *"Description of the 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, Iceland's economy remains vulnerable to other political and economic external factors such as the withdrawal of the United Kingdom from the EU and instability or deterioration of the international financial markets. These factors could have a material adverse effect on the Icelandic economy. Although the financial sector in Iceland is still to some extent subject to capital controls and is mostly funded by domestic deposits, a global recession is likely to affect demand and the price of Iceland's main export sectors such as tourism, fishing and aluminium exports.

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

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

Although economic growth has been robust in the past four years and inflation has been low, the Bank expects economic growth at a slower rate as well as higher inflation going forward until the end of 2021. The Bank's Economic Research department[1] predicts 2 per cent. average economic growth over the next three years. This is comparable to the average growth expected in developed economies in the coming years.

The inflation outlook has worsened since mid-2018 and inflation is expected to remain slightly above the Central Bank's inflation target throughout 2021. The deterioration of the inflation outlook is due to sharp ISK depreciation, rising import prices and increasing labour costs. There is increased uncertainty in the inflation forecast due to the ISK exchange rate and oil price developments. There is also a considerable uncertainty surrounding the outcome of collective bargaining talks which may have a considerable impact on the development of inflation in the coming years. The average inflation forecasts are 3.7 per cent. in 2019, 3.4 per cent. in 2020 and 2.9 per cent in 2021.

In early October 2008, the Icelandic economy experienced a serious banking crisis when the three large commercial banks, Glitnir banki hf. Landsbanki Íslands hf. and Kaupthing Bank hf. (together the "**Old Banks**"), were taken into special resolution regimes on the basis of Act No. 125/2008, on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. (the "**Emergency Act**") passed by the Icelandic Parliament. Since then, the Icelandic economy and the financial system have taken a number of steps forward. Economic growth has been quite robust compared to other developed countries in recent years (See further "*The 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 over the past years, declining levels of non-performing loans and high capital ratios. Banking system liquidity has remained strong and capital ratios of the three largest Icelandic commercial banks are strong and well above the required minimum of the Financial Supervisory Authority ("**FME**"). The Central Bank of Iceland (the "**Central Bank**") publishes a Financial Stability Report bi-annually.

In the October 2018 Financial Stability Report, the Central Bank concluded that risks in the financial system had increased since the April 2018 report, but remained moderate. The three key risks highlighted were tourism, commercial real estate and residential real estate. Tourism has grown rapidly in recent years and is now Iceland's largest single export sector, meaning that Iceland's economy is increasingly reliant on Iceland's popularity as a tourist destination. In the commercial real estate sector, loan losses could occur if the past few years' investments were undertaken at overly optimistic prices. Commercial real estate prices in the greater Reykjavík area have soared in recent years. In the view of the Central Bank, risk can accumulate when high commercial property prices and growing corporate debt go hand-in-hand. At the time of the October 2018 report, the rise in house prices in greater Reykjavík had eased. However, households' mortgage debt and market turnover had increased. In the view of the Central Bank, these factors are likely to increase the systemic risk related to the housing market.

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

[1] https://www.landsbankinn.com/Uploads/Documents/Frettir/2018-10-31-Macroeconomic-forecast.pdf

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

trade tensions, which could hurt Iceland's aluminium industry, among other sectors; and (iii) the results of Brexit, which could dampen demand from the United Kingdom, one of Iceland's most important export markets.

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

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

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

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

The economic and financial environment, together with the operating and financial conditions of borrowers, may affect the Bank's levels of non-performing loans, determination of loan values and the level of write-offs. Levels of problem loans, determination of loan values and the levels of write-offs will depend on general economic

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

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

developments and operating and financial conditions of the relevant borrowers. No assurance can be given that the rate of problem loans will decrease in the future. The Icelandic banks could be adversely affected if other developments in the Icelandic economy or internationally result in a further decline in Iceland's economic growth, particularly in countries that constitute Iceland's main trading partners such as European countries and the United Kingdom.

Should Iceland's economy be adversely affected by domestic or external factors, whether as a result of any of the above factors or for other reasons, such as fluctuation in the value of the Icelandic krona, lack of foreign investment, inflation, global recession or strikes due to unsuccessful collective bargaining negotiations, it could adversely affect the ability of the 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 Icelandic banking system is relatively small and has been subject to restructuring, which could limit opportunities and involve risks 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. According to the Central Bank, as at the year end of 2018, the total assets of the New Banks comprised around 72 per cent. of the total assets of all Icelandic credit institutions (excluding the Central Bank but including the failed banks' holding companies)[5]. The Icelandic banking system is small and the New Banks have had limited opportunities for growth. The New Banks have so far primarily engaged in domestic lending in krona. The majority of the New Banks' funding comes from deposits by customers (see *"Description of the Bank - Funding"*). The Icelandic Government maintained a policy between October 2008 and September 2016 that deposits in banks domiciled in Iceland needed to be guaranteed by the Icelandic Government. It is not known whether, and in what capacity, the Icelandic government would assist the banking sector during difficult times in the future. External factors might also affect the Bank's deposit base, in the short and medium term such as the increased availability of other investment opportunities for depositors who currently hold deposits with the Bank.

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

The relatively small banking system, given the small size of the Icelandic economy (see "*The Republic of Iceland - The Icelandic Economy*"), and the ongoing restructuring of the Icelandic banking sector have affected and continue to affect the Icelandic banks. The reputation of the Icelandic banking sector has at times been negative due to the financial crisis in 2008 and the subsequent recession in Iceland. This negative reputation can be reflected in political and legislative decisions which have had a material adverse effect on the Bank. Various ideas have been discussed on how to improve the banking sector in Iceland. One being to initiate a sale process of either of the two state owned banks, namely Landsbankinn and Íslandsbanki. For further information see the risk factor entitled "*The Icelandic State Treasury is the largest shareholder of the Bank. This may affect the Bank and its business*". Another is the

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

introduction of a potential law requiring the separation of commercial banking activities from investment banking activities, which could require the Bank to divest or otherwise restructure some of its operations. No such requirements has been enacted to-date, but there can be no assurance that such law or similar or related measures will not be proposed and ultimately be enacted, which in turn could have a material negative effect on the Bank's business.

The occurrence of any of the factors described above could seriously undermine Iceland's economy and confidence in the banking system in Iceland and could have a material adverse effect on the Bank's business, financial condition and operating results and its ability to make payments in respect of any Notes.

The Bank's operating environment is still to some extent subject to capital controls, even though the capital controls have mostly been lifted. Removal of the remaining capital controls could have a material adverse effect on the Bank's business

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

Capital controls have the purpose of limiting the flow of foreign currencies in Iceland and prohibiting certain transactions with securities, which could adversely affect the ability of investors to invest in and trade with the Notes issued by the Issuer. It is uncertain when and if the remaining restrictions of the capital controls will be lifted in full, and if economic circumstances in Iceland were to change, there can be no assurance that the Central Bank of Iceland, would not re-impose elements of the capital controls which have already been lifted.

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

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

As 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 have mostly been eased and there is sufficient credit demand, the Bank may potentially face competition from foreign banks seeking to establish operations in Iceland. The Bank is subject to considerable regulatory scrutiny that can hinder its competitiveness. 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. The Bank may have to comply with regulatory requirements that may not apply to such foreign competitors, creating an unequal competitive environment.

In addition, it is likely that competition will intensify even further with the emerging competition from financial technology ("**FinTech**") start-ups (especially digital technology that is often referred to as FinTech). In the coming years, the Revised Payment Service Directive No. 2015/2366 ("**PSD2**") will come into effect in Iceland, which increases competition between payment providers. The PSD2 requires the commercial banks to open up their

application program interface (the "**APIs**"), so that third-party payment service providers ("**TPPs**") can directly access and use their client's account data. In essence, PSD2 separates the distribution of banking services from their production, by allowing new entrants to provide almost any kind of banking products and services under lighter regulation. When PSD2 comes into effect, the distribution of financial services will become open to non-banks and consequently, retail banking revenues could decrease. Competitive pressures caused by FinTech firms, and in particular the emergence of open banking, may cause greater and faster disruption to banks' business models and revenues in Iceland. This could therefore have a negative effect on the Bank's business.

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

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

As at the date of this Base Prospectus, the Issuer and Íslandsbanki which are two of the four commercial banks in Iceland, are partially or wholly owned by the Icelandic State Treasury. In February 2018, it was announced that 5.34 per cent. of issued shares in Arion Bank had been sold to domestic funds and existing international shareholders, who owned 29 per cent. in the bank after a private placement in March 2017. In June 2018, further sales of shares in Arion Bank through initial public offerings took place and the shares were listed on the Icelandic and Swedish Stock markets. According to the ISFI which manages the shareholding and the corresponding voting rights in the Bank and Íslandsbanki, on behalf of the largest shareholder, the Icelandic State Treasury, it is likely that the Icelandic State Treasury will want to sell part of its shares in the Bank and/or in Íslandsbanki in the near future. 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.

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 2019 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, construction and real estate companies. See further *"Description of the Bank - Loan Portfolio".* 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 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. 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. 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 of Iceland (the "**Rules on Foreign Exchange Balances**"). The Rules on Foreign Exchange Balances stipulate that an institution's foreign exchange balance (whether long or short) must always be within 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 indexations risks arise from a considerable imbalance in its CPI indexed assets and liabilities. CPI indexation risk is the risk that the fair value or future cash flows of CPI indexed financial instruments may fluctuate due to changes in the Icelandic CPI. The majority of the 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.

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 earlier maturities of financial liabilities than financial 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 complies with Rules No. 266/2017, on Liquidity Ratios, as set by the Central Bank (the "**Rules on Liquidity Ratios**"). The liquidity rules are based on the liquidity requirements set forth in the CRD IV/CRR framework, which was fully implemented in Iceland in 2017 (Regulation No. 233/2017). The Rules on Liquidity Ratios are based on the LCR developed by the Basel Committee. Information regarding the Bank's liquidity risk is further described in *"Description of the Bank - Risk Management Framework"*. The Central Bank also set Rules No. 1032/2014, on funding ratios, which the Bank complies with. 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, market funding and share capital. The Bank has diversified its funding profile by issuing bonds, and Notes 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"*.

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

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

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

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

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

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

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

Although the Bank maintains customary insurance policies for its operations, such insurance policies may not be adequate to compensate the Bank for all losses that may occur as a result of any aforementioned damage, interruption, failure or lack of capacity. A sustained failure of the Bank's ICT systems centrally or across its branches would have

a significant impact on its operations, reputation and the confidence of its customers in the reliability and safety of its banking systems and could result in costly litigations. Any of the aforementioned factors could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

Cyberattacks

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

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

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

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

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

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

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

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

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

The Bank believes that its current policies and procedures are sufficient to comply with applicable rules and regulations. There is, however, always a risk that its anti-money laundering, anti-bribery and anti-terrorism financing policies and procedures might fail to prevent instances of money laundering, bribery or terrorism financing, or that its employees might fail to comply with such policies. Any violation of anti-money laundering or anti-terrorism financing rules, or suggestion of violations, may have severe legal and reputational consequences for the Bank and could have a material adverse effect on the Bank's financial conditions and results of operations.

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

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

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

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

The Bank's performance is, to a large extent, dependent on the performance of its senior management and highly skilled employees. The departure of key members of its senior management or employees may significantly delay

the attainment of the 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.

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.

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

The 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. Recently, the Bank has taken out a cyber liability insurance which covers for damages and claim expenses resulting from cyber breaches as well as possible privacy regulatory actions. It should be borne in mind, however, that despite the insurance policies carried by the Bank, there is no guarantee that the Bank will be fully compensated should the Bank 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 see "*Description of the Bank – Litigation"*.

Changes to the Regulatory Framework 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 the CRD IV into Icelandic law is set to take place in separate amendments. The first amendment was introduced on 9 July 2015 by Act No. 57/2015, which amended the Financial Undertakings Act. This amendment includes CRD IV's provisions on capital buffers and adopts a regulation implementing the provisions of the CRR and related technical standards. The second amendment, which was introduced on 1 September 2016, by Act No. 96/2016, and further amended the Financial Undertakings Act, includes CRD IV's provisions on operating licences, initial capital, information obligations, leverage ratios, supervisory review and evaluation process. The third amendment, which was introduced on 9 May 2017 by Act No. 23/2017, further amended the Financial Undertakings

Act, includes the CRD IV provision on whistle-blowing. The fourth amendment which was introduced in June 2018, by Act No. 54/2018, and further amended the Financial Undertakings Act, includes provisions on supervision on a consolidated basis, prudential requirements on consolidated basis, supervisory collaboration among competent authorities in EU Member States, and rules[6] in respect of large risk exposures. Furthermore, the Act No. 54/2018 updates the legal basis for implementing Regulation (EU) No. 575/2013, on prudential requirements for credit institutions and investment firms, which was to a large extent implemented into Icelandic law in March 2017 with Regulation No. 233/2017. The bill was passed as law in June 2018. In February 2019 a further amendment to the Financial Undertakings Act was approved by the Icelandic Parliament, further implementing CRD IV into Icelandic law, cf. Act No. 8/2019, amending the Financial Undertakings Act. The Act No. 8/2019 relates to the number of directorships which may be held simultaneously, as well as further enhancing the duties of auditors under the Financial Undertakings Act. The timeframe for implementation of the remaining aspects of CRD IV has not 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. For the forgoing reasons, the Bank may need to raise additional capital in the future. Such capital, whether in the form of debt financing, hybrid capital or additional equity, may not be available on attractive terms, or at all. Any failure by the 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 and Article 102 of the Act on Financial Undertakings, the claims of senior ranking unsecured debt instruments, such as the Unsubordinated Notes issued by the Bank, are subordinated to the claims of certain depositors and will therefore rank behind certain depositors of the Bank upon the occurrence of a winding-up or insolvency of the Bank. 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 under the Notes in full or at all after the claims of those depositors have been paid. In the case of Subordinated Notes, the claims of the Subordinated Notes are subordinated to the claims of the depositors of the Bank in accordance with Condition 2.2 and will therefore also rank behind the depositors of the Bank upon the occurrence of a winding-up or insolvency of the Bank. See also "*The Bank's obligations under Subordinated Notes will be unsecured and subordinated*".

The Council of the European Union has adopted the BRRD which provides for a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the BRRD in Iceland and its impact on the Bank is currently unclear but the taking of any action under the BRRD following its implementation could materially affect the value of any Notes

On 2 July 2014, Directive 2014/59/EU which provides an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**Bank Recovery and Resolution Directive**" or "**BRRD**") entered into force. Iceland, Liechtenstein, Norway and Switzerland are members of the EFTA and Iceland, together with

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

Liechtenstein and Norway (the "**EEA EFTA States**"), is also a party to the EEA Agreement by which the EEA EFTA States participate in the internal market of the EU. The BRRD was applied by EU member states from 1 January 2015 and the general bail-in tool (see below) was applied from 1 January 2016. In November 2016, the European Commission published a proposal to amend and supplement certain provisions of the BRRD.

The BRRD was incorporated into the EEA Agreement on 9 February 2018 with decision No. 21/2018 of the EEA Joint Committee. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

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

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

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

Prior to the implementation of the BRRD in Iceland, Subordinated Notes may further be subject as directed by the Relevant Resolution Authority to Write-Down upon the occurrence of a Non-Viability Event pursuant to Condition 6 (each of the capitalised terms has the meaning given in Condition 6).

Any application of the general bail-in tool under the BRRD shall follow the hierarchy of claims in normal insolvency proceedings. Accordingly, the impact of such application on holders of the Notes will depend on their ranking in accordance with such hierarchy, including any priority given to other creditors such as depositors.

To the extent any resulting treatment of holders of the Notes pursuant to the exercise of the general bail-in tool is less favourable than would have been the case under such hierarchy in normal insolvency proceedings, a holder has a right to compensation under the BRRD based on an independent valuation of the firm (which is referred to as the "no creditor worse off safeguard" under the BRRD). Any such compensation is unlikely to compensate that holder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the Notes. No such hierarchy of claims or compensation may apply in respect of any Write-Down of the Notes pursuant to Condition 6.

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

On 10 February 2014, a committee was appointed to prepare a draft legislation implementing the BRRD in Iceland. The Ministry of Finance and Economic Affairs decided, in collaboration with the committee, that the BRRD should be implemented into Icelandic laws with more than one bill. The first bill regarding the implementation of the BRRD into Icelandic law was passed as Act. No. 54/2018 in June 2018, amending the Act on Financial Undertaking, and implementing the content of recovery plan, early intervention and intra-group financial support. The aforementioned actions are all subject to the supervision of the FME. It is anticipated that another bill will be submitted to the Icelandic Parliament during this legislative parliament to further implement the BRRD into Icelandic law. As Iceland has not yet implemented the BRRD in full it is currently unclear how such requirements may be applied to Icelandic banks including the Bank in the future. The powers currently set out in the BRRD and under Condition 6 will, in certain circumstances, impact the rights of creditors. If the BRRD is implemented in full into Icelandic law (and before such implementation in the case of any Write-Down pursuant to Condition 6) holders of Notes may be subject to the application of the general bail-in tool and, in the case of Subordinated Notes, non-viability loss absorption or the Write-Down of such Subordinated Notes pursuant to Condition 6, as applicable, which may result in such holders losing some or all of their investment (in the case of Subordinated Notes, see "*Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Bank*"). Such application of the general bail-in tool could also involve modifications to or the disapplication of provisions in the conditions of the Notes, including alteration of the principal amount or any interest payable on the Notes, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. The exercise or perceived increase in likelihood of exercise of any power under the BRRD, the implementation of any Write-Down pursuant to Condition 6 or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Bank to satisfy its obligations under any Notes. Notwithstanding the foregoing, no assurance can be given as to whether and when the BRRD will in full be implemented into Icelandic law. Furthermore, there can be no assurance that, its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of the 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 since the year 2014. 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 bonds, who are not Icelandic are taxable in Iceland and can be subject to withholding tax at the rate of 12.0 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Icelandic Inland Revenue that an exemption applies, such as the existence of a relevant double taxation treaty, and in such case the provisions of the double tax treaty will apply. Bonds issued by energy companies and certain financial institutions, including bonds issued by the 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 "**NCSD**"), Euroclear and Clearstream Luxembourg, within a member state of the Organization for Economic Co-operation and Development ("**OECD**"), the EEA, a founding member state of EFTA or the Faroe Islands.

In December 2011, the Icelandic Parliament passed the Act on Tax on Financial Activities, No. 165/2011, under which certain types of financial institutions, including the 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 6.0 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 still to some extent subject to capital controls even though the capital controls have mostly been lifted. Removal of the remaining capital controls could have a material adverse effect on the Bank's business*". These capital controls were set up to result in owners of domestic assets, 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 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.

These capital controls were, to a large extent, lifted in 2017, and as of 14 March 2017, restrictions on foreign exchange transactions and cross border movement of domestic and foreign currency were removed. However, there are still restrictions on (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; (iii) in certain instances, lending by residents to non-residents; (iv) cross-border movement of domestic currency/financial instruments in domestic currency in certain instances: (v); settlement in foreign currency for transactions with financial instruments issued in domestic currency in certain instances; and (vi) other restrictions in relation to special reserve requirements due to new inflows of foreign currency in specific cases. It is not yet known what impact the removal of the capital controls in full will have on the Bank's business or pricing on investment in shares in listed and unlisted 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, where Iceland has failed to adapt national law to conform to EEA rules) citizens may be unable to rely on these instruments and the Icelandic courts may be barred from applying them, unless Icelandic legislation may be interpreted in accordance with the EEA rules. As a result, holders of Notes issued or to be issued by the Bank (the "**Noteholders**") in some circumstances may experience different legal protections

than they would expect as holders of securities issued by banks in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation.

Factors which are material for the purpose of assessing the 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 including in the case of a Tax Event or (in respect of Subordinated Notes only) a Capital Event is likely to limit their market value. During any period when the Bank may elect to redeem Notes or when the Bank is perceived by the market to have a redemption right available to it, 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.

Where there are provisions which provide that the interest rate on any Notes may convert 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 such conversion can occur, this will affect the secondary market and the market value of the Notes. Where conversion is made from a fixed rate to a floating rate, 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. Where conversion from a floating rate to a fixed rate occurs 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.

The rate of interest of Reset Notes will be reset, which may affect the secondary market for and the market value of such Reset Notes

In the case of any Series of Reset Notes, the rate of interest on such Reset Notes will be reset by reference to the Reset Reference Rate (as defined in the Terms and Conditions), as adjusted for any applicable margin, on the reset dates specified in the relevant Final Terms. This is more particularly described in Condition 3.3. The reset of the rate of interest in accordance with such provisions may affect the secondary market for and the market value of such

Reset Notes. Following any such reset of the rate of interest applicable to the Notes, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest on the relevant Reset Notes may be lower than the Initial Rate of Interest, the First Reset Rate of Interest and/or any previous Subsequent Reset Rate of Interest.

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

The Bank's obligations under Subordinated Notes will be unsecured and subordinated.

On a liquidation, dissolution or winding-up of, or analogous proceedings over the Bank by way of exercise of public authority (referred to herein as a "**winding-up of the Bank**"), all claims in respect of the Subordinated Notes will rank *pari passu* without any preference among themselves, at least *pari passu* with present or future claims in respect of Parity Securities (as defined in Condition 2.2), in priority to any present or future claims in respect of Junior Securities (as defined in Condition 2.2) and junior to any present or future claims in respect of Senior Creditors (as defined in Condition 2.2). If, on a winding-up of the Bank, the assets of the Bank are insufficient to enable the Bank to repay the claims of the Senior Creditors in full, the Noteholders will lose their entire investment in the Subordinated Notes. If there are sufficient assets to enable the Bank to pay the claims of Senior Creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Subordinated Notes and all other claims of Parity Securities, Noteholders will lose some (which may be substantially all) of their investment in the Subordinated Notes.

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

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

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

In addition to the application of the general bail-in tool to Subordinated Notes (see "*The Council of the European Union has adopted the BRRD which provides for a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The implementation of the BRRD in Iceland and its impact on the Bank is currently unclear but the taking of any action under the BRRD following its implementation could materially affect the value of any Notes*"), the BRRD and the terms of the Subordinated Notes contemplate that Subordinated Notes may be subject to non-viability loss absorption. As a result, resolution authorities may require the permanent write-down of capital instruments such as Subordinated Notes (which write-down may be in full) or the conversion of them into equity capital at the point of non-viability and before any other resolution action is taken. Prior to the implementation of the BRRD in Iceland, such non-viability loss absorption is provided for in Condition 6 of the Notes.

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

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution (or the group, as the case may be) meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the

Subordinated Notes) are written-down or converted into equity or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution (or the group, as the case may be) would no longer be viable. With respect to the Bank, this is further reflected in the definition of "Non-Viability Event" under Condition 6.

The occurrence of a Non-Viability Event or the application of the general bail-in tool or any non-viability loss absorption measure pursuant to any Applicable Statutory Loss Absorption Regime (including the BRRD) or Condition 6 of the Subordinated Notes may result in Noteholders losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of Subordinated Notes issued under the Programme and/or the ability of the Bank to satisfy its obligations under Subordinated Notes.

There are limited enforcement events in relation to Subordinated Notes

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

(i) non-payment by the Bank of any amounts due under the relevant Series of Subordinated Notes. In such circumstances, as described in more detail in Condition 9.2, a Noteholder may institute proceedings in Iceland in order to recover the amounts due from the Bank to such Noteholder; and

(ii) the liquidation or bankruptcy of the Bank. In such circumstances, as described in more detail in Condition 9.2, the relevant Series of Subordinated Notes will become due and payable at their outstanding principal amount, together with accrued interest thereon.

A Noteholder may not itself file for the liquidation or bankruptcy of the Bank. As such, the remedies available to holders of Subordinated Notes are more limited than those typically available to holders of senior ranking securities (such as the Unsubordinated Notes), which may make it more difficult for Subordinated Noteholders to take enforcement action against the Bank.

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

Subordinated Notes may also contain provisions allowing the Bank to call them, in certain instances, only after a minimum period of five years. To exercise such a call option, the Bank must obtain prior written consent of the FME as provided in Condition 5.10.

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

In certain circumstances, the Bank can substitute or vary the terms of Subordinated Notes

Where the applicable Final Terms specify that Condition 5.9 applies, if at any time a Capital Event or a Tax Event occurs, the Bank may, subject to obtaining the prior written consent of the FME, either substitute all, but not some only, of the relevant Subordinated Notes for, or vary the terms of the relevant Subordinated Notes, as the case may be, so that they remain or, as appropriate, become, Qualifying Securities (as defined in Condition 5.9) as further provided in Condition 5.9. The terms and conditions of such substituted or varied Subordinated Notes may have terms and conditions that contain one or more provisions that are substantially different from the terms and conditions of the original Subordinated Notes, provided that the relevant Subordinated Notes remain or, as appropriate, become, Qualifying Securities in accordance with the Terms and Conditions of the Notes. While the Bank cannot make

changes to the terms of Subordinated Notes that, in its reasonable opinion, are materially less favourable to the holders of the relevant Subordinated Notes as a class, no assurance can be given as to whether any of these changes will negatively affect any particular holder. In addition, the tax and stamp duty consequences of holding or disposing of such substituted or varied Subordinated Notes could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding or disposing of the Subordinated Notes prior to such substitution or variation.

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

The obligation of the Issuer to pay additional amounts in respect of any withholding or deduction of taxes imposed under the laws of Iceland under the Conditions apply only to payments of interest and not to payments of principal due under the Subordinated Notes. As such, the Issuer is not required to pay any additional amounts under Condition 7 of the Terms and Conditions of the Notes to the extent any withholding or deduction applies to payments of principal under the Subordinated Notes. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Subordinated Notes, the holders of such Subordinated Notes may receive less than the full amount due thereunder. There is some risk under Icelandic law that withholding or deduction in respect of principal could apply on account of any currency gains deemed to have arisen when such principal is measured in ISK.

Risks 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 and/or Icelandic law (as the case may be) or administrative practice

The terms of the Notes are based on English law and/or Icelandic law (as the case may be) 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 and/or Icelandic law (as the case may be) 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 7 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 depositary 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.

Floating Rate Notes and Reset Notes referencing or linked to benchmarks

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

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

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

In a speech on 27 July 2017, Andrew Bailey, the Chief Executive of the FCA, questioned the sustainability of LIBOR in its current form, and advocated a transition away from reliance on LIBOR to alternative reference rates. He noted that currently there is wide support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA's intention that it will not be necessary to sustain LIBOR through its influence or legal powers by persuading or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed.

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

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

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

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

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

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 or Reset Notes may be adversely affected by movements in market interest rates

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

In addition, a holder of Reset Notes is also exposed to the risk of fluctuating interest rate levels and uncertain interest income.

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 Depositary 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 9) 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 13 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 9. 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 2018 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*]

[MIFID II PRODUCT GOVERNANCE / TARGET MARKET – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU (as amended, "MiFID II")/MiFID II]; (ii) a customer within the meaning of Directive 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.

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.][7]

[Amounts payable under the Notes will be calculated by reference to [*specify benchmark (as this term is defined in the Benchmarks Regulation*)] which is provided by [*legal name of the benchmark administrator*]. As at the date of these Final Terms, [*legal name of the benchmark administrator*] [appears/does not appear] on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) 2016/1011 (the "Benchmarks Regulation").

[7] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer. For example, where Reset Notes are issued.

[As far as the Issuer is aware, [*specify benchmark (as this term is defined in the Benchmarks Regulation*)] [does not fall within the scope of the Benchmarks/the transitional provisions in Article 51 of the Benchmarks Regulation apply] such that [*legal name of the benchmark administrator*] is not currently required to obtain authorisation or registration (or, if located outside the EU, recognition, endorsement or equivalence).]]

LANDSBANKINN HF.

LEI: 549300TLZPT6JELDWM92

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 27 March 2019 [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.][8] 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**") which are the [2018/2017/2016/2015] Terms and Conditions which are incorporated by reference in the Base Prospectus dated 27 March 2019 [and the supplement[s] to it dated [*date*] [and [*date*]]. [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 27 March 2019 [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**"), including the [2018/2017/2016/2015] Terms and Conditions incorporated by reference in the Base Prospectus][9]. 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: [ ]

[8] 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.

[9] 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.

	(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] [[[ ] month [LIBOR/EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR]] +/- [ ] per cent. Floating Rate] [Reset Notes] [Zero coupon] (see paragraph [13]/[14]/[15]/[16]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 17 below)]
12	(a) Status of the Notes:	[Unsubordinated/Subordinated]
	(If Subordinated Notes include:)	
	(i) Redemption upon occurrence of Capital Event:	[Applicable – Condition 5.3 applies/Not Applicable]
	(ii) Substitution or variation:	[Applicable – Condition 5.9 applies/Not Applicable]

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 Interest Payment Dates:	[ ] [, subject to adjustment in accordance with the 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, Reykjavík 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	Reset Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a)	Initial Rate of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Initial Mid-Swap Rate:	[ ] per cent./[Not Applicable]
	(c)	First Reset Margin:	[+/-] [ ] per cent. per annum
	(d)	Subsequent Reset Margin:	[[+/-] [ ] per cent. per annum]/[Not Applicable]
	(e)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date
	(f)	Fixed Coupon Amount up to (but excluding) the First Reset Date: *(Applicable to Notes in definitive form*)	[[ ] per Calculation Amount]/[Not Applicable]
	(g)	Broken Amount(s) up to (but excluding) the First Reset Date: (*Applicable to Notes in definitive form*)	[ ] per Calculation Amount payable on the Interest Payment Date falling on [ ]]/[Not Applicable]
	(h)	Reset Reference Rate:	[Mid-Swaps/Reference Bond]
	(i)	First Reset Date:	[ ]
	(j)	Second Reset Date:	[ ]/[Not Applicable]
	(k)	Subsequent Reset Date(s):	[[ ] [and [ ]]/[Not Applicable]
	(l)	Relevant Screen Page:	[ ]
	(m)	Mid-Swap Rate:	[Single Mid-Swap Rate/Mean Mid-Swap Rate]
	(n)	Mid-Swap Rate Conversion:	[Applicable/Not Applicable]
	(o)	Original Mid-Swap Rate Basis:	[Annual/Semi-annual/Quarterly/Monthly]
	(p)	Mid-Swap Floating Leg Maturity:	[ ]
	(q)	Reference Bond Reset Rate Time:	[ ]

(r)	Reference Bond Price in respect of the first Reset Determination Date:	[ ]
(s)	Reset Determination Date(s):	[ ] (*Specify in relation to each Reset Date*)
(t)	Relevant Time:	[ ]
(u)	Day Count Fraction:	[30/360]/[Actual/Actual (ICMA)]
(v)	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.*)
(w)	Relevant Financial Centre	[Not Applicable/Applicable (*list relevant financial centres)*] (*Note that this paragraph relates to the determination of a Reset Reference Rate that is not LIBOR or EURIBOR by the Reset Reference Banks*)
16	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

17	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*)
18	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*)
18	Early Redemption Amount payable on redemption for taxation reasons, upon the occurrence of a Capital Event or on an event of default:	[ ] per Calculation Amount *(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be)*

GENERAL PROVISIONS APPLICABLE TO THE NOTES

19	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]
20	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*)

21	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:	By:
Duly authorised	*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 Euronext Dublin for the Notes to be admitted to the Official List and trading on the Regulated 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 [i*nsert legal name of relevant credit rating agency entity providing rating*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**").]

[*Insert legal name of relevant credit rating agency entity providing rating*] is not established in the EU but the rating it has given to the 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 and Reset Notes only*)

Indication of yield:	[ ] per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price [and based on the period up to (but excluding) the First Reset Date]. 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)	CFI:	[[See/[ ], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN / Not Applicable / Not Available]
(iv)	FISN:	[[See/[ ], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN / Not Applicable / Not Available] (*If the CFI and/or FISN is not required, it/they should be specified to be "Not Applicable"*)
(v)	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[ ]
(viii)	[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 amended and restated on 30 May 2018 and 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, a Zero Coupon Note, or a Reset 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 SA/NV ("**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

2.1 Status of the Unsubordinated Notes

This Condition 2.1 applies only to Unsubordinated Notes and references to "Notes" in this Condition shall be construed accordingly.

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.

2.2 Status of the Subordinated Notes

This Condition 2.2 applies only to Subordinated Notes and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

(a) The Notes constitute subordinated and unsecured obligations of the Bank and rank *pari passu* among themselves. The Notes are subordinated as described in Condition 2.2(b).

(b) In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Bank, the rights of the Noteholders to payments on or in respect of the Notes shall rank:

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

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

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

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

(c) In the Conditions, the following expressions shall have the following meanings:

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

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

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

passu therewith, but, in each case, excluding Junior Securities;

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

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

2.3 Set-Off

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

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 arrears 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:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Fiscal Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the

relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Fiscal Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

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

(f) **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 13 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 13. 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 Interest on Reset Notes

(a) **Rate of Interest**

Each Reset Note bears interest:

(i) from (and including) the Interest Commencement Date to (but excluding) the First Reset Date (the "**Initial Period**"), at the Initial Rate of Interest;

(ii) for the First Reset Period, at the First Reset Rate of Interest; and

(iii) for each Subsequent Reset Period thereafter (if any) to (but excluding) the Maturity Date, at the relevant Subsequent Reset Rate of Interest.

Interest will be payable, in each case, in arrear on the Interest Payment Date(s) in each year specified in the applicable Final Terms 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 each Interest Period falling in the Initial Period will amount to the Fixed Coupon Amount. Payments of interest on the first Interest

Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

The Fiscal Agent will, at or as soon as practicable after each time at which a Rate of Interest in respect of a Reset Period is to be determined, determine the relevant Rate of Interest for such Reset Period.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, the Fiscal Agent will calculate the amount of interest (the "**Reset Notes Interest Amount**") payable on the Reset Notes for any period by applying the relevant Rate of Interest to:

(i) in the case of Reset 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 Reset 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 Reset Note in definitive form is a multiple of the Calculation Amount, the Reset Notes 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.

(b) **Fallbacks**

If on any Reset Determination Date (as specified in the applicable Final Terms), the Relevant Screen Page is not available or the Mid-Swap Rate does not appear on the Relevant Screen Page as at the Relevant Time on such Reset Determination Date, the Rate of Interest applicable to the Notes in respect of each Interest Period falling in the relevant Reset Period will be determined by the Fiscal Agent on the following basis:

(i) the Fiscal Agent shall request each of the Reset Reference Banks to provide the Fiscal Agent, with its Mid-Market Swap Rate Quotation as at approximately the Relevant Time on the Reset Determination Date in question;

(ii) if at least four of the Reset Reference Banks provide the Fiscal Agent with the Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest) and (B) the Relevant Reset Margin, all as determined by the Fiscal Agent;

(iii) if only two or three relevant quotations are provided, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the arithmetic mean (rounded as aforesaid) of the relevant quotations provided and (B) the Relevant Reset Margin, all as determined by the Fiscal Agent;

(iv) if only one relevant quotation is provided, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the relevant quotation provided and (B) the Relevant Reset Margin, all as determined by the Fiscal Agent;

(v) if none of the Reset Reference Banks provides the Fiscal Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 3.3, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) will be either:

(A) equal to the sum of (A) the Mid-Swap Rate determined on the last preceding Reset Determination Date and (B) the Relevant Reset Margin or, in the case of the first Reset Determination Date, the First Reset Rate of Interest will be equal to the sum of (A) the Initial Mid-Swap Rate (as specified in the applicable Final Terms) and (B) the Relevant Reset Margin, all as determined by the Fiscal Agent; or

(B) determined by the Fiscal Agent taking into consideration all available information that it in good faith deems relevant,

as specified in the applicable Final Terms.

(c) **Mid-Swap Rate Conversion**

This Condition 3.3(c) is only applicable if Mid-Swap Rate Conversion is specified in the applicable Final Terms as being applicable. If Mid-Swap Rate Conversion is so specified as being applicable, the First Reset Rate of Interest and, if applicable, each Subsequent Reset Rate of Interest will be converted by the Fiscal Agent from the Original Mid-Swap Rate Basis specified in the applicable Final Terms to a basis which matches the per annum frequency of Interest Payment Dates in respect of the Notes (such calculation to be determined by the Issuer in conjunction with an investment bank of international repute selected by it).

(d) **Notification of Rate of Interest and Interest Amounts**

In respect of a Reset Period, the Fiscal Agent will cause the relevant Rate of Interest in respect of such Reset Period and each Reset Notes Interest Amount for each Interest Period falling in such Reset Period to be notified to the Issuer and any stock exchange or other relevant authority on which the relevant Reset Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 3.2(f)) thereafter. Each Reset Notes Interest Amount so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Reset Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 13.

For the purposes of the Conditions:

"**Day Count Fraction**" has the meaning given in Condition 3.1;

"**First Reset Date**" has the meaning given in the applicable Final Terms;

"**First Reset Margin**" has the meaning given in the applicable Final Terms;

"**First Reset Period**" means the period from (and including) the First Reset Date to (but excluding) the Second Reset Date or, if no such Second Reset Date is specified in the applicable Final Terms, the Maturity Date;

"**First Reset Rate of Interest**" means, in respect of the First Reset Period and subject to Condition 3.3(b), 3.3(c) and 3.6, the rate of interest determined by the Fiscal Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Reset Margin or the sum, converted (if not already on the same basis) from a basis equivalent to the Reference Bond Yield to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with an investment bank of international repute selected by it), of (A) the Reference Bond Yield (assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price)) and (B) the First Reset Margin;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense under Condition 3.6;

"**Initial Rate of Interest**" has the meaning given in the applicable Final Terms;

"**Interest Period**" has the meaning given in Condition 3.3(a);

"**Mid-Market Swap Rate**" means for any Reset Period the arithmetic mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Original Mid-Swap Rate Basis (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Fiscal Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Floating Leg Maturity (as specified in the applicable Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Fiscal Agent). If a Mid-Swap Floating Leg Benchmark Rate cannot be obtained because of the occurrence of a Benchmark Event (as defined in Condition 3.6), such rate shall be calculated in accordance with the terms of Condition 3.6;

"**Mid-Market Swap Rate Quotation**" means a quotation (expressed as a percentage rate per annum) for the relevant Mid-Market Swap Rate;

"**Mid-Swap Floating Leg Benchmark Rate**" means LIBOR (if the Specified Currency is U.S. dollars or Pounds Sterling), EURIBOR (if the Specified Currency is euro); NIBOR (if the Specified Currency is Norwegian Kroner); STIBOR (if the Specified Currency is Swedish Krona); REIBOR (if the Specified Currency is króna); CIBOR (if the Specified Currency is Danish kroner) or (in the case of any other Specified Currency) the benchmark rate most closely connected with such Specified Currency and selected by the Fiscal Agent, in its discretion after consultation with the Issuer;

"**Mid-Swap Rate**" means, in relation to a Reset Determination Date and subject to Conditions 3.3(b) and 3.6, either:

(i) if "Single Mid-Swap Rate" is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:

(A) with a term equal to the relevant Reset Period; and

(B) commencing on the relevant Reset Date, which appears on the Relevant Screen Page; or

(ii) if "Mean Mid-Swap Rate" is specified in the applicable Final Terms, the arithmetic mean (expressed as a percentage rate per annum and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the bid and offered swap rate quotations for swaps in the Specified Currency:

(C) with a term equal to the relevant Reset Period; and

(D) commencing on the relevant Reset Date, which appear on the Relevant Screen Page,

in either case, as at approximately the Relevant Time on such Reset Determination Date, all as determined by the Fiscal Agent;

"**Original Mid-Swap Rate Basis**" has the meaning given in the applicable Final Terms. In the case of Notes, the Original Mid Swap Rate Basis shall be annual, semi-annual, quarterly or monthly;

"**Rate of Interest**" means the Initial Rate of Interest, the First Reset Rate of Interest or the relevant Subsequent Reset Rate of Interest, as applicable;

"**Reference Bond**" means for any Reset Period a government security or securities issued by the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) selected by the Issuer on the advice of an investment bank of international repute or an Independent Adviser as having an actual or interpolated maturity comparable with the relevant Reset Period that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the relevant Reset Period;

"**Reference Bond Price**" means, with respect to any Reset Determination Date, (A) the arithmetic average of the Reference Bond Dealer Quotations for such Reset Determination Date, after excluding the highest and lowest such Reference Bond Dealer Quotations, or (B) if the Fiscal Agent obtains fewer than four but more than one such Reference Bond Dealer Quotations, the arithmetic average of all such quotations, or (C) if the Fiscal Agent obtains one such Reference Bond Dealer Quotations, the amount of such quotation, or (D) if the Fiscal Agent obtains no such Reference Bond Dealer Quotations, the Reference Bond Price determined on the immediately preceding Reset Determination Date or, in the case of the first Reset Determination Date, as specified in the applicable Final Terms;

"**Reference Bond Reset Rate Time**" means the time specified in the applicable Final Terms;

"**Reference Bond Yield**" means the yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the relevant Reference Bond;

"**Reference Bond Dealer**" means each of five banks (selected by the Issuer on the advice of an investment bank of international repute), or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

"**Reference Bond Dealer Quotations**" means, with respect to each Reference Bond Dealer and the relevant Reset Determination Date, the arithmetic average, as determined by the Fiscal Agent, of the bid and offered prices for the relevant Reference Bond (expressed in each case as a percentage of its nominal amount) at or around the Reference Bond Reset Rate Time on the relevant Reset Determination Date quoted in writing to the Fiscal Agent by such Reference Bond Dealer;

"**Reset Date**" means the First Reset Date, the Second Reset Date and each Subsequent Reset Date (as applicable);

"**Relevant Reset Margin**" means, in respect of a Reset Period, whichever of the First Reset Margin or the Subsequent Reset Margin is applicable for the purpose of determining the Rate of Interest in respect of such Reset Period;

"**Reset Determination Date**" has the meaning given in the applicable Final Terms;

"**Reset Period**" means the First Reset Period or a Subsequent Reset Period, as the case may be;

"**Reset Reference Banks**" means, in the case of a determination by LIBOR, the principal London office of four major banks in the London inter-bank market or other market most closely connected with the Mid-Swap Rate; in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market or other market most closely connected with the Mid-Swap Rate; and, in the case of a determination of a Reset Reference Rate that is not LIBOR or EURIBOR, the principal office in the Relevant Financial Centre of four major banks in the inter- bank market or other market most closely connected with the relevant Mid-Swap Rate, in each case, as selected by the Fiscal Agent in consultation with the Issuer;

"Relevant Financial Centre" means (i) Oslo, in the case of a determination of NIBOR, (ii) Stockholm in the case of a determination of STIBOR, (iii) Reykjavík, in the case of a determination of REIBOR or (iv) Copenhagen in the case of a determination in CIBOR, as specified in the applicable Final Terms.

"Reset Reference Rate" has the meaning given in the applicable Final Terms;

"Relevant Screen Page" has the meaning given in the applicable Final Terms;

"**Relevant Time**" has the meaning given in the applicable Final Terms;

"**Second Reset Date**" has the meaning given in the applicable Final Terms;

"**Subsequent Reset Date(s)**" has the meaning given in the applicable Final Terms;

"**Subsequent Reset Margin**" has the meaning given in the applicable Final Terms;

"**Subsequent Reset Period**" means the period from (and including) the Second Reset Date to (but excluding) the next Subsequent Reset Date, and each successive period from (and including) a Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date or the Maturity Date, as the case may be; and

"**Subsequent Reset Rate of Interest**" means, in respect of any Subsequent Reset Period and subject to Condition 3.3(b) and Condition 3.3(c), the rate of interest determined by the Fiscal Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the relevant Subsequent Reset Margin. or the sum, converted (if not already on the same basis) from a basis equivalent to the Reference Bond Yield to a basis equivalent to the frequency with

which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with an investment bank of international repute selected by it), of (A) the Reference Bond Yield (assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price)) and (B) the relevant Subsequent Margin.

3.4 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 13.

3.5 Interest on any Write-Down of Subordinated Notes

If the Subordinated Notes are Written-Down in full, interest will be cancelled in accordance with Condition 6.

In the case of any Write-Down (as defined in Condition 6) of Subordinated Notes in part, interest will, without prejudice to the provisions and operation of Condition 6, be paid on the Subordinated Notes on the Interest Payment Date immediately following such Write-Down, provided that any amount of interest that would have been payable on such Interest Payment Date which would have been attributable to any amount of principal that has been Written-Down shall be cancelled in accordance with Condition 6.

3.6 Benchmark discontinuation

Notwithstanding any other provision of Conditions 3.2 and 3.3, if a Benchmark Event occurs in relation to an Original Reference Rate by reference to which any amount payable under the Notes remains to be determined, then the following provisions of this Condition 3.6 shall apply.

(a) **Independent Adviser**

The Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 3.6(b) and, in either case, an Adjustment Spread if any (in accordance with Condition 3.6 (c)) and any Benchmark Amendments (in accordance with Condition 3.3(d)).

An Independent Adviser appointed pursuant to this Condition 3.6 shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Fiscal Agent, the Paying Agents or the Noteholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 3.6.

(b) **Successor Rate or Alternative Rate**

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

(i) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 3.6(c)) subsequently be used in place of the Original Reference Rate to determine any relevant amount(s) payable under the Notes (subject to the further operation of this Condition 3.6); or

(ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 3.6(c)) subsequently be used in place of the Original Reference Rate to determine the any relevant amount(s) payable under the Notes (subject to the further operation of this Condition 3.6).

(c) **Adjustment Spread**

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

(d) **Benchmark Amendments**

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 3.6 and the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (A) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 3.6(e), without any requirement for the consent or approval of Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 3.6(d), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(e) **Notices, etc.**

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 3.6 will be notified promptly by the Issuer to the Fiscal Agent, the Paying Agents and, in accordance with Condition 13, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

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

(i) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate and, (c) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 3.6;

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

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

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

(f) **Survival of Original Reference Rate**

Without prejudice to the obligations of the Issuer under Conditions 3.6(a), Condition 3.6(b), 3.6(c) and 3.6(d), the Original Reference Rate and the fallback provisions provided for in Conditions 3.2(b)(i) and 3.2(b)(ii) will continue to apply unless and until the Fiscal Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with Condition 3.6(c) and (d). Further, notwithstanding any other provision of this Condition 3.6, no successor, replacement or alternative benchmark or screen rate will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made if and to the extent that, in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Notes as Tier 2 Capital of the Bank and/or the Group.

For the purposes of the Conditions:

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

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

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

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

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

"**Alternative Rate**" means an index, benchmark or other price source which the Issuer determines in accordance with Condition 3.6 has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Notes.

"**Benchmark Amendments**" has the meaning given to it in Condition 3.6(d).

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

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

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

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

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

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

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

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

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

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

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

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the Original Reference Rate

relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the Original Reference Rate, (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

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 7 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 7) 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 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) 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, Reset 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 8) 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 7;

(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 5.5); 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 7.

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 Conditions 5.5 and (in the case of Subordinated Notes only) 5.10, 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 13, the Noteholders (which notice shall be irrevocable), if:

(a) on the occasion of the next payment due under the Notes

(i) the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 7; or

(ii) in the case of Subordinated Notes only, the Bank would not be entitled to claim a tax deduction in computing its taxation liabilities in any Tax Jurisdiction (as defined in Condition 7) in respect of such payment of interest to be made on the Notes on the occasion of the next payment due under the Subordinated Notes (or the amount of such deduction would be materially reduced),

in each case, as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after (A) (in the case of Unsubordinated Notes) the date on which agreement is reached to issue the first Tranche of the Notes; or (B) (in the case of Subordinated Notes) the Issue Date; and

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

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

Notes redeemed pursuant to this Condition 5.2 will be redeemed at their Early Redemption Amount referred to in Condition 5.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

5.3 Redemption upon a Capital Event – Subordinated Notes

This Condition 5.3 applies only to Subordinated Notes in relation to which this Condition 5.3 is specified as being applicable in the applicable Final Terms, and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

Subject to the provisions of Condition 5.10, the Notes may, save as provided below, 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 nor more

than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent and, in accordance with Condition 13, the Noteholders, if a Capital Event occurs.

Prior to the publication of any notice of redemption pursuant to this Condition, the Bank shall deliver to the Fiscal Agent, 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.

Notes redeemed pursuant to this Condition 5.3 will be redeemed at their Early Redemption Amount referred to in Condition 5.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

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

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

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

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

5.4 Redemption at the option of the Bank ("Issuer Call")

Subject, in the case of Subordinated Notes, to the provisions of Condition 5.10, 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 13 (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 13 not less than 15 days prior to the date fixed for redemption.

5.5 Early Redemption Amounts

For the purpose of Condition 5.2, Condition 5.3 and Condition 9, 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 amount specified in the applicable Final Terms or, if no such amount or manner is so specified therein, at the Final Redemption Amount;

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

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

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).

5.6 Purchases

The Bank or any Subsidiary of the Bank may 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.

5.7 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.

5.8 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 9 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 5.5(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 13.

5.9 Substitution or Variation – Subordinated Notes

This Condition 5.9 applies only to Subordinated Notes and "Notes" and "Noteholders" in this Condition shall be construed accordingly.

If Condition 5.9 is specified as being applicable in the applicable Final Terms, and at any time a Capital Event or a Tax Event occurs, subject to the provisions of Condition 5.10, the Bank may, having given not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent, in accordance with Condition 13, the Noteholders, either substitute all, but not some only, of the Notes for, or vary the terms of the Notes so that they remain, or, as appropriate, become, Qualifying Securities, provided that such substitution or variation does not itself give rise to any right of the Bank to redeem the substituted or varied securities that are inconsistent with the redemption provisions of the Notes.

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

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

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

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

(b) are listed on a recognised stock exchange, if the Notes were listed immediately prior to such substitution or variation, as selected by the Bank; and

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

5.10 Consent of the FME

In the case of Subordinated Notes, no early redemption in any circumstances, purchase under Condition 5.6 or substitution or variation under Condition 5.9, shall take place without the prior written consent of the FME (if, and to the extent then required, by the FME). For the avoidance of doubt, redemption of Subordinated Notes under Condition 5.1 shall not require the consent of the FME.

6 POINT OF NON-VIABILITY LOSS ABSORPTION

6.1 This Condition 6 applies only to Subordinated Notes and prior to the date on which any Applicable Statutory Loss Absorption Regime becomes effective in respect of the Notes; "Notes" and "Noteholders" in this Condition shall be construed accordingly.

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

(a) promptly notify Noteholders thereof in accordance with Condition 13 (a "**Non-Viability Event Notice**"); and

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

With effect on and from the date on which an Applicable Statutory Loss Absorption Regime becomes effective in respect of the Notes, the foregoing provisions of this Condition 6 will lapse and cease to have any effect (and without any requirement for the consent or approval of Noteholders or any notice to be given to Noteholders), except to the extent such provisions are required by the Applicable Statutory Loss Absorption Regime. If a Non-Viability Event occurs on or after such date, the Relevant Resolution Authority (or the Bank following instructions from the Relevant Resolution Authority) may (without any requirement for the consent or approval of Noteholders or any notice to be given to Noteholders) take such action in respect of the Notes as is required or permitted by such Applicable Statutory Loss Absorption Regime.

Noteholders shall have no claim against the Bank in respect of any accrued and unpaid interest and any Prevailing Principal Amount of the Subordinated Notes that is Written-Down in accordance with the provisions of this Condition 6 or otherwise pursuant to any Applicable Statutory Loss Absorption Regime.

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

"**Applicable Statutory Loss Absorption Regime**" means a Statutory Loss Absorption Regime that is applicable to the Notes;

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

(a) the Relevant Resolution Authority determines that the Bank is or will be Non-Viable without a Non-Viability Write-Down;

(b) the Relevant Resolution Authority decides to inject capital into the Bank or provide any other equivalent extraordinary measure of financial support without which, the Bank would become Non-Viable; or

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

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

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

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

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

7 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).

Notwithstanding any other provision of these Conditions, in no event will the Bank be required to pay any additional amounts in respect of the Notes and Coupons for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to

Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein:

(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 13.

In the case of the Subordinated Notes only and notwithstanding the foregoing, the payment of any additional amounts by the Issuer will be limited to payments of interest only.

8 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 7) 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.

9 EVENTS OF DEFAULT AND ENFORCEMENT EVENTS

9.1 Events of Default

This Condition 9.1 shall apply only to Unsubordinated Notes and references to "Notes" and "Noteholders" in this Condition 9.1 shall be construed accordingly. If any one or more of the following events (each an "**Event of Default**") shall occur and be continuing:

(a) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the 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.

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 directors 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.

9.2 Enforcement Events – Subordinated Notes

This Condition 9.2 applies only to Subordinated Notes and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

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

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

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

10 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.

11 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 13.

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.

12 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 8.

13 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.

14 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 13 as soon as practicable thereafter.

15 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.

16 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.

17 GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 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 except for the provisions of Condition 2.2 and Condition 2.3 which shall, in each case, be governed by, and construed in accordance with, Icelandic law.

17.2 Submission to jurisdiction

(a) Subject to Condition 17.2(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 17.2, 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.

17.3 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.

17.4 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.

17.5 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.

18 ACKNOWLEDGEMENT OF STATUTORY LOSS ABSORPTION POWERS

Notwithstanding and to the exclusion of any other term of the Notes, or any other agreements, arrangements or understanding between any of the parties thereto or between the Issuer and any Noteholder (which, for the purposes of this Condition 18, includes each holder of a beneficial interest in the Notes), each Noteholder by its purchase of the Notes will be deemed to acknowledge, accept, and agree, that any liability arising under the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

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

(i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;

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

(iii) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; and

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

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

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

"**Relevant Amounts**" means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and additional amounts due on the Notes pursuant to Condition 7. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any applicable Statutory Loss Absorption Powers by the Relevant Resolution Authority; and

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

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

The Bank has been granted an operating licence to act as a commercial bank operates pursuant to the provisions of the Act on Financial Undertakings, No. 161/2002, and it operates pursuant to the provisions of the Act on Financial Undertaking, 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 July 2018, the international rating agency Standard & Poor's ("**S&P**") affirmed the long term and short term ratings of the Bank as BBB+/A-2 with an unchanged stable outlook. The previous rating was from October 2017, where S&P raised the long-term rating of the Bank from BBB/A-2 to BBB+/A-2 with "stable outlook".[10]

For the year ended 31 December 2018, the Group's net interest income was ISK 40.8 billion compared to ISK 36.3 billion in 2017. Its operating income was ISK 53.9 billion compared to ISK 53.5 billion in 2017 and profit for the year ended 31 December 2018 was ISK 19.3 billion compared to ISK 19.8 billion in 2017. As at 31 December 2018, the Group's total assets were ISK 1,326 billion compared to ISK 1,193 billion, at 31 December 2017.

Historical background

LBI was a public limited liability company (hf.) but changed to a private limited liability company (ehf.) in 2016. LBI the Bank's predecessor, was established by the Icelandic Parliament on 1 July 1886. In establishing LBI, the Icelandic Parliament hoped to boost monetary transactions and encourage the country's nascent industries. LBI's first decades of operation were restricted by its limited financial capacity and it was little more than a building society.

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

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

Following the continuous deterioration of the financial markets and the collapse of the Icelandic banking system, the FME took control of LBI on 7 October 2008. The Bank, wholly owned by the Icelandic State, was established around the domestic deposits and the majority of the Icelandic assets of the old bank. All liabilities and assets not transferred

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

to the Bank were retained in LBI and a Resolution Committee was appointed to supersede the board of directors of LBI.

Shareholders, Share Capital and Dividend Policy

As at 31 December 2018, the Bank had 883 shareholders. The ISFI manages 23,567,013,778 (98.2 per cent.) shares and the corresponding voting rights on behalf of the largest shareholder, the Icelandic State Treasury. The ISFI manages its holdings in the Bank in accordance with its publicly available ownership policy. The second largest shareholder is the Bank, which holds 375,460,240 (1.56 per cent.) of its own shares after acquisition by the Bank of its own shares under its buy-back programme (the "**Buy-Back Programme**") initiated in December 2018. Current and former employees of the Bank and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses hold 57,525,982 (0.24 per cent.) shares and the corresponding voting rights in the Bank, after the Bank exercised an authorisation to purchase shares under the Buy-Back Programme (see section "*Share Capital*"). The shares and the corresponding voting rights of current and former employees of the Bank and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses. are held by each shareholder individually.

	Shares as of 31 December 2018	**% of the Bank's share capital**
Icelandic State Treasury	23,567,013,778	98.20
Landsbankinn's own shares	375,460,240	1.56
Current and former employees of Landsbankinn and current and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurland ses	57,525,982	0.24
Total shares	24,000,000,000	100.00

The Icelandic Parliament has authorised a sale of all of the Icelandic State Treasury's shares in the 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 is not aware 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 23,624,539,760 shares are outstanding. Each share has a nominal value of one ISK and the owner is entitled to one vote at shareholders' meetings.

The Bank's AGM held on 21 March 2018, 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 equivalent to the Bank's book value, i.e. the ratio of shareholder equity to share capital, as disclosed in the most recently published annual or interim financial statements prior to the commencement of the repurchase period. This authorisation is valid until the AGM of the Bank in 2019. Disposal of own shares purchased by the Bank based on this authorisation is subject to approval by a shareholders' meeting. On 6 December 2018, the Bank's Board of Directors decided to exercise an authorisation to purchase the Bank's own shares. Under the Buy-Back Programme, the maximum purchase amounted to 72.5 million shares, or the equivalent of 0.3 per cent. of issued shares. Before the aforementioned Buy-Back Programme, the Bank

has previously offered shareholders the chance to sell their shares in the Bank on three previous occasions, most recently in February 2017. Under the Buy-Back Programme which was announced on the 6 December 2018, the Bank offered to purchase shares from shareholders during a repurchase period, from 10 December 2018 up to and including 20 December 2018. Based on the Bank's interim results for the first nine months of 2018, the equity held by the Bank's shareholders amounted to ISK 235,892 million and 23,640 million outstanding shares. In accordance with the aforementioned, the Bank offered to purchase each share at a price of ISK 9.9787 during the repurchase period. Prior to the repurchase period in December 2018, the Bank held 360,465,119 of its own shares or the equivalent of around 1.50 per cent. of issued share capital in the Bank. At the end of the repurchase period the Bank held 375,460,240 of its own shares, or the equivalent of around 1.56 per cent. of issued share capital.

Dividend policy

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

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 (the "**Group**"):

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

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

Strategy

The strategy sets the agenda for the next two years until 2020.

Role: Trusted financial partner

Vision: Landsbankinn is exemplary

Strategic focal points

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

Accessibility

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

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

Efficiency

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

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

Value-adding

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

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

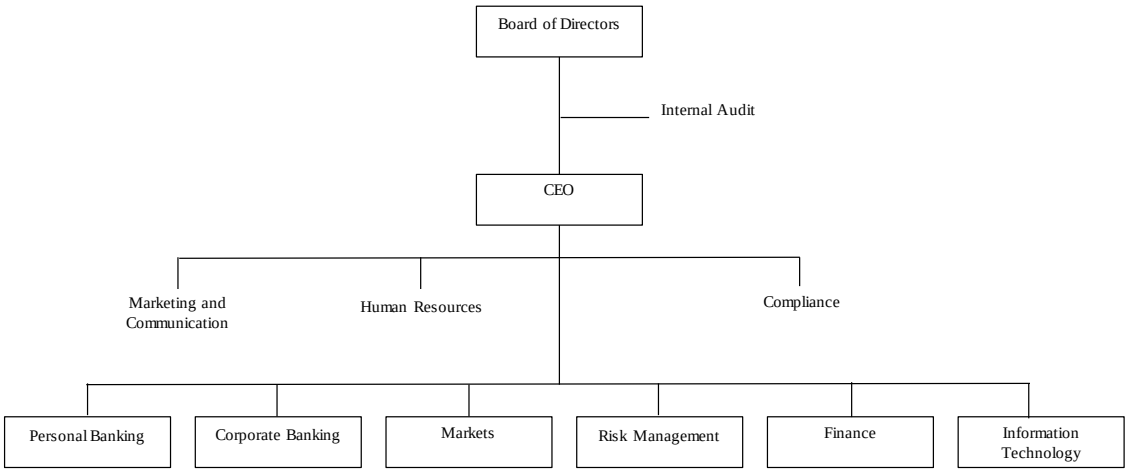
Initiative

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

- Building a vibrant and positive corporate culture that is characterised by initiative in communications
- Attracting employees that have the knowledge and capability to take the Bank towards a digital future
- Emphasising product development and innovation, both in-house and through external collaboration
- Creating a work environment that supports flexible work space where collaboration is key

Business

The organisational chart below illustrates the 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 one support unit: Business Solutions.

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

The 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, online banking system and mobile solutions.

Among the Bank's customers are around 126,000 individuals and around 11,000 SMEs. Its market share is over 38 per cent. with respect to individuals, and 34 per cent with respect to SMEs, according to a survey conducted by Gallup in 2018.

Corporate Banking

Corporate Banking ("**Corporate Banking**") provides comprehensive financial services to large, small and medium sized corporate clients and municipalities, as well as tailored services to meet customer specific needs. Corporate Banking also handles corporate and SMEs' services in the capital region through a SMEs' Center. Corporate Banking holds a strong position among the largest companies and institutions in Iceland. The market share in Corporate Banking, according to an annual survey conducted by Gallup in 2018, is stable at 34 per cent.

Corporate Banking comprises four business units and four support units. The business units are split based on sector segmentation; one unit manages relations with contractors, real estate companies, travel service companies and municipalities; the second unit manages relations with industrial companies and companies in trade and service; the third unit manages relations with the 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 four support units: Business Support, Credit Assessment, Corporate Debt Restructuring and Legal Services.

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

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

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

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

Markets

Markets ("**Markets**") provides brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. The division provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Landsbréf hf. a subsidiary of the 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.

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 customers' asset portfolios in addition to general accounting services. Customers can choose between active management of an asset portfolio where the advisers of Private Banking Services manage the assets in accordance with a predetermined investment strategy, or advice on management where the customer manages its own portfolio with the assistance of an adviser.

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

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

Capital Markets incorporates Fund & Pension Advisory Services, which provide the 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 to monitor these risk factors in the Bank's operations. The Risk Management division is responsible for the maintenance and analysis of the Bank's risk assessment systems. Subsidiaries of the Bank have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group exposures. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions to various internal departments and committees and supervisory authorities.

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

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

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

- The Market Risk Department is responsible for measuring, monitoring and reporting on market risk, liquidity risk and interest rate risk in the Bank's banking book along with limit monitoring and reporting. The department develops and maintains the Bank's market risk models and maintains the Bank's Market Risk Policy and Liquidity Risk Policy, as well as implementing processes to measure and monitor market risk and liquidity risk within the Bank. 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 Bank.

- The Operational Risk Department is responsible for ensuring that the Bank'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 business continuity plans. The department is responsible for the Bank's policy on operational risk as well as the rules on new products. The department

is partly responsible for the security system of online banking. The Operational Risk Department leads the work on the Bank's certification under the ISO 27001 standard for information security.

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

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

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

Finance

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

Treasury is responsible for the 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.

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

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

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

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 foreign-exchange, fixed income and equity markets.

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

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

The Operations division comprises two departments: Properties and Appropriated Assets. The Properties department oversees the Bank's internal operations and facilities, i.e. the operation and maintenance of all its properties, including sales or purchases. The Properties department is also responsible for employees' working facilities, purchase of equipment for the Bank's operations, internal security and relations with external security facilities and custodial operations.

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

Information Technology

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

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

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

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

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

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

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

Other divisions

CEO's Office

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

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

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

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

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

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

Internal Audit

The internal audit function is a part of the 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 2018 and 31 December 2017, classified by type of loan.

	2018	**2017**
	(millions of ISK)	
Bank accounts with financial institutions	40,913	30,219

	2018	2017
	(millions of ISK)	
Money market loans	29,455	12,770
Other loans	1,019	1,877
Allowance for impairment	(2)	
Total	71,385	44,866

The table below sets out details of the Bank's loans and advances to customers at amortised cost, as at 31 December 2018 and 31 December 2017.

	31.12.2018			31.12.2017		
	Gross carrying amount	**Allowance for impairment**	**Carrying amount**	**Gross carrying amount**	**Allowance for impairment**	**Carrying amount**
Public entities	4,865	(145)	4,720	11,345	(102)	11,243
Individuals	416,040	(2,341)	413,699	359,918	(2,978)	356,940
Mortgage lending	336,685	(886)	335,799	282,499	(824)	281,675
Other	79,355	(1,455)	77,900	77,419	(2,154)	75,265
Corporates	646,762	(10,319)	636,443	570,563	(13,110)	557,453
Total	1,067,667	(12,805)	1,054,862	941,826	(16,190)	925,636

The following tables show the Group's maximum credit risk exposure at 31 December 2018, and 31 December 2017. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the consolidated 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 Bank uses the ISAT 08 industry classification for corporate customers.

					Corporations									
As at 31 December 2018	Financial institutions	Public entities*	Individuals	Fisheries	Construction companies	Real estate companies	Holding companies	Retail	Services	ITC**	Manu-facturing	Agri-culture	Other	Carrying amount
Cash and balances with Central Bank	-	70,854	-	-	-	-	-	-	-	-	-	-	-	70,854
Bonds and debt instruments	3,507	63,222	-	-	-	9,336	69	-	-	-	-	-	924	77,058
Derivative instruments	1,529	-	11	4	48	76	165	39	1	-	-	-	50	1,923
Loans and advances to financial institutions	71,385	-	-	-	-	-	-	-	-	-	-	-	-	71,385
Loans and advances to customers	-	4,720	413,699	146,912	87,510	137,343	30,971	63,644	119,439	29,799	21,936	8,559	-	1,064,532
Other financial assets	1,903	27	108	-	159	229	31	3	2,320	45	39	-	-	4,864
Total on-balance sheet exposure	78,324	138,823	413,818	146,916	87,717	146,984	31,236	63,686	121,760	29,844	21,975	8,559	974	1,290,616
Off-balance sheet exposure	3,760	2,936	31,099	12,935	56,891	22,057	1,884	19,502	21,511	5,659	23,994	1,082	31	203,341
Financial guarantees and	255	-	784	827	3,829	1,109	8	2,524	4,653	2,092	593	79	-	16,753
Undrawn loan commitments	-	-	15	9,217	49,903	19,457	1,319	11,910	9,644	2,317	20,020	195	-	123,997
Undrawn overdraft/credit card facilities	3,505	2,936	30,300	2,891	3,159	1,491	557	5,068	7,214	1,250	3,381	808	31	62,591
														-
Maximum exposure to credit risk	82,084	141,759	444,917	159,851	144,608	169,041	33,120	83,188	143,271	35,503	45,969	9,641	1,005	1,493,957
Percentage of maximum exposure to credit risk	5.5%	9.5%	29.8%	10.7%	9.7%	11.3%	2.2%	5.6%	9.6%	2.4%	3.1%	0.6%	0.1%	100.1%

Maximum exposure to credit risk and concentration by industry sectors (continued)

					Corporations									
As at 31 December 2017	Financial institutions	Public entities*	Individuals	Fisheries	Construction companies	Real estate companies	Holding companies	Retail	Services	ITC**	Manu-facturing	Agri-culture	Other	Carrying amount
Cash and balances with Central Bank	-	55,192	-	-	-	-	-	-	-	-	-	-	-	55,192
Bonds and debt instruments	2,149	104,314	-	-	-	9,352	70	-	-	-	-	-	1,425	117,310
Derivative instruments	1,744	-	-	-	-	1	145	11	2	-	-	-	2	1,905
Loans and advances to financial institutions	44,866	-	-	-	-	-	-	-	-	-	-	-	-	44,866
Loans and advances to customers	-	11,243	356,940	114,355	80,067	123,483	25,943	52,363	103,706	31,624	17,185	8,726	1	925,636
Other financial assets	2,762	32	80	18	738	4	35	2	1,613	1	168	-	4	5,457
Total on-balance sheet exposure	51,521	170,781	357,020	114,373	80,805	132,840	26,193	52,376	105,321	31,625	17,353	8,726	1,432	1,150,366
Off-balance sheet exposure	4,913	20,539	31,821	11,123	51,826	22,690	2,609	19,999	26,105	4,707	7,845	979	12	205,168
Financial guarantees and	1,267	-	805	767	3,547	549	54	2,624	3,682	2,139	449	-	1	15,884
Undrawn loan commitments	-	13,174	1	7,246	45,176	20,454	2,255	11,349	12,032	1,423	5,209	204	-	118,523
Undrawn overdraft/credit card facilities	3,646	7,365	31,015	3,110	3,103	1,687	300	6,026	10,391	1,145	2,187	775	11	70,761
Maximum exposure to credit risk	56,434	191,320	388,841	125,496	132,631	155,530	28,802	72,375	131,426	36,332	25,198	9,705	1,444	1,355,534
Percentage of maximum exposure to credit risk	4.2%	14.1%	28.7%	9.3%	9.8%	11.5%	2.1%	5.3%	9.7%	2.7%	1.9%	0.7%	0.1%	100%

* Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.
** ITC consists of corporations in the information, technology and communication industry sectors.
Maximum exposure to credit risk and concentration by industry sectors (continued)

The table for year end 2018 shows both gross carrying amount and Expected Credit Loss ("**ECL**"), by industry sectors, and the three stage criteria under IFRS 9. The table below for year end 2017 shows credit exposure, allowance and impairment by industry sectors and customer segments under IAS 39.

The table below show both gross carrying amount and Expected Credit Loss (ECL) by industry sectors and the three-stage criteria under IFRS 9.

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

The table below show credit exposure, allowances and impairment by industry sectors and customer segment under IAS 39.

				Individually impaired				
				Of which performing		performing*		
As at 31 December 2017	**Gross carrying amount**	**Gross not individually impaired**	**Collective allowance**	**Gross carrying amount**	**Individual allowance**	**Gross carrying amount**	**Individual allowance**	**Carrying amount**
Financial institutions	44,866	44,866	-	-	-	-	-	44,866
Public entities	11,345	11,210	(56)	-	-	134	(45)	11,243
Individuals	359,918	354,956	(1,076)	1,507	(409)	3,457	(1,495)	356,940
Mortgages	282,499	280,237	(304)	1,039	(152)	1,225	(370)	281,675
Other	77,419	74,719	(772)	468	(257)	2,232	(1,125)	75,265
Corporates	570,563	547,820	(2,904)	14,299	(5,324)	8,443	(4,881)	557,453
Fisheries	115,045	114,263	(357)	531	(230)	252	(104)	114,355
Construction companies	81,954	79,928	(643)	690	(574)	1,335	(669)	80,067
Real estate companies	124,986	121,234	(548)	2,049	(624)	1,702	(330)	123,483
Holding companies	26,179	26,041	(142)	51	(16)	87	(78)	25,943
Retail	53,078	51,541	(225)	936	(209)	601	(281)	52,363
Services	106,381	100,620	(522)	4,522	(1,562)	1,238	(590)	103,706
Information, technology and comr	32,066	31,984	(374)	55	(48)	28	(21)	31,624
Manufacturing	22,024	13,815	(73)	5,068	(1,978)	3,141	(2,788)	17,185
Agriculture	8,849	8,393	(20)	397	(83)	59	(20)	8,726
Other	1	1	-	-	-	-	-	1
Total	986,692	958,852	-4,036	15,806	-5,733	12,034	-6,421	970,502

*Non-performing past due more than 90 days

The table below shows the gross carrying amount of loans and advances to financial institutions and customers by past due status as at 31 December 2018 and 31 December 2017.

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

As at 31 December 2017	Not past due	Gross carrying amount: Days past due 1-5	6-30	31-60	61-90	over 90	Allowance for impairment	Carrying amount
Financial institutions	44,866	-	-	-	-	-	-	44,866
Public entities	11,155	-	43	-	-	134	(102)	11,230
Individuals	*346,324*	*557*	*3,747*	*3,736*	*831*	*4,458*	*(2,978)*	*356,675*
Mortgages	273,771	3	2,892	2,637	466	1,719	(824)	280,664
Other	72,553	554	855	1,099	365	2,739	(2,154)	76,011
Corporations	*545,319*	*5,926*	*4,415*	*2,880*	*1,869*	*10,431*	*(13,110)*	*557,731*
Fisheries	113,181	81	148	133	7	1,268	(691)	114,127
Construction companies	80,066	78	333	130	92	1,434	(1,885)	80,248
Real estate companies	120,393	91	1,007	882	517	2,121	(1,503)	123,508
Holding companies	26,055	-	2	5	6	120	(236)	25,952
Retail	51,090	86	593	103	482	684	(715)	52,323
Services	100,367	731	2,065	1,408	374	1,549	(2,675)	103,819
Information, technology and communication	31,710	464	70	7	19	28	(443)	31,855
Manufacturing	13,840	4,369	139	139	372	3,158	(4,839)	17,178
Agriculture	8,617	26	58	73	-	69	(123)	8,720
Other	1	-	-	-	-	-	-	1
Total	947,664	6,483	8,205	6,616	2,700	15,023	(16,190)	970,502

The table below shows large exposures as at 31 December 2018 and 31 December 2017, after credit mitigation. As at 31 December 2018, four customer groups were rated as large exposures in accordance with the rules on large exposures (Regulation No. 233/2017 (*Reglugerð um varfærniskröfur vegna starfsemi fjármálafyrirtækja*)). Customers are rated as large exposures if their total obligations, or those of financially or administrative connected

parties, exceed 10 per cent. of the Group's eligible capital. According to these rules, no exposure, after credit risk mitigation, may attain the equivalent of 25 per cent. or more of the capital base.

	Number of large exposures	Large exposures
		(millions of ISK, except %)
At 31 December 2018		
Large exposures between 10% and 20% of the Group's eligible capital	3	83,842
Large exposures between 0% and10% of the Group's capital base	1	-
Total	4	53,842
Total large exposure to eligible capital		34%
At 31 December 2017		
Large exposures between 10% and 20% of the Group's eligible capital	2	53,182
Large exposures between 0% and 10% of the Group's eligible capital	1	-
Total	3	53,182
Total large exposure to eligible capital		22%

Further information on the aforementioned tables is disclosed in the notes in the 2018 Financial Statements, which is incorporated by reference to this Base Prospectus.

Funding

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

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

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

In addition, the Bank has in place a ISK 170,000,000,000 Covered Bond Programme, that is listed for trading on Nasdaq Iceland. Covered Bonds are issued under licence from the Icelandic FME, and in accordance with reference to Act No. 11/2008 and FME Rules No. 528/2008. The purpose of the programme is to provide funding for the Bank's mortgage loan portfolio and to hedge the Bank's fixed interest rate exposure.

Furthermore, the Bank has in place an ISK 50,000,000,000 debt issuance programme that is listed for trading on Nasdaq Iceland. The Bank primarily issues Commercial Paper in the domestic market in ISK under the debt issuance programme.

The Bank issued its inaugural Tier 2 issuance of EUR 100 million notes in September 2018 under its EMTN Programme. The notes mature in September 2028 and are callable in September 2023. The issuance is rated BBB-

by S&P Global Ratings. The notes have a fixed 3.125 per cent. coupon for the first five years and were sold at terms equivalent to a 285 basis point spread over mid-swaps in euros.

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

Regular auctions of covered bonds were held in 2018 where previously issued bonds were tapped by a total nominal value of ISK 32 billion.

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 depositors who currently hold deposits with the Bank. To reduce the risk of such 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 measuring the identified risks for management and monitoring purposes. Finally, risk controls and limits promote compliance with rules and procedures, as well as adherence with the Group's risk appetite.

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

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

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

The Credit Committee deals with credit risk – individual credit decisions, credit limits on customers and credit risk policy – while the Risk & Finance Committee covers primarily market risk, liquidity risk and legal risk. The Risk & Finance Committee monitors the Group's overall risk position, is responsible for enforcing the Group's risk appetite and risk limits, reviewing and approving changes to risk models before they are presented to the Board of Directors. The Executive Board serves as a forum for consultation and communication between the CEO and managing directors, addressing the main current issues in each division and takes decisions on operating matters not being considered in other standing committees.

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

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

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

Credit Risk

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

Credit risk identification

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

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

Credit risk is the greatest single risk faced by the Group and arises principally from (i) loans and advances to customers; (ii) investments in debt securities; (iii) commitments, guarantees and documentary credits; (iv) counterparty credit risk in derivatives contracts; and (v) the aforementioned settlement risk.

Credit risk assessment

Credit risk is measured in three main dimensions: PD, LGD and EAD. For the purpose of measuring PD, the Group has developed an internal rating system, including a number of internally developed rating models. The objectives of the rating system are to provide a meaningful assessment of obligor characteristics; a meaningful differentiation of credit quality; and accurate and consistent quantitative estimates of default risk, i.e. PD. Internal ratings and associated PD are essential in the risk management and decision-making process, and in the credit approval and corporate governance functions.

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

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

The credit rating models' discriminatory power significantly exceeds the Basel framework requirement of 0.5. Furthermore, the models are well calibrated, i.e. the weighted probability of default for each rating grade is equal to the actual default rate with respect to reasonable error limits.

LGD is measured using an internal LGD model for the purpose of EC calculations. The internal LGD model takes into account more types of collateral and is more sensitive to the collateralisation level than the Basel model.

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

Credit risk management

The Group's credit risk management objective is to ensure compliance with the Group's credit policy, which entails that the only risks taken are the ones that the Bank can understand, measure and manage.

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

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

Credit risk mitigation

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

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

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

The Group regularly assesses the market value of collateral received. The Group has developed models to estimate the value of the most frequent types of collateral. For collateral without a valuation model, the Group estimates the value as the market value less a haircut. Haircuts represent a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs in the period during which the asset is up for sale, fees for external advisory services and any loss in value. For listed securities, haircuts are calculated with an internal model based on variables such as price volatility and marketability.

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

Derivative financial instruments

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

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

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

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

Credit risk control and monitoring

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

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

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

Impairment process

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

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

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

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

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

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

Total allowance for impairment was ISK 13.1 billion, as at 31 December 2018, as compared to ISK 16.2 billion at end of year 2017. Allowances have thus decreased during 2018, while the overall carrying amount has increased considerably. The decrease in allowances is mainly due to written-off loans, lower probability of default and improved collaterals.

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; and
- maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from a liquidity crisis.

The liquidity management policy is built on international standards on liquidity risk measurements developed by the Basel Committee on Banking Supervision e.g. the liquidity coverage ratio ("**LCR**") and net stable funding ratio ("**NSFR**") and it also applies measurements that best suit the operating environment of the Bank.

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

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

The table below sets out the Bank's LCR as at 31 December 2018 and 31 December 2017 respectively:

	LCR – Total	**LCR – FX**	**NSFR – FX**
As at 31 December 2018	158%	534%	166%
As at 31 December 2017	157%	931%	179%

Market Risk

Market risk is the risk that changes in market prices will adversely impact the fair value or future cash flows of financial instruments. Market risk arises from open positions in currency, equities and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, inflation, foreign exchange rates and equity prices. The majority of the Group's exposures that entail market risk consist of equities, equity derivatives bonds, fixed income products and open currency positions.

The Board of Directors is responsible for determining the Group's overall risk appetite, including market risk. The CEO of the 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.

Sensitivity analysis for trading portfolios

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

Sensitivity analysis for non-trading portfolios

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and liabilities to various interest rate scenarios. The Group employs a monthly stress test of the interest rate risk in the Group's banking book by measuring the impact on profit of shifting the interest rate curves for every currency. The magnitudes of the shifts are based on guidelines from the European Banking Authority and the FME, taking historical interest rate volatility into account.

CPI indexation risk (all portfolios)

To mitigate the Group's imbalance in its CPI-indexed assets and liabilities, the Bank offers non-CPI-indexed loans and CPI-indexed deposits. CPI indexation risk is managed centrally 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 complies with the Rules No. 950/2010 on Foreign Exchange Balances, as set by the Central Bank. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within 15 per cent. of the 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 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 key business areas on a consolidated basis and for the

most important risk types. Risk appetite sets out the level of risk the Group is willing to take in pursuit of its business objectives.

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

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

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

	CET1	**Tier 1**	**Total**
Pillar I	4.5%	6.0%	8.0%
Pillar II R	2.3%	3.0%	4.0%
Minimum requirement under Pillar I and Pillar II R	**6.8%**	**9.0%**	**12.0%**
Systemic risk buffer	2.85%	2.85%	2.85%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	1.19%	1.19%	1.19%
Capital conservation buffer	2.50%	2.50%	2.50%
Combined buffer requirement	**8.54%**	**8.54%**	**8.54%**
Total Capital Requirement	**15.3%**	**17.5%**	**20.5%**

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

The Bank's target for the Group's minimum total capital ratio is to maintain at all times capital ratios above the fully phased-in FME capital requirements, in addition to the management capital buffer that is defined in the Bank's risk appetite. 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.

As at 31 December 2018, the Group's total capital ratio was 24.9 per cent., compared to 26.7 per cent. as at 31 December 2017. As at 31 December 2018, the Group's total CET 1 ratio was 23.6 per cent., compared to 26.3 per. cent. as at 31 December 2017. Further information can be found in paragraph 50 the 2018 Financial Statements which is incorporated by reference into this Base Prospectus.

Litigation

The Bank and its subsidiaries are from time to time party to litigation cases, which arise due to the nature of its business. 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 or threatened 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.

On 16 November 2017, the Supreme Court rendered judgments in the cases numbered 770/2016 and 771/2016, acknowledging a claim for recognition of the invalidity of collateral that the Bank held in real estate property owned by a married couple in equal proportions, *inter alia*, on the grounds that the signature of the spouse of the debtor on a collateral agreement did not indicate that the spouse of the debtor had agreed to post as collateral the part of the property belonging to him or her, where other evidence did not indicate that this had been his or her intention. As noted in the interim financial statements for Q1 2018, the Bank has assessed the impact of these rulings and does not consider that they will have a significant impact on the amounts disclosed in the Group's annual financial statements.

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 argued that the defendants were liable in tort for alleged violation of competition rules. On 1 June 2017, the Supreme Court confirmed the decision of the District Court of Reykjavík to dismiss the case on grounds of insufficient substantiation. In September 2017, the same payment card company commenced litigation against the same defendants as in the previous case claiming tort liability in the amount of around ISK 923 million, plus interest. The plaintiff, again, argued that the defendants should be held liable in tort for alleged violation of competition rules. The Supreme Court dismissed this case on 13 June 2018. In November 2018, a former owner of the payment card company, having had the alleged rights assigned to him from the payment card company, brought a new case against the same parties and demanded acknowledgement of the defendants' tort liability due to alleged breach of competition rules. The Bank rejects all claims put forth by the plaintiff and has submitted that the case be dismissed.

In December 2014, the Bank sold to Arion Bank all its shares in Valitor Holding hf. ("**Valitor**"), the parent company of Valitor hf. The agreement includes an indemnity clause under which the Bank is to proportionally compensate Arion Bank with regards to certain cases concerning Valitor that relate to events that occurred before delivery of the sold shares, *inter alia*, for potential compensatory damages that Valitor may be obligated to pay for an alleged loss sustained due to Valitor's termination of a vendor agreement. A case on the matter has been filed before the District Court of Reykjavík.

In January 2017, the Bank commenced proceedings before the Reykjavík District Court against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf. and the then CEO of Borgun hf. The Bank considered the defendants to have been in possession of information about the shareholding of Borgun hf. in Visa Europe Ltd. when the Bank sold its 31.2 per cent. shareholding in Borgun hf. and they failed to disclose it to the Bank. The Bank demanded acknowledgement of the defendants' liability for losses incurred by the Bank on these grounds. The defendants demanded dismissal of the case which was rejected by the Reykjavík District Court in June 2017. The defendants then submitted their written defences in response to the Bank's pleadings. In a ruling made on 10 September 2018 in favour of the Bank, the Reykjavík District Court appointed assessors to evaluate certain issues regarding Borgun

hf.'s annual financial statements. This ruling was confirmed by the Court of Appeal (Landsréttur) on 30 October 2018.

In September 2018, the Icelandic Bankers' Pension Fund commenced litigation against the Bank, the Icelandic Central Bank, the Icelandic State and certain companies and associations. The Pension Fund demands that an agreement from 1997 between the Fund and the defendants be amended, firstly, so as to require the defendants to pay a total of around ISK 5,600 million to the Fund, out of which the Bank shall pay around ISK 4,100 million, and, secondly, so as to require the defendants to guarantee the obligations of the Fund's Rate Department (Hlutfallsdeild), the total amount of which are higher than the Fund's assets at any time. At a hearing of the case on 8 January 2019 before the District Court of Reykjavík, the Bank submitted a statement of defence, rejecting all claims. The timing of judgment in this case is uncertain.

On 8 March 2018, the Supreme Court concluded in case no. 159/2017 (which did not involve the Bank) that a commercial bank could not claim penalty rates on two mortgages that had fallen due during a temporary moratorium on payments for an individual under Act No. 101/2010 on Debt Mitigation for Individuals. The Bank has assessed the impact of the ruling and commenced recalculation of certain loans to which the Bank believes that the legal precedent set by that case may apply. Moreover, the Bank has made a provision for the estimated impact of the ruling in its annual financial statements for 2018.

Competition

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

The 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 consumer demands and face increased

competition from domestic competitors, as well as foreign banks potentially seeking to establish operations in Iceland.

The AGM of the 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.

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

Name	Function	Principal Outside Activities
		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.
Ms. Sigríður Benediktsdóttir	Board Member	Senior lecturer and dean of undergraduate studies of Global Affairs at Yale University in the US, where she was awarded her doctorate in economics in May 2005. Board member of non-profit organization New Have Reads.
Ms. Guðrún Ó. Blöndal	Alternate	Board Member of Eimskipafélag Íslands hf.
Mr. Thorvaldur Jacobsen	Alternate	Associate partner of Valcon Consulting A/S. Was Managing Director at Vátryggingarfélag Íslands hf. from 2012 until 2017. Board Member of Sensa ehf. and Sunnuvegur 13 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. Reykjavík 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[11]

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 2,803 billion in 2018[12]. The population is also small, numbering just under 357,000, as at the end of 2018. According to World Bank data, GDP per capita, measured in terms of purchasing power parities, amounted to USD 53,100 in 2017, which is in the top twenty of the highest in the world.

Historically, economic prosperity in Iceland has been built largely on abundant marine and energy resources, with investment and services as the main drivers of economic growth. Exports of services, driven by a booming tourist sector, are an increasingly important source of export revenues. In 2018, services accounted for 55 per cent. of total export revenues, while exports of marine products accounted for 18 per cent. and exports of aluminium and aluminium products accounted for 17 per cent[13].

In 2008, the Icelandic economy entered into a deep recession after a five-year period of robust but unsustainable economic growth. The growth was initially spurred by investments in the aluminium and power sectors, followed by the rapid growth of the banking sector accompanied by a credit boom, sustained by easy access to global credit. The growth soon became increasingly imbalanced which was reflected in a rapidly growing current account ("**CA**") deficit and mounting inflationary pressures. The recession was triggered by a twin currency and banking crisis in autumn 2008. Domestic demand contracted by nearly 27 per cent. from its peak in 2007 to its trough in 2010[14].

After a period of austerity measures and restructuring of the financial sector, growth resumed in 2011 as GDP grew by 1.9 per cent.; in 2012, growth continued at 1.3 per cent[15]. Unemployment peaked at 9.3 per cent. in early 2010, but was down to 2.7 per cent. in December 2018, well below the EU average[16]. The exchange rate of the ISK has stabilised significantly after losing almost 50 per cent. of its value against the euro from January 2008 to November 2009. At the end of December 2018, the ISK had appreciated by roughly 40 per cent. since its lowest level in November 2009[17].

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[11] Sources: This chapter was compiled by Landsbankinn's Economic Research Department based on data and information obtained from Statistics Iceland and the Central Bank of Iceland, as of 24 January 2019.

[12] Source: Statistics Iceland

[13] Source: Statistics Iceland, own calculation

[14] Source: Statistics Iceland, own calculation

[15] Source: Statistics Iceland

[16] Source: The Directorate of Labour

[17] Source: Central Bank of Iceland

The trade account surplus measured 3.1 per cent. of GDP in 2018 and the current account surplus was 2.9 per cent. of GDP[18]. In 2018, the current account surplus measured ISK 81 billion compared to ISK 95 billion in 2017. The trade account surplus measured ISK 87 billion in 2018 compared to ISK 106 billion in 2017[19].

The Central Bank forecasts an average annual GDP growth of 2.4 per cent. in 2019 to 2021, driven by growing investment, private consumption and exports. Annual CPI inflation in December 2018 measured 3.7 per cent. well above the 2.5 per cent. inflation target of the Central Bank. The Central Bank forecast assumes that CPI inflation will be 3.6 per cent. in 2019, 2.9 per cent. in 2020 and 2.4 per cent in 2021[20].

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 the main engine 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. 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.

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 40 per cent. of goods exported in 2018. Marine products accounted for 18 per cent. of goods and services exported in the same year. However, as exported 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 1990s. The sector's contribution to GDP also fell, from 14 per cent. in the 1990s to 5.9 per cent. in 2018[21].

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 exported in 2018, from 19 per cent. in 2000. Production has risen sharply this century, from 283,000 metric tonnes per year ("**mtpy**") in 2002 to 889,000 mtpy in 2017. 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

[18] Source: Statistics Iceland, Central Bank of Iceland, own calculations

[19] Source: Central Bank of Iceland

[20] Source: Monetary Bulletin 2019-1, Central Bank of Iceland

[21] Source: Statistics Iceland

export. Exports of other manufactured goods (e.g. excluding aluminium and aluminium products) accounted for 15 per cent. of goods exported in 2018.

The tourism sector

The tourism sector has increasingly become a more significant part of Iceland's economy. A total of 2.2 million tourists visited the country in 2017, which is a 24 per cent. increase from the previous year. The cumulative growth in tourist arrivals between 2010 and 2017 amounts to 335 per cent.[22] In recent years, this sector has been among the fastest growing sectors in Iceland, generating around 39 per cent. of total export revenues in 2018, or ISK 519 billion[23].

The agricultural and farming sector

The agricultural sector accounted for 1.3 per cent. of GDP in 2018. Icelandic agriculture is heavily subsidised, with total on-budget transfers to farmers amounting to 0.6 per cent. of GDP in 2017[24]. 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 (deposit money banks) is much smaller at approximately 1.3 times Iceland's GDP as of 31 December 2017[25]. 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 majority owner of two of the commercial banks, namely the Bank and Íslandsbanki. In February 2018, it was announced that 5.34 per cent. of issued shares in Arion Bank had been sold to domestic funds and existing international shareholders, who owned 29 per cent. in the bank after a private placement in March 2017. In June 2018, further sales of shares in Arion Bank through initial public offerings took place and the shares were listed on the Icelandic and Swedish Stock markets. According to the ISFI which manages the shareholding and the corresponding voting rights, in the Bank and Íslandsbanki, on behalf of the largest shareholder, the Icelandic State Treasury, it is likely that the Icelandic State Treasury will want to sell part of its shares in the Bank and/or in Íslandsbanki.

[22] Source: Icelandic Tourist Board

[23] Source: Statistics Iceland

[24]Source: The Financial Management Authority, Statistics Iceland, own calculations

[25]Source: Central Bank of Iceland, Statistics Iceland, own calculations

The recession in 2008 and the restructuring of the financial sector

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

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

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

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

which provide for general exemptions to most of the existing restrictions pursuant to the Foreign Exchange Act. For further information see *"The Bank's operating environment is still to some extent subject to capital controls, even though the capital controls have mostly been lifted. Removal of the remaining capital controls could have a material adverse effect on the Bank's business"*.

Capital controls

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

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. In October 2016, an important step towards removal of the capital controls was made, when the Icelandic Parliament passed Act No. 105/2016, amending the Foreign Exchange Act, which entailed increased authorisation for foreign exchange transactions and cross-border movement of capital, in addition to the removal of specific restrictions that had previously applied to foreign exchange transactions and cross-border movement of capital.

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

Even since the most recent reforms in 2017, restrictions are still 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, (iii) in certain instances, lending by residents to non-residents, (iv) cross-border movement of domestic currency/financial instruments in domestic currency in certain instances, and (v) settlement in foreign currency of transactions with financial instruments issued in domestic currency in certain instances. Such restrictions are still necessary in order to prevent carry trades involving assets investments in assets which are not subject to special reserve requirements pursuant to Temporary Provision III of the Foreign Exchange Act and the Special Reserve Requirement Rules. ISK-denominated assets are still subject to special restrictions pursuant to Act No. 37/2016 and special reserve requirements will remain in place for specified investments in connection with new inflows of foreign currency. The requirements obliging financial undertakings and other parties engaging in capital transactions to notify the Central Bank of capital movements will also remain unchanged for the present. However, various foreign exchange transactions and capital transfers that have previously been subject to confirmation by the Central Bank are now only subject to a disclosure requirement.

When the Rules on Foreign Exchange took effect in March 2017, foreign issuance of bonds denominated in ISK became permissible again without restrictions, which made it possible to conduct carry trade by issuing bonds in ISK and entering into derivatives contracts with domestic banks. In June 2017, the Foreign Exchange Rules were further amended by Rules No. 568/2017, so as to exclude hedging-related derivatives trading in connection with the issuance of ISK denominated bonds, from the exemption for hedging-related derivatives trading with financial undertakings in Iceland. In addition, several amendments were made to the rules so as to narrow the scope of exemptions granted under the Foreign Exchange Rules; the objective being to prevent investments in Iceland from becoming a vehicle for carry trades which could precipitate capital flight. The rules on foreign exchange are set in accordance with the authority contained in the Foreign Exchange Act.

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.

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 3,678 billion as at 31 December 2018, of which foreign assets were ISK 411.5 billion, or 11.2 per cent. The Icelandic financial market is therefore highly exposed to the Icelandic economy[26].

The total assets of the three largest commercial banks, the Issuer, Íslandsbanki and Arion Bank, comprised around 72 per cent. of the total assets of the Icelandic credit institutions (excluding the Central Bank and including the failed banks' holding companies)[27] as at the end of 2018, according to the Central Bank. The proportion of total assets of other financial corporations, of which the Housing Finance Fund ("**HFF**") is largest, was 27 per cent. of the total assets.

Market participants and supervision

Icelandic credit institutions are comprised of four commercial banks, four savings banks and five credit undertakings subject to minimum reserve requirements. The financial market also includes nine securities companies, and nine management companies of UCITS, as well as two other supervised entities (HFF and Depositors' and Investors' Guarantee Fund)[28].

The HFF, a fully state-owned institution, operates in Iceland and offers financing for residential housing in Iceland. The establishment of the mortgage lender HFF was approved at the beginning of 1999. The HFF is based on legislation approved by the Icelandic Parliament in June 1998, which was aimed at rationalising the existing state financing system for housing. The HFF was the largest provider of financing for residential housing until 2004 when the three major banks in Iceland entered the financing sector for residential housing.

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

Icelandic financial markets are supervised by the FME. Entities engaging in financial activities which are subject to licence are regulated by the FME, including credit institutions, insurance companies and pension funds. The activities of the FME are largely governed by Act No. 87/1998, on the Official Supervision of Financial Operations, and Act No. 99/1999, on the Payment of Cost Due to the Official Supervision of Financial Activities.

The Central Bank is in charge of monetary policy implementation in Iceland and performs a wide range of functions to this end. The main objective of monetary policy is price stability. The activities of the Central Bank are largely governed by Act No. 36/2001, on the Central Bank. The Central Bank imposes a reserve requirement on all the commercial and savings banks. The purpose of this limitation is to ensure that credit institutions have sufficient margin to the reserve requirement account to meet fluctuations in their liquidity positions. Foreign exchange transactions have been subject to capital controls since the banking system collapse in 2008. In general, the capital controls in the Foreign Exchange Act restricted the outflow of capital from Iceland and between resident and non-resident parties except in the case of a payment for goods or services. These capital controls prohibited certain transactions with securities and could adversely affect the ability of investors to

[26] Source: Central Bank of Iceland

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

[28] Source: Financial Supervisory Authority

invest in and trade such securities. In June 2015, the Government of Iceland presented a comprehensive strategy for capital account liberalisation. In 2014, a new Act amending the Foreign Exchange Act took effect and in March 2017, the Central Bank announced new rules which provide for general exemptions to most of the existing restrictions pursuant to the Foreign Exchange Act. The Central Bank oversees surveillance of the rules on Foreign Exchange - see further "*The Republic of Iceland - The recession in 2008 and the restructuring of the financial sector- Capital Controls*".

Other relevant institutions in the financial market

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

Pension funds, which are independent non-governmental entities, are an important source of long-term finance in Iceland and are active in the financial market through their investments activities. In addition, the pension funds have become active competitors after they started increasing their mortgage lending to the public. These funds invest in domestic bonds, equity capital and in some foreign securities. Membership in a pension fund is obligatory for wage earners and self-employed individuals, in accordance with Act No. 129/1997, on Mandatory Pension Insurance and on the Activities of Pension Funds.

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

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

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) 12 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 150,000); and (b) 12 per cent. for legal entities.

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 22 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 the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless such 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. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (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 27 March 2019, 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

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.

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 and each further Dealer appointed under the Programme will be required to agree 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 (the "**SFO**")) other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(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 SFO and any rules made under the SFO.

Singapore

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

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

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

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

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

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

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

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

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

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

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

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 6 March 2019.

Listing of Notes

Application has been made to Euronext Dublin 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 Euronext Dublin 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 2017 Financial Statements and the 2018 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;

(h) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2017, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme;

(i) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2018, pages 50 to 79 (inclusive) prepared by the Bank in connection with the Programme, as supplemented by the Terms and Conditions of the Notes included in the Supplemental Prospectus dated 30 May 2018; and

(j) 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 and (to the extent applicable) Classification of Financial Instruments (CFI) code and the Financial Instrument Short Name (FISN) 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 SA/NV, 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 2018 and there has been no material adverse change in the prospects of the Bank since 31 December 2018.

Litigation

Except as disclosed in "*Description of the Bank—Litigation*" on pages 118 and 119 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, 2016, 2017 and 2018. The National Audit Office outsourced the audit of the Issuer for the financial years ended 31 December 2015, 2016, 2017 and 2018 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 and Euronext Dublin's website at www.ise.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 Regulated Market for the purposes of the Prospectus Directive.

BANK

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Morgan Stanley & Co. International plc
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