

**SUPPLEMENT TO THE BASE PROSPECTUS DATED 27 MARCH 2019**

**THE DATE OF THIS SUPPLEMENT IS 11 FEBRUARY 2020**



**LANDSBANKINN HF.**

*(incorporated with limited liability in Iceland)*

**€2,000,000,000**

**Euro Medium Term Note Programme**

This supplement (the “**Supplement**”) to the base prospectus dated 27 March 2019 as supplemented by a supplement dated 20 May 2019 (the “**Base Prospectus**”), constitutes a supplement to the Base Prospectus for the purposes of Article 16 of Directive 2003/71/EC as amended (the “**Prospectus Directive**”) (as implemented in the Republic of Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended) and is prepared in relation to the €2,000,000,000 Euro Medium Term Note Programme (the “**Programme**”) of Landsbankinn hf. (the “**Bank**” or the “**Issuer**”).

This Supplement has been approved by the Central Bank of Ireland as a competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Supplement as meeting the requirements imposed under Irish and European Union 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 or which are to be offered to the public in any Member State of the European Economic Area.

Unless the context otherwise requires, terms defined in the Base Prospectus shall have the same meaning when used in this Supplement. This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus, and all documents which are incorporated herein or therein by reference.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into this Supplement and (b) any statement in or incorporated by reference in the Base Prospectus, the statements referred to in (a) will prevail.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

This Supplement is and will be available on the website of the Central Bank of Ireland at [www.centralbank.ie](http://www.centralbank.ie) for a period of 12 months from the date of the Base Prospectus. This Supplement and the documents

incorporated by reference may be obtained on written request and without charge from the registered office of the Issuer at Austurstræti 11, 155 Reykjavík, Iceland.

### **Purpose of this Supplement**

The purpose of this Supplement is to:

- (i) update the section entitled “*Description of the Bank - Overview*” on page 95 of the Base Prospectus;
- (ii) incorporate by reference into the Base Prospectus in the section entitled “*Documents Incorporated by Reference*” on page v of the Base Prospectus, the Bank’s Consolidated Financial Statements for the financial year ended 31 December 2019 (the “**2019 Financial Statements**”), an extract of which is set out in this Supplement at page 3 below;
- (iii) confirm that there has been no significant change in the financial or trading position of the Group since 31 December 2019 and that there has been no material adverse change in the prospects of the Bank since 31 December 2019;
- (iv) update the section entitled “*General Information – Litigation*” in the Base Prospectus on page 139 of the Base Prospectus;
- (v) set out the extract for the 2019 Financial Statements, displaying the endorsement of the Bank’s Board of Directors and the CEO;
- (vi) update the section entitled “*Risk Factors - 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*” on page 17 of the Base Prospectus following the latest issuance of the Financial Stability Report issued by the Central Bank of Iceland in October 2019;
- (vii) insert a new paragraph in the section entitled “*Risk Factors - Failure to manage compliance risk could adversely affect the Bank’s business*” on page 26 of the Base Prospectus following the announcement from the Financial Action Task Force to place Iceland on its list of jurisdictions with deficiencies in its strategy for tackling anti-money laundering and countering the financing of terrorism.

#### **(i) Credit rating affirmed but revised outlook**

On 23 July 2019, Standard & Poor’s announced an affirmation of the Bank’s long-term and short-term credit rating of BBB+/A-2, but revised its outlook from stable to negative.

The following wording shall replace the fourth paragraph in the section entitled “*Description of the Bank – Overview*” on page 95 of the Base Prospectus:

“On 23 July 2019, the international rating agency Standard & Poor’s affirmed the long-term and short-term rating of the Issuer as BBB+/A-2, with a negative outlook. The previous rating was from July 2018, where Standard & Poor’s affirmed the long-term and short-term rating of the Issuer as BBB+/A-2 with an unchanged stable outlook.<sup>1</sup>”

#### **(ii) Documents incorporated by reference**

By virtue of this Supplement, the 2019 Financial Statements (<https://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial->

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<sup>1</sup> 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.

[Report-2019-EN.pdf](#)), which have previously been published on the website of the Issuer and have been filed with the Central Bank of Ireland, shall be incorporated in, and form part of, the Base Prospectus, at the section entitled “*Documents Incorporated by Reference*” on page v of the Base Prospectus.

**(iii) Significant change**

There has been no significant change in the financial or trading position of the Group since 31 December 2019 and there has been no material adverse change in the prospects of the Bank since 31 December 2019.

Any documents themselves incorporated by reference in the documents incorporated by reference do not (and shall not be deemed to) form part of this Supplement for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference.

**(iv) Litigation**

The following wording shall replace the paragraph in the section entitled “*General Information – Litigation*” on page 139 of the Base Prospectus:

“Except as disclosed in the section entitled “*Description of the Bank – Litigation*” on pages 118 and 119 of this Base Prospectus and updated in “*Note 37- Litigation*” on pages 35 and 36 of the 2019 Financial Statements, 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 significant effect on the financial position or profitability of the Bank or the Group.”

**(v) Extract for the 2019 Financial Statements**

The following extract shall replace the extract on page 95 and be incorporated on page 95 of the Base Prospectus, under the section entitled “*Description of the Bank - Recent Developments*”:

The Board of Directors and the CEO of Landsbankinn hf. (the “Bank” or “Landsbankinn”) present this report together with the audited Consolidated Financial Statements of Landsbankinn hf. for the financial year 2019, which include the Bank and its subsidiaries (collectively referred to as the “Group”).

“Landsbankinn is a leading financial institution in Iceland, offering a comprehensive range of financial services to individuals, corporates and investors. The Group consists of four main business segments and support functions that constitute the reportable segments presented in the Group’s internal and external financial reporting (see Note 5).”

**Operations in 2019**

Consolidated profit amounted to ISK 18,235 million for the financial year 2019 compared with ISK 19,260 million in 2018. Return on equity after tax was 7.5% as compared with 8.2% in 2018 and the cost-income ratio has declined between years, to 42.6% from 45.5% in 2018. Net interest income amounted to ISK 39,670 in 2019 as compared with ISK 40,814 million in 2018 while net fee and commission income was ISK 8,219 million as compared with ISK 8,157 million the previous year. Net impairment on loans and advances increased considerably between years and amounted to ISK 4,827 million. There is an increase of ISK 6,339 million in net gain on financial assets and liabilities at fair value between years while. Salaries and related expenses remained relatively stable year-over-year at ISK 14,458 in 2019 as compared with ISK 14,589 the previous year. The average number of full-time equivalent positions during in 2019 was 950, as compared with 961 in 2018.

Consolidated total equity amounted to ISK 247,734 million and total assets to ISK 1,426,328 million at year-end 2019, as compared with ISK 1,326,041 at year-end 2018. The year-over-year change in total assets is mostly driven by an increase of ISK 75,652 million in lending to private persons, an increase of 7.1% between years. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was

25.8% at year-end 2019 as compared with 24.9% at year-end 2018 (see Note 47). Total deposits from financial institutions and customers increased by ISK 28,223 million between years and the carrying amount of borrowings rose by ISK 58,756 million. Subordinated liabilities increased by ISK 5,741 million year-over-year as a result of issuance of subordinated bonds in Icelandic króna.

In December 2019, the Bank concluded issuance of ISK Tier 2 fixed rate inflation linked subordinated bonds, in the amount of ISK 5,480 million, under the Bank's ISK 50,000 million Debt Issuance Programme. The bond series, LBANK T2I 29, has a final maturity in December 2029, but is callable in December 2024. The bonds are the Bank's inaugural subordinated bond issuance in the domestic market and are listed on Nasdaq Iceland.

In July 2019, international rating agency S&P Global Ratings affirmed Landsbankinn's long and short-term issuer credit rating of BBB+/A-2, revising its outlook from stable to negative.

As at 1 January 2019, the Group implemented the international financial reporting standard IFRS 16 Leases, using the modified retrospective approach. The impact of the implementation of IFRS 16 on the Group's financial statements is described further in Note 4.

### **Risk factors**

The carrying amount of the Bank's credit portfolio increased by 7% in 2019 yet credit risk is similar to what it was at year-end 2018. Probability of default (PD) for the entire portfolio continued to decrease in 2019 and was 2.4% at year end. Expected credit loss (ECL) as a percentage of total loans remained unchanged during 2019 and remains well within the Bank's risk appetite. Economic capital (EC) for credit risk increased slightly during 2019. The increase is due to other assets; EC for credit risk from loans to customers decreased slightly during 2019. EC for market and currency risk decreased significantly in 2019, due to lower exposure to listed equities in the Bank's trading portfolio. Impairment charges on loans to customers increased in 2019 and an impairment loss of ISK 4,827 million before tax was recognised in the income statement. The increase in impairment charges on the credit portfolio is largely explained by new corporate defaults in 2019.

The Bank's liquidity ratios are strong both in total, in foreign currency and in individual currencies. The total liquidity coverage ratio (LCR) was 161% at year end, compared to 158% in 2018, and 769% in foreign currencies. The Central Bank of Iceland changed the Rules on Liquidity Ratio in December 2019, implementing a minimum requirement for liquidity ratio in Icelandic króna. Effective as of 1 January 2020, the minimum LCR in Icelandic króna is 30%. As a result of the change, the Bank now publishes its liquidity ratio in Icelandic króna, which was 61% at year-end 2019.

At year-end 2019, bond issuance in foreign currency amounted to ISK 223,131 million, increasing by ISK 24,351 million during the year. Other unsecured loans in foreign currency amounted to ISK 19,496 million at the same time. The size of the programme for covered bond issuance is ISK 200,000 million and was increased from ISK 120,000 million in 2019. At year-end, outstanding covered bonds issuance amounted to ISK 140,549 million, increasing by ISK 34,240 million during the year 2019.

Market risk remains low and well within risk appetite. The Bank decreased its CPI indexation imbalance even further in 2019. The imbalance was 52% of equity at year end.

Information about the Group's risk management is included in the notes to the Consolidated Financial Statements that address risk management, and in the Bank's Pillar III Risk Report.

### **Equity**

The Group's capital requirements are defined in Icelandic law and regulations and by the Financial Supervisory Authority (FME). The requirements are based on the European legal framework for capital requirements (CRD IV and CRR). The Bank annually assesses its own capital needs through the Internal

Capital Adequacy Assessment Process (ICAAP) and the results are subsequently reviewed by the FME in the Supervisory Review and Evaluation Process (SREP).

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 Bank aims to maintain capital ratios above FME's capital requirements at all times, in addition to a 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 (see Note 46).

Landsbankinn's current dividend policy provides that the Bank aims to pay regular dividends to shareholders amounting in general to  $\geq 50\%$  of the previous year's profit. To achieve the Bank's target capital ratio, special dividend payments may also be made to optimise its capital structure. In determining the amount of dividend payments, the Bank's continued strong financial position shall be ensured. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and 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.

The AGM of the Bank held on 4 April 2019, approved the motion of the Board of Directors to pay shareholders a dividend in the amount of ISK 9,922 million, or equivalent to ISK 0.42 per share, for the operating year 2018. In accordance with the resolution of the meeting, the dividend was paid in two equal instalments, each equivalent to ISK 0.21 per share, on 10 April 2019 and 2 October 2019. The total dividend payment corresponded to 52% of net profit for the operating year 2018.

The Board of Directors intends to propose to the Annual General Meeting (AGM) that a dividend of ISK 0.40 per share be paid to shareholders for the operating year 2019 in two equal payments in 2020. The total dividend of ISK 9,450 million corresponds to 52% of the consolidated profit in 2019. If the AGM approves the dividend proposal, the capital requirement of the Group will be reduced by an amount equivalent to the dividend payment and the Bank's capital ratio, in accordance with the Act on Financial Undertakings, will decrease by 0.9 percentage points.

## **Economic outlook**

Economic growth cooled considerably in 2019 due to a contraction in the travel industry and GDP growth may even have been slightly negative following the robust growth of previous years. The outlook is for a moderate economic recovery in coming years, supported by low yet sustainable growth in private consumption, increased public investment, rising export and a turnaround in industrial investment going forward.

Domestic economic development reflects uncertainty about global economic trends in the next 1-2 years, already materialising in the slower growth of international trade and manufacturing. Further escalation of these developments, beyond current expectations, may have a negative impact on Iceland, i.e. on the travel industry, fisheries and seafood, and heavy industry. Conversely, a positive change in global trade would have a more positive impact on the domestic economy than assumed in the forecast.

The inflation outlook improved in the latter half of 2019 and inflation is now expected to remain at or around target in coming years, as economic growth is expected to harmonise with Iceland's production capacity.

## **Strategy**

Landsbankinn maintains a strong market share throughout Iceland and across all age groups in 2019 as in previous years. Emphasis has been placed on providing good service to customers which is simultaneously cost-effective and allows the Bank to maintain acceptable profitability. Product development, changes and innovation are a constant and necessary aspect of growth and operation and support the Bank as a leading provider of banking services in Iceland.

New focus points were added to the Bank's strategy in 2017, with 3-year goals under which emphasis was placed on increasing the offer of self-service solutions. The aim was to improve customer service by providing customers with access to banking service where and whenever. The focus points included increasing accessibility, efficiency, value-adding and initiative in service to the Bank's customers.

The year 2020 is the last year the Bank works to realise these focus points and work is already under way on shaping new goals and revising the Bank's strategy, initially formed in 2015.

## Ownership

Shareholders at year-end 2019 numbered 881 as compared with 883 the previous year. The ten largest shareholders in the Bank at year-end 2019 were as follows:

Shareholder		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
Lífeyrissjóður Vestmannaeyja	Pension fund	5.0	0.02%
Vestmannaeyjabær	Local municipality	3.5	0.01%
Vinnslustöðin hf.	Corporate	1.8	0.01%
Helgi T. Helgason	Individual	0.5	0.00%
Hreiðar Bjarnason	Individual	0.5	0.00%
Árni Þ. Þorbjörnsson	Individual	0.5	0.00%
Hrefna Ö. Sigfinnsdóttir	Individual	0.4	0.00%
Steinþór Pálsson	Individual	0.3	0.00%
Hjördís D. Vilhjálmisdóttir	Individual	0.3	0.00%
Top 10 total		23,580.0	98.25%
Other shareholders		44.5	0.19%
Total shares outstanding		23,624.5	98.44%
Landsbankinn hf.	Own shares	375.5	1.56%
Total shares issued		24,000.0	100.00%

Icelandic State Financial Investments (ISFI) manages the State's holding in the Bank on behalf of Ríkissjóður Íslands (the Icelandic State Treasury) in accordance with Act No. 88/2009, on Icelandic State Financial Investments.

The AGM of the Bank, held on 4 April 2019, approved the motion of the Board of Directors to authorise the Bank to acquire up to 10% of the nominal value of the Bank's share capital in accordance with Article 55 of the Act on Public Limited Companies, No. 2/1995. The price of each share is to be determined by the internal value of the Bank's shares, according to its most recently published results prior to the timing of the repurchase of the own shares. This authorisation applies until the next AGM in 2020 and the disposal of the own shares under this authorisation is subject to the approval of a shareholders meeting.

## Governance

It is Landsbankinn's aim to promote good corporate governance for the overall benefit of the Bank, its shareholders, customers and the wider community. Landsbankinn complies with the most recent Guidelines on Corporate Governance issued in June 2015 (5th edition) by the Iceland Chamber of Commerce, Nasdaq Iceland and the Confederation of Icelandic Employers. The Bank publishes an annual Corporate Governance

Statement on its governance practices and its compliance with the Guidelines in a dedicated chapter in the Group's annual report. The Corporate Governance Statement for the reporting year 2019 has been reviewed by the Board of Directors and the CEO. In 2019, the Centre of Corporate Governance in Iceland renewed its recognition of the Bank as a model of good corporate governance for the period 2018-2019. Moreover, the Bank observes in its operations the Guidelines of the European Banking Authority (EBA) on internal governance (EBA/GL/2017/11).

#### Corporate social responsibility

Landsbankinn received a positive review of its CSR efforts and its initial ESG rating from Sustainalytics in 2019. The Bank scored 17.5 points on a scale to 100 which means that exposure to financial risk from ESG issues is deemed low.

Corporate social responsibility (CSR) is an integral part of the overall strategy of Landsbankinn to promote economic growth, social well-being and conservation of the environment. CSR underwrites sustainability through competitiveness, the productive use of resources and good governance, having regard for human rights, anti-fraud and anti-corruption measures. In September 2019, the Bank became a founding signatory of UNEP FI's new Principles for Responsible Banking, intended to align the banking industry with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

The Bank annually publishes a Report on Social Responsibility, disclosing information about developments in social responsibility and social indicators.

In 2019, job satisfaction at Landsbankinn scored very high in 2019 in a workplace audit carried out twice per annum. Legal equal pay certification was confirmed in March 2019 and the Bank has since operated in accordance with a certified equal pay system. The Bank's HR policy emphasises job satisfaction, a positive work environment and effective job development. In 2019, all employees received instruction following the implementation of a prevention and contingency plan against bullying, sexual or gender-based harassment, and violence (EKKO).

#### Other matters

A new Act on Measures against Money Laundering and Terrorist Financing entered into effect in January 2019. During the year, changes were made to the Bank's processes and systems to reflect new requirements and the Bank's increased emphasis on reducing even further the risk of its services being misused to launder money or finance terrorism.

In 2019, Landsbankinn reinforced electronic surveillance, added employees to control functions and developed user-friendly solutions to simplify ongoing monitoring of contractual relationships. Landsbankinn will continue to develop measures to monitor money laundering and terrorist financing in 2020.

In 2019, the Financial Action Task Force (FATF), placed Iceland on a list of countries that have declared their willingness to implement an action plan for remedy of the situation. The impact on the operation and activities of Landsbankinn has been limited as FATF's demand for reform is not aimed at financial institutions.

Landsbankinn continues to emphasise responsible and secure treatment of the personal information of customers, employees and others in its operation according to the Act on Data Protection and the Processing of Personal Data and the EU's General Data Protection Regulation. The Bank continuously updates and improves processes, rules and information in the field of data protection in its operation, with an eye to securing customer rights.

Landsbankinn's remuneration policy states that compensation to the CEO and key managers shall be competitive yet moderate and not leading. The Remuneration Committee is tasked with ensuring that compensation to key managers is within the framework of the remuneration policy and shall submit an annual report on the matter to the Board of Directors. Landsbankinn's Remuneration Committee has submitted its

report on compensation to key managers and considers their terms to be within the framework of the Bank's remuneration policy.

In May 2017, the Board of Directors of Landsbankinn decided to construct housing for the Bank's operation at Austurhöfn in Reykjavík. The Bank will occupy around 10.000 m<sup>2</sup> of the new building, or ca. 60% of its square measure, and sell or rent around 6.500 m<sup>2</sup> as premises for commerce and services. The new building will merge under one roof operations that are currently located in 12 different houses in Kvosin, Reykjavík and most of the operation currently located at Borgartún, Reykjavík. Two tenders for earthwork and concrete operations have already taken place and a third tender round is scheduled for spring 2020. Estimated conclusion of the project is 2022.

### **Statement by the Board of Directors and the CEO**

The Consolidated Financial Statements of Landsbankinn hf. for the year ended 31 December 2019 have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and compliant with applicable Icelandic laws and regulations.

In our opinion, the Consolidated Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the year 2019, its consolidated financial position as at 31 December 2019 and its consolidated cash flows for the year 2019.

Furthermore, in our opinion, the Consolidated Financial Statements of Landsbankinn hf. describe the principal risks and uncertainties faced by the Group.

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Consolidated Financial Statements of Landsbankinn hf. for the year 2019. The Board of Directors and the CEO recommend that the Consolidated Financial Statements of Landsbankinn hf. for the year 2019 be approved at the Annual General Meeting of Landsbankinn hf.

Reykjavík, 6 February 2020

Board of Directors

(vi) **Update of paragraph 4 in the section entitled “Risk Factors - 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” on page 17 of the Base Prospectus**

In October 2019, the Central Bank of Iceland issued a new Financial Stability report which presents an overview of the position of the financial system. The issuance of the Financial Stability report in October requires an update in the section entitled “Risk Factors - 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” which can be found on pages 17-19 of the Base Prospectus.

The following paragraph shall replace paragraph 4 in the section entitled “Risk Factors - 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” on page 17 of the Base Prospectus:

“The Central Bank publishes a Financial Stability Report bi-annually. In the October 2019 Financial Stability Report, the Central Bank concluded that the economic uncertainty has increased in recent months. The three



key domestic risks highlighted are, as were in the previous report: (i) tourism; (ii) residential real estate and; (iii) commercial real estate. After several years of double-digit growth, tourist numbers are now contracting. If the contraction in the sector continues, it is likely to result in increased default and loan losses in the financial system. Bank lending to the construction sector remains strong. However, newly constructed residential properties have been selling more slowly than before. In addition, tourist numbers are down, as are short-term private rentals, and population growth is expected to ease in the next few years. These factors could push residential housing prices downwards causing leverage ratios to rise as well as the probability of loan losses. Regarding commercial real estate, the outlook is for the supply of hotels to rise much more than the supply of other commercial property in the next several years. There is some risk of a glut of supply, with the associated falling prices, but as of yet, in the view of the Central Bank, this risk is limited primarily to hotels and guesthouses.<sup>2</sup>

(vii) **New paragraph in the section entitled “Risk Factors - Failure to manage compliance risk could adversely affect the Bank’s business” on page 26 of the Base Prospectus**

The following wording shall be inserted as the fourth paragraph in the section “*Risk Factors - Failure to manage compliance risk could adversely affect the Bank’s business*” on page 26, in the Base Prospectus:

“The Bank notes, that on 18 October 2019 the Financial Action Task Force (“**FATF**”) decided to place Iceland on its list of jurisdictions with deficiencies in its strategy for tackling anti-money laundering and countering the financing of terrorism (“**AML/CFT**”), for which they have developed an action plan with the FATF. The decision is based on the FATF’s Follow-up Report and Compliance Re-Rating and the subsequent consideration by the FATF Joint Group. Iceland has implemented an action plan to address the issues concerned, which are not directed at financial institutions. The Icelandic government has stated that it expects the FATF’s decision to have limited impact on financial institutions, but that the list may require counterparts of Icelandic entities to undertake increased diligence measures. There can be no assurance that the aforementioned decision will not have a negative effect on the Bank’s operation and/or reputation.”

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