

LANDSBANKINN HF.

(incorporated in Iceland as a limited liability company)

EUR 2,500,000,000

European Covered Bond (Premium) Programme

Under this EUR 2,500,000,000 European Covered Bond (Premium) Programme (the "**Programme**"), Landsbankinn hf., (the "**Issuer**" and "**Landsbankinn**") may from time to time issue European Covered Bonds (Premium) (the "**Covered Bonds**") in accordance with the Icelandic Covered Bond Act, No. 11/2008 (as amended, the "**Icelandic Covered Bond Act**"), any relevant executive orders (Ice. *stjórnvaldsákvæðanir*) and appurtenant regulations as may be supplemented, amended, modified or varied from time to time (as well as any judicial decisions and administrative pronouncements, all of which are subject to change, including with retroactive effect), (together the "**Covered Bonds Legislation**") denominated in any currency as agreed between the Issuer and the relevant Dealer (as defined below). The Covered Bonds may be issued in bearer form ("**Bearer Covered Bonds**"), registered form ("**Registered Covered Bonds**"), or uncertificated book entry form cleared through the Nasdaq CSD SE, Iceland Branch, or Verðbréfamíðstöð Íslands hf. (each a "**CSD**" and together the "**CSDs**") ("**CSD Covered Bonds**"). The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed EUR 2,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement (as defined in "*Subscription and Sale*"). The Covered Bonds may be issued on a continuing basis to one or more Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this prospectus (the "**Base Prospectus**") to the "relevant Dealer" shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds. The Financial Supervisory Authority of the Central Bank of Iceland (the "**Icelandic FSA**") has granted the Issuer a licence to issue Covered Bonds. Any increase in the total amount of outstanding bonds issued under the Programme from time to time may not exceed a limit approved by the Icelandic FSA.

The Covered Bonds may be held in a manner which is intended to allow for Eurosystem eligibility. This simply means that the Covered Bonds may upon issue be deposited with Clearstream Banking S.A. ("**Clearstream, Luxembourg**") or Euroclear Bank SA/NV ("**Euroclear**") as one of the international central securities depositaries as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at all time during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). The Central Bank of Ireland only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Covered Bonds that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds. Such approval relates only to the Covered Bonds 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 Covered Bonds 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 Regulation. References in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to the Official List and to trading on the Regulated Market.

The Issuer intends to request that the Central Bank of Ireland provide the competent authority in Iceland (the Financial Supervisory Authority of the Central Bank of Iceland) with a certificate of approval attesting that this Base Prospectus has been drawn up in accordance with the provisions of the Prospectus Regulation (the "**Notification**"). The Issuer may request the Central Bank of Ireland to provide competent authorities in additional Member States within the EEA with a similar Notification. Following provision of the Notification, the Issuer may apply for Covered Bonds issued under the Programme to be listed and admitted to trading on the Nasdaq Iceland hf. (or on the regulated market of any other Member State to which a similar Notification has been made), either together with a listing on the Euronext Dublin Regulated Market or as a single listing. If any Covered Bonds issued under the Programme are to be listed on the Nasdaq Iceland hf. (or on the regulated market of any other Member State to which a Notification has been made), this will be specified in the applicable Final Terms.

Prospective investors should have regard to the factors described in the section entitled "*Risk Factors*" in the Base Prospectus for a discussion of those factors to be considered in connection with an investment in the Covered Bonds.

As of the date of the Base Prospectus, the Issuer's long-term issuer credit rating is BBB, with a positive outlook by S&P Global Ratings ("**S&P**"). On 27 November 2023 S&P Global Ratings raised the Programme rating to A+ from A, with a stable outlook. S&P is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). As such S&P 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.

Covered Bonds issued under the Programme may be rated or unrated by the rating agency referred to above. Where a Tranche of Covered Bond is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Issuer by S&P or to Covered Bonds already issued. 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.

Interest amounts payable on Floating Rate Covered Bonds may be calculated by reference to one of SONIA, SOFR, IKON, EURIBOR, NIBOR, STIBOR, REIBOR or CIBOR, as specified in the relevant Final Terms. As at the date of this Base Prospectus, (i) European Money Markets Institute (the administrator of EURIBOR) and Norske Finansielle Referanser AS (the administrator of NIBOR) are included in ESMA's register of administrators under Article 36 (the "**EU Benchmarks Register**") of Regulation (EU) No 2016/2011 (the "**EU Benchmarks Regulation**") but not the register of administrators of the UK Financial Conduct Authority (the "**FCA**") under Article 36 (the "**UK Benchmarks Register**") of Regulation (EU) No 2016/1011 as it forms part of UK domestic law by virtue of the EUWA (the "**UK Benchmarks Regulation**"), (ii) the Federal Reserve Bank of New York (the "**FRBNY**") (the administrator of SOFR), the Bank of England (the administrator of SONIA), Swedish Financial Benchmark Facility (the administrator of STIBOR) and the Central Bank of Iceland (the administrator of IKON and REIBOR) are not included in the EU Benchmarks Register or the UK Benchmarks Register and (iii) Danish Financial Benchmark Facility ApS (the administrator of CIBOR) is included in both the EU Benchmarks Register and the UK Benchmarks Register. As far the Issuer is aware, SONIA, SOFR, IKON and REIBOR do not fall within the scope of the EU Benchmarks Regulation or the UK Benchmarks Regulation by virtue of Article 2 of each such regulation and otherwise the transitional provisions in Article 51 of each of the EU Benchmarks Regulation and the UK Benchmarks Regulation apply, such that the Swedish Financial Benchmark Facility is not currently required to obtain authorisation/registration in the EU or the UK and none of the other administrators are currently required to obtain authorisation/registration in the EU or the UK, as applicable (or, in each case, if located outside the EU and/or the UK, respectively, recognition, endorsement or equivalence).

MiFID II PRODUCT GOVERNANCE / TARGET MARKET – The Final Terms in respect of any Covered Bonds and any drawdown prospectus may include a legend entitled "*MiFID II Product Governance*" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (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 Covered Bonds (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 Covered Bonds is a manufacturer in respect of such Covered Bonds, 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.

UK MiFIR PRODUCT GOVERNANCE / TARGET MARKET - The Final Terms in respect of any Covered Bonds and any drawdown prospectus may include a legend entitled "*UK MiFIR Product Governance*" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Covered Bonds (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 UK MiFIR Product Governance Rules, any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Covered Bonds 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 (EU) 2016/97 (as amended or superseded, the "**Insurance Distribution 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 Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UNITED KINGDOM RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently, no key information document required by the PRIIPs Regulation as it forms part of UK domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The Covered Bonds 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 Covered Bond 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 Covered Bond 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 Regulation will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

The Covered Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act and applicable state or local securities laws.

NOTICE TO INVESTORS IN CANADA – The Covered Bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Covered Bonds must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Base Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

If applicable, pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

The Issuer may decide that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds described herein, in which event, a supplement to the Base Prospectus conforming with Article 23 of the Prospectus Regulation, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

Arranger

Barclays

Dealers

Barclays

Landsbankinn hf.

The date of this Base Prospectus is 30 November 2023.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Covered Bonds issued under the Programme for the purposes of the Prospectus Regulation.

This Base Prospectus and copies of Final Terms relating to the Covered Bonds which are admitted to trading on a regulated market will be available on the website of the Issuer, www.landsbankinn.is/ir or www.landsbankinn.is/fjarfestar. Investors can request printed copies of the Base Prospectus free of charge at the Issuer's registered office at Reykjastræti 6, 101 Reykjavík, Iceland.

This Base Prospectus has been prepared to provide clear and thorough information on the Issuer. Investors are encouraged to acquaint themselves thoroughly with this Base Prospectus. They are advised to pay particular attention to the chapter on Risk Factors. This Base Prospectus should by no means be viewed or construed as a promise by the Issuer or other parties of future success either in operations or return on investments. Investors are reminded that investing in securities entails risk, as the decision to invest is based on expectations and not promises. Investors must rely primarily on their own judgement regarding any decision to invest in the Issuer's securities, bearing in mind, *inter alia*, the business environment in which it operates in, anticipated profits, external conditions and the risk inherent in the investment itself. Prospective investors are advised to contact experts, such as licensed financial institutions, to assist them in their assessment of the securities issued by the Issuer as an investment option. Investors are advised to consider their legal status, including taxation issues that may concern the purchase or sale of the Issuer's securities and seek external and independent advice in that respect.

This Base Prospectus is valid for twelve months from the date of this Base Prospectus. The obligation to supplement this Base Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when the Base Prospectus is no longer valid.

The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer, 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. Any information sourced from third parties contained in this Base Prospectus has been accurately reproduced and, as far as the Issuer 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.

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 Issuer 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 Issuer in connection with the Programme.

No person is or has been authorised by the Issuer 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 Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the

issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF COVERED BONDS 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 Covered Bonds 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 Covered Bonds may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds 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 Covered Bonds may come must inform themselves about and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area (the "**EEA**"), Iceland, the United Kingdom, Switzerland, Singapore, Hong Kong, Italy, Canada and Japan. See "*Subscription and Sale*".

This Base Prospectus has been prepared on a basis that would permit an offer of Covered Bonds 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 Regulation to publish a prospectus. As a result, any offer of Covered Bonds in any Member State of the European Economic Area must be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly, any person making or intending to make an offer of Covered Bonds in the relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

*The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and the Covered Bonds may include Bearer Covered Bonds that are subject to U.S. tax law requirements. Accordingly, the Covered Bonds may not be offered or sold or, in the case of Bearer Covered Bonds, delivered in the United States or to, or for the account or the benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulations S**")), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.*

*The Covered Bonds are being offered and sold outside the United States to Non-U.S. persons in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of bonds and distribution of this Base Prospectus see chapter "*Subscription and Sale*".*

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

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore (as amended, 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 Covered Bonds, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Covered Bonds 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 Covered Bonds, 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 Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds 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 Covered Bonds 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 Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. 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.

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

The Covered Bonds may not be a suitable investment for all investors

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

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

The Covered Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Covered Bonds which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the

Covered Bonds will perform under changing conditions, the resulting effects on the value of the Covered Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the consolidated financial information of the Issuer as of and for the years ended 31 December 2022 and 2021 included in this Base Prospectus has been derived from the audited consolidated annual financial statements of the Issuer as of and for the years ended 31 December 2022 and 2021 (together, the "**Annual Financial Statements**"), which have been incorporated by reference in this Base Prospectus. The Issuer's financial year ends on 31 December, and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**EU**").

Certain Defined terms and Conventions

In this Base Prospectus, all references to:

- the "**Group**" are to the Issuer 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.

Capitalised terms used in this Base Prospectus have been defined in the Terms and Conditions, in the chapter Important Information or throughout this Base Prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Base Prospectus contains forward looking statements that reflect the Issuer's intentions, beliefs or current expectations and projections about its future business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies and opportunities and the markets in which it operates. They include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "projects", "expects", "believes", "hopes", "intends", "plans", "aims", "seeks", "may", "will", "would", "could", "should", "objective", "potential", "goal", "strategy", "target", "continue", and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*" and "Description of the Issuer" and other sections of this Base Prospectus.

The Issuer has based these forward looking statements on the current view of its management with respect to future events and trends that affect the Issuer's financial performance, taking into account information currently available to the Issuer, and are not guarantees of future performance. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those

identified below or which the Issuer has otherwise identified in this Base Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted. The Issuer's beliefs, assumptions and expectations can change as a result of possible events or factors, not all of which are known to the Issuer or are within its control. If a change occurs, the Issuer's business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies or opportunities may vary materially from those expressed in, or suggested by, these forward-looking statements.

The following include some but not all of the factors that could cause actual results or events to differ materially from the anticipated results or events:

- deterioration of the economic conditions or the banking system in Iceland, as a result of political and economic factors, either domestic or international such as the impact on the Icelandic economy of global pandemics or the Russian invasion of Ukraine;
- exposure to Iceland's key industry sectors, in particular tourism, seafood, aluminium, energy and real estate;
- an adverse shift in public sentiment and potential political or legislative action;
- exposure to liquidity, maturity, foreign exchange, and market funding risks, and various other typical financial institution market risks relating to interest rates, equity pricing and inflation;
- failure or breach of the Issuer's information technology systems;
- unauthorised disclosure of confidential information and any resulting liability, litigation, and reputational damage;
- exposure to tax liabilities or competitive disadvantages in respect of VAT on the Issuer's services;
- existing customer loan portfolio exposure to problem and impaired loans;
- costs and competitive disadvantages resulting from the levies and other taxes;
- domestic economic constraints on near-term growth;
- failure to implement the Issuer's strategy or failure to achieve the anticipated benefits of this strategy;
- exposure to existing and increasing competition in Iceland;
- regulatory and legal risks inherent in the Issuer's businesses;
- ongoing legal proceedings and investigations by government authorities;
- inadequate implementation by Iceland of the EEA rules;
- delayed incorporation of the relevant EU legislation into the EEA Agreement;
- potential inability to successfully maintain salary levels, and overrunning salaries and related expense may give rise to reputational risk while heavy cost-cutting measures may have adverse effects on operations;
- foreign exchange transactions may be subject to the capital controls;

- potential inability to recruit or retain experienced personnel or key members of the Executive Board;
- credit rating downgrade or a change in outlook;
- various operational risks, including risk of systems failures, human error, regulatory breaches, and employee misconduct;
- damage to the reputation of the Issuer, its subsidiaries or its shareholders;
- exposure to unidentified, unanticipated or incorrectly quantified risks as a result of risk management methods;
- reliance on third party service providers;
- violation of anti-money laundering or anti-bribery regulations;
- application of CRD IV (and the CRD V);
- application of the Covered Bond Directive (as implemented into Icelandic law) and any related legislation;
- restriction, suspension or termination of relationships with key card scheme operators;
- failure of the Markets division to sustain or increase its level of assets under management and pressure on fee margins;
- incurrence of unforeseen liabilities from prior and future acquisitions and disposals; and
- inadequate insurance coverage.

Should one or more of these risks or uncertainties materialise or should any of the assumptions underlying the above or other factors prove to be incorrect, the Issuer's future business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies or opportunities could differ materially from those described herein as currently anticipated, believed, estimated or expected.

Any forward looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Investors or potential investors should not place undue reliance on the forward looking statements in this Base Prospectus. The Issuer urges investors to read the sections of this Base Prospectus titled "*Risk Factors*" and "*Description of the Issuer*" for a more complete discussion of the factors that could affect the Issuer's future performance and the markets in which it operates. In light of the possible changes to the Issuer's beliefs, assumptions and expectations, the forward looking events described in this Base Prospectus may not occur. Additional risks currently not known to the Issuer or that the Issuer has not considered material as of the date of this Base Prospectus could also cause the forward looking events discussed in this Base Prospectus not to occur. Forward looking statements involve inherent risks and uncertainties and speak only as of the date they are made. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus should be read and construed in conjunction with the following documents which have 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 Issuer for the financial years ended 31 December 2021 (the "**2021 Financial Statements**"), together with the audit report thereon;
<https://www.landsbankinn.is/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2021-EN.pdf>
- (ii) the audited consolidated financial statements of the Issuer for the financial years ended 31 December 2022 (the "**2022 Financial Statements**"), together with the audit report thereon;
<https://www.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2022-EN.pdf>
- (iii) the condensed consolidated interim financial statements of the Issuer for the nine months ended 30 September 2023 (the "**9M 2023 Interim Financial Statements**");
<https://www.landsbankinn.is/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-Q3-2023-EN.pdf>
- (iv) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 3 October 2013, pages 79 to 110 (inclusive) prepared by the Issuer in connection with the Programme (the "**2013 Terms and Conditions**");
https://www.landsbankinn.is/Uploads/Documents/Bankinn/base_prospectus_2013.pdf
- (v) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 9 December 2014, pages 59 to 92 (inclusive) prepared by the Issuer in connection with the Programme (the "**2014 Terms and Conditions**");
<https://www.landsbankinn.is/Uploads/Documents/Bankinn/Covered-Bonds/Landsbankinn-Base-Prospectus-Covered-Bonds-2014-12-09.pdf>
- (vi) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 9 December 2015, pages 57 to 93 (inclusive) prepared by the Issuer in connection with the Programme (the "**2015 Terms and Conditions**");
<https://www.landsbankinn.is/Uploads/Documents/Bankinn/Covered-Bonds/Landsbankinn-Base-Prospectus-Covered-Bonds-2015-12-09.pdf>
- (vii) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 8 December 2016, pages 60 to 96 (inclusive) prepared by the Issuer in connection with the Programme (the "**2016 Terms and Conditions**");
<https://www.landsbankinn.is/Uploads/Documents/Bankinn/Covered-Bonds/Landsbankinn-Covered-Bond-Base-Prospectus-2016-12-08.pdf>
- (viii) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 8 December 2017, pages 62 to 98 (inclusive) prepared by the Issuer in connection with the Programme (the "**2017 Terms and Conditions**");

<https://www.landsbankinn.is/Uploads/Documents/Bankinn/Covered-Bonds/Landsbankinn-Covered-Bond-Base-Prospectus-2017-12-08.pdf>

- (ix) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 13 April 2018, pages 62 to 97 (inclusive) prepared by the Issuer in connection with the Programme (the "**2018 Terms and Conditions**");

<https://www.landsbankinn.is/Uploads/Documents/Bankinn/Covered-Bonds/Landsbankinn-Covered-Bond-Base-Prospectus-2018-04-13.pdf>

- (x) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 3 April 2019, pages 64 to 99 (inclusive) prepared by the Issuer in connection with the Programme (the "**2019 Terms and Conditions**");

<https://www.landsbankinn.is/Uploads/Documents/Bankinn/Covered-Bonds/2019-04-03-Landsbankinn-Covered-Bond-Base-Prospectus.pdf>

- (xi) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 17 April 2020, pages 64 to 99 (inclusive) prepared by the Issuer in connection with the Programme (the "**2020 Terms and Conditions**");

<https://www.landsbankinn.is/Uploads/Documents/Bankinn/Covered-Bonds/2020-04-17-Landsbankinn-Covered-Bond-Base-Prospectus.pdf>

- (xii) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 15 April 2021, pages 65 to 100 (inclusive) prepared by the Issuer in connection with the Programme (the "**2021 Terms and Conditions**");

<https://www.landsbankinn.is/uploads/documents/bankinn/covered-bonds/2021-04-15-landsbankinn-covered-bond-base-prospectus.pdf>

- (xiii) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 12 May 2022, pages 69 to 105 (inclusive) prepared by the Issuer in connection with the Programme (the "**2022 ISK Terms and Conditions**");

<https://www.landsbankinn.is/uploads/documents/bankinn/covered-bonds/2022-05-12-landsbankinn-covered-bond-base-prospectus.pdf>

- (xiv) the Terms and Conditions of the Covered Bonds contained in the base prospectus dated 11 November 2022, pages 86 to 142 (inclusive), as supplemented by the supplement dated 8 March 2023, pages 11 to 12 (inclusive), each prepared by the Issuer in connection with the Programme (the "**2022 Terms and Conditions**");

<https://www.landsbankinn.is/uploads/documents/bankinn/covered-bonds/2022-11-11-landsbankinn-covered-bond-base-prospectus.pdf>;

<https://www.landsbankinn.is/uploads/documents/bankinn/covered-bonds/2023-03-08-supplement-to-cb-bp-11-11-2022.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 Covered Bonds 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. No information on any website forms part of this Base Prospectus except as specifically incorporated by reference, as set out above.

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

SUPPLEMENTARY PROSPECTUS

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 23 of the Prospectus Regulation.

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

TABLE OF CONTENTS

OVERVIEW OF THE PROGRAMME	18
RISK FACTORS	29
Risks relating to the Issuer, including its business and the ability of the Issuer to fulfil its obligations under the Covered Bond Issuance Programme	29
Factors that are material for the purpose of assessing the risks associated with Covered Bonds issued under the Programme	48
FORM OF THE COVERED BONDS	74
APPLICABLE FINAL TERMS	78
Part A – Contractual Terms.....	79
Part B – Other Information.....	91
TERMS AND CONDITIONS OF THE COVERED BONDS	95
1. Definitions.....	97
2. Form, Denomination and Title.....	104
3. Transfers of Registered Covered Bonds.....	106
4. Status of the Covered Bonds.....	107
5. Issuer Covenants	107
6. [Not Used].....	108
7. Interest.....	108
8. Payments	133
9. Redemption and Purchase	139
10. Taxation	143
11. Prescription	145
12. Replacement of Covered Bonds, Receipts, Coupons and Talons	145
13. Agents	145
14. Exchange of Talons.....	146
15. Notices	146
16. Meetings of Covered Bondholders, Modification and Waiver	147
17. Further Issues	149
18. Contracts (Rights of Third Parties) Act 1999.....	149
19. Governing Law and Jurisdiction	149
USE OF PROCEEDS	151
SUBSCRIPTION AND SALE	152
United States	152
EEA and United Kingdom	153
United Kingdom.....	154
Iceland.....	155
Hong Kong.....	155
Italy	156
Switzerland.....	156
Singapore.....	157
Japan.....	157
Canada.....	157
General	157

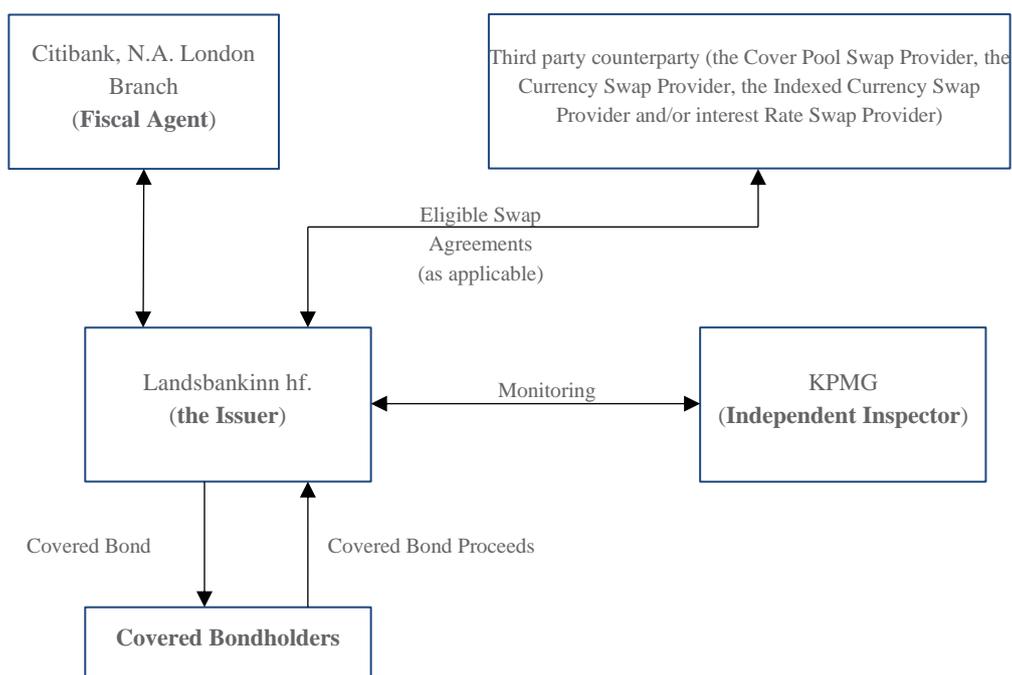
SUMMARY OF ICELANDIC LEGISLATION IN CONSIDERATION OF COVERED BONDS ...	158
Cover Pool Assets	160
Coverage Requirements	161
Liquidity Buffer.....	161
Extendable Maturity Structures.....	162
Icelandic FSA Supervision.....	162
The Register	163
Independent Inspector	163
Investor Information.....	164
Rights of Priority.....	164
Handling of assets in the event of winding-up of an issuer.....	164
The Rules on Covered bonds	165
The Issuer’s licence to issue Covered Bonds	166
TAXATION	167
THE REPUBLIC OF ICELAND.....	170
THE ICELANDIC ECONOMY	171
The residential housing market in Iceland	173
Financial Markets in Iceland	175
OVERVIEW OF TRANSACTION DOCUMENTS	180
DESCRIPTION OF THE ISSUER.....	192
Overview	192
Historical background	192
Shareholders, Share Capital and Dividend Policy.....	193
Organisational structure	194
Strategy	194
Loan portfolio.....	202
Funding	210
Risk management framework.....	211
Litigation.....	220
Competition.....	222
Administrative, management, and supervisory bodies.....	223
GENERAL INFORMATION	226

OVERVIEW OF THE PROGRAMME

The following is a brief overview (the "**Overview**") and it should be read in conjunction with the rest of this Base Prospectus, including any information incorporated by reference, and read together with the Final Terms. This Overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No. 2019/980 (the "**Delegated Regulation**").

Words and expressions defined in the Terms and Conditions of the Covered Bonds ([1. Definitions](#)) and in the section Important Information ([Abbreviations and definitions](#)) of this Base Prospectus shall have the same meanings in this Overview.

Oversight by the Icelandic Financial Supervisory Authority



Description: €2,500,000,000 European Covered Bond (Premium) Programme

THE PARTIES:

Legal Entity Identifier ("LEI"): 549300TLZPT6JELDWM92

Issuer: Landsbankinn hf., Reg. No. 471008-0280, registered office at Reykjastræti 6, 101 Reykjavík, Iceland.

The Issuer is a leading Icelandic financial institution with total assets of ISK 1,787 billion at year-end 2022. The Issuer offers a full range of financial services and is the market leader in the Icelandic financial service sector with the largest branch network, counting 36 branches and outlets.

The Issuer holds a licence from the Icelandic Financial Supervisory Authority of the Central Bank of Iceland (Fjármálaeftirlitið) (the "**Icelandic**

FSA) to conduct financing business as a commercial bank and a licence to issue Covered Bonds in accordance with the Icelandic Covered Bond Act no. 11/2008 (as amended, the "**Icelandic Covered Bond Act**" or the "**ICBA**").

Arranger

Barclays Bank Ireland PLC (**Barclays**).

Dealers:

Barclays, Landsbankinn hf. and any other Dealers appointed in accordance with the Programme Agreement.

Independent Inspector:

The issuer is required to appoint an Independent Inspector to supervise the issuance of covered bonds licensed by the Icelandic FSA and the Icelandic FSA must approve his/her appointment in accordance with the Icelandic Covered Bond Act.

The Independent Inspector shall at least ensure that the Cover Pool Register is properly maintained and updated and shall therefore verify that bonds and derivative agreements are correctly registered; only eligible assets and substitute collateral are included in the cover pool; the value of the assets registered in the cover pool and the valuation thereof is in accordance with the Icelandic Covered Bond Act and the Rules on Covered Bonds; that LTV calculations are correctly updated upon significant decrease in the market value of mortgaged assets; and that the matching rules are complied with.

The Independent Inspector shall semi-annually provide the Icelandic FSA with a written report regarding their surveillance. Furthermore, the Independent Inspector shall as soon as possible notify the Icelandic FSA should he/she become aware of any matters which could affect the Icelandic FSA's assessment of the issuer's position in general.

The initial Independent Inspector to supervise the issuance of the Covered Bonds has been appointed and approved by the Icelandic FSA pursuant to an agreement with KPMG ehf.

Cover Pool Swap Provider:

The Issuer may enter into Cover Pool Swap Agreements from time to time with a Cover Pool Swap Provider. A Cover Pool Swap enables the Issuer to convert ISK interest payments received by the Issuer in respect of assets (other than derivative agreements with qualified counterparties which are registered to the Cover Pool ("**Eligible Swaps**")) registered to the Cover Pool into floating or fixed payments (as the case may be) linked to the interest rate payable on the Covered Bonds.

Currency Swap Provider:

The Issuer may enter into Currency Swap Agreements from time to time with a Currency Swap Provider, subject to currency restrictions in place at each time. A Currency Swap enables the Issuer to hedge currency risks arising from a mismatch in the currency denominations applicable to the (a) Covered Bonds and (b) assets (other than bonds as defined in Article 2 of the Icelandic Covered Bond Act which are issued by borrowers and described in Article 5 of the Icelandic Covered Bond Act ("**Mortgage Bonds**")) and Eligible Swaps which are registered to the Cover Pool.

Indexed Currency Swap Providers:

The Issuer may enter into Indexed Currency Swap Agreements from time to time with an Indexed Currency Swap Provider. Indexed Currency Swaps enable the Issuer to hedge currency and inflation risks arising from (i)

Covered Bonds which are issued in currencies other than ISK and not indexed linked and (ii) assets which are registered to the Cover Pool and are denominated in ISK and index linked.

Interest Rate Swap Providers:

The Issuer may enter into Interest Rate Swap Agreements from time to time with an Interest Rate Swap Provider. Interest Rate Swaps enable the Issuer to hedge interest rate risk in ISK and/or other currencies to the extent that these have not already been hedged by a Cover Pool Swap or a Currency Swap.

The Cover Pool Swap Provider, the Currency Swap Providers and the Interest Rate Swap Providers are together referred to as the "**Swap Providers**". The Cover Pool Swap, each Currency Swap and each Interest Rate Swap are together referred to as the "**Swaps**".

Fiscal Agent, Paying Agent and Transfer Agent

Citibank, N.A., London Branch.

Registrar

Citibank Europe PLC

Listing Agent

Walkers Listing Services Limited

CSD Agent

Landsbankinn hf.

KEY FEATURES:

Icelandic FSA Licensing:

The Icelandic FSA initially granted the Issuer a licence dated 29 April 2013 to issue Covered Bonds, as amended. Any change of the Icelandic FSA licence is subject to Icelandic FSA approval.

Covered Bond Directive:

The Covered Bonds are eligible for the label "European Covered Bond (Premium)".

Status of the Covered Bonds:

The Covered Bonds and any related Receipts and Coupons constitute direct, unconditional and unsubordinated obligations of the Issuer and rank *pari passu* among themselves and with all other outstanding unsubordinated obligations of the Issuer that have been provided equivalent priority of claim to Covered Bonds issued in accordance with the terms of the Icelandic Covered Bond Act.

On the winding up or voluntary or involuntary liquidation of the Issuer, the Covered Bondholders will, by virtue of the Icelandic Covered Bond Act, have certain rights of priority over, and be senior to the other creditors of the Issuer in respect of, the Cover Pool and payments received with respect to the Cover Pool, but junior to claims in respect of derivative agreements concluded or issued in accordance with the terms of the Icelandic Covered Bond Act.

Issuer Covenants:

Negative Pledge

In accordance with the Icelandic Covered Bond Act, the Issuer undertakes, so long as any of the Covered Bonds, Receipts or Coupons remain outstanding, that it will not, and that it will procure that none of its Relevant Subsidiaries will, create or have outstanding any mortgage, charge, pledge,

lien or other security interest over the assets in the Cover Pool, other than any lien arising by operation of law (if any).

Maintenance of the Issuer's Cover Pool

For so long as the Covered Bonds are outstanding, the value of the Cover Pool will not at any time be less than the total aggregate outstanding principal amount of all Covered Bonds issued under the Programme plus an overcollateralisation of at least the higher of (i) 5 per cent.; (ii) such percentage as required under the Icelandic Covered Bond Act and/or the Rules on Covered Bonds from time to time; and (iii) such percentage as may be agreed between the Issuer and any rating agency from time to time.

The Issuer will maintain an Overcollateralisation of at least 20 per cent. until October 2031 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full).

Composition of the Issuer's Cover Pool

For so long as any of the Covered Bonds are outstanding the Issuer shall ensure that the Cover Pool maintained or to be maintained by the Issuer shall at all times comply with the requirements of the Icelandic Covered Bond Act and the Rules on Covered Bonds.

Interest Cover

The amounts of interest received by the Issuer in respect of the Cover Pool and under the related derivative contracts entered into by the Issuer shall be at least equal to or exceed the amounts payable by the Issuer under the Covered Bonds and the related derivative contracts entered into by the Issuer.

Cover Pool Register:	The rights of priority that covered bondholders and swap providers have with respect to the Covered Bonds arise from a registration being made in a register kept by the Issuer, containing details of the Covered Bonds and the assets in the cover pool.
Certain Restrictions:	Each issue of Covered Bonds 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.
Composition of the Cover Pool:	Requirements for assets that make up the cover pool are set out in the Icelandic Covered Bond Act. A cover pool will consist of assets, which include bonds secured by various types of mortgages, on other registered assets, government bonds, receivables in the form of certain derivative agreements and substitute collateral. Assets in the cover pool are to be kept separate from other business operations of the issuer.
Liquidity buffer:	Under the Icelandic Covered Bond Act, the Issuer must maintain a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow on the Covered Bonds and related derivative contracts over the next 180 days.

**Relevant Reference
Currency Swaps:**

In connection with a relevant Series of Covered Bonds denominated in a currency other than ISK and assigned a rating by S&P, the Issuer covenants to establish and maintain a collateral reserve account (a "**Collateral Reserve Account**"). The Issuer may use amounts standing to the credit of the Collateral Reserve Account, in accordance with the provisions of the Deed of Covenant, to enter into a swap to exchange receipts from the assets comprising the Cover Pool payable in ISK and the amounts received in respect of and in the currency of the relevant Series of Covered Bonds.

See "*Overview of Transaction Documents – Deed of Covenant – Relevant Reference Currency Swaps*" below.

Asset Coverage Test:

The Issuer shall determine the Asset Coverage Test on each Monthly Calculation Date. In the event of a breach of such Asset Coverage Test, the Issuer shall use reasonable endeavours to allocate sufficient additional assets to the Cover Pool and register such assets in the Cover Pool Register in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Monthly Calculation Date.

See "*Overview of Transaction Documents – Deed of Covenant – Asset Coverage Test*" below

**Establishment of Issuer
Accounts:**

Upon the Issuer ceasing to be an Eligible Institution it shall, within 90 calendar days (or such longer period as may be agreed by S&P), following the first Business Day on which it ceases to be an Eligible Institution, establish one or more Issuer Accounts with an Eligible Institution. Further, the Issuer shall, upon the occurrence of such ceasing, *inter alia*, (i) transfer all payments received from the Cover Pool to the relevant Issuer Account (ii) create security over each Issuer Account for the benefit of the Covered Bondholders and (iii) register the Issuer Accounts and amounts standing to the credit thereof in the Register.

As of the date of this Base Prospectus, no Issuer Accounts have been established at an Eligible Institution by the Issuer.

See "*Overview of Transaction Documents – Deed of Covenant – Issuer Accounts*" below.

**Obligations of the Issuer
with respect to a Relevant
Reference Currency Swap
Agreement and the
establishment of Issuer
Accounts:**

The Issuer makes certain covenants with respect to operation of the Collateral Reserve Account and the Asset Coverage Test and the establishment of Issuer Accounts in the Deed of Covenant for the benefit of Covered Bondholders.

In respect of the covenants made by the Issuer in respect of the Relevant Reference Currency Swap Agreement and the establishment of Issuer Accounts described further in "*Overview of Transaction Documents – Deed of Covenant*", the obligations of the Issuer shall only apply upon it ceasing to maintain the relevant required ratings by S&P. As such, no Currency Swap or Issuer Account shall, as of the date of this Base Prospectus, be required to be entered into or opened by Issuer (as applicable).

Further, the obligation of the Issuer to open any Issuer Account shall cease in its entirety if at any time its long-term issuer credit rating by S&P is at least BBB, notwithstanding any subsequent downgrade of such rating.

The only consequence of any failure of the Issuer to comply with the obligations set out in "*Overview of Transaction Documents – Deed of Covenant*" shall be that the Issuer shall not be able to issue further Covered Bonds whilst such failure is continuing other than Covered Bonds denominated in ISK.

Programme Size: Up to €2,500,000,000 (or its equivalent in other currencies) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution: Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Currencies: Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer including but not limited to U.S. Dollars, Euro, Sterling, Japanese Yen, Danish Krone, Norwegian Krone, Swedish Krona, and Icelandic Krona and specified in the applicable Final Terms.

Form of the Covered Bonds: The Covered Bonds will be issued in either bearer form ("**Bearer Covered Bonds**"), registered form ("**Registered Covered Bonds**"), or, in the case of CSD Covered Bonds, uncertificated and dematerialised book entry form. CSD Covered Bonds will not be exchangeable for Bearer Covered Bonds or Registered Covered Bonds and *vice versa* and Registered Covered Bonds will not be exchangeable for Bearer Covered Bonds and *vice versa*.

Terms of the Covered Bonds: The terms of the Covered Bonds will be set out in the Terms and Conditions of the Covered Bonds, as completed by the applicable Final Terms.

Maturities: The Covered Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant currencies.

Extendable obligations under the Covered Bonds: Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Maturity Date, payment of such unpaid amounts shall be deferred if the applicable Final Terms specifies that an Extended Maturity Date is applicable and a deferral of the Maturity Date is granted by the Icelandic FSA at such time (a "**Maturity Extension Approval**").

Under the Icelandic Covered Bond Act, a Maturity Extension Approval is subject to the following conditions:

- (a) the deferral is necessary for the purposes of:
 - (i) preventing default on a Covered Bond or a derivative contract without the sale of assets at a substantial discount;

- (ii) early intervention by the Icelandic FSA or the resolution of the Issuer achieving the objective of Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms; or
 - (iii) optimising the claims of Covered Bondholders and counterparties of derivative contracts upon the winding-up or liquidation of the Issuer;
- (b) that the deferral is explicitly authorised pursuant to the Terms and Conditions of the Covered Bond, which set out the final maturity date, the maturity extension triggers, the consequences that insolvency or resolution of the Issuer may have on the extension and the role of the Icelandic FSA with regard to such deferral; and
 - (c) that the deferral does not affect the maturity schedule of other Covered Bonds collateralised by the same cover pool.

The Issuer is required (pursuant to the Icelandic Covered Bond Act) to promptly inform the Covered Bondholders of the deferral of the maturity of the Covered Bonds and the duration of such deferral. Further, under Condition 9.10 (Extension of Maturity Date), the Issuer shall promptly inform the Covered Bondholders of a Maturity Extension Approval.

With respect to paragraph (a)(ii) above, the objective of the Act referred to therein (as set out in Article 1 of such Act) is to preserve financial stability, inter alia, by ensuring the continuity of essential economic activities and preventing significant adverse impact on the financial system. Further, the objective of the Act is to minimise the risk of reliance on public financial support to private companies, and to protect depositors, investors and client assets.

Issue Price: Covered Bonds 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.

Interest: The following types of Covered Bonds may be issued: Inflation Linked Annuity Covered Bonds, Inflation Linked Equal Principal Payment Covered Bonds, Fixed Rate Covered Bonds, Floating Rate Covered Bonds, Zero Coupon Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis and Redemption/Payment Basis shown in the applicable Final Terms.

Interest Periods, Rates of Interest and the terms of and/or amounts payable on redemption may differ depending on the Covered Bonds being issued and such terms will be specified in the applicable Final Terms.

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

Inflation Linked Equal Principal Payment Covered Bonds including Covered Bonds with one Inflation Linked Equal Principal Payment Covered Bonds pay an Equal Payment Amount on such date or dates as decided by the Issuer and set out in the Final Terms. Calculation of Principal Payments, Interest Payments,

Payment of Principal on Maturity Date:

Principal Amount Outstanding and Index Ratio are as set out in the Terms and Conditions.

Fixed Rate Covered Bonds:

Fixed Rate Covered Bonds pay a fixed Rate of Interest on such date or dates as may be agreed between the Issuer and the relevant Dealer as specified in the applicable Final Terms and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Covered Bonds:

Floating Rate Covered Bonds will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**"), and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series); or
- (ii) on the basis of a reference rate set out in the applicable Final Terms appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be set out in the applicable Final Terms.

Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on the relevant 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.

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

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

Zero Coupon Covered Bonds:

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

Redemption:

Unless previously redeemed or purchased and cancelled, each Inflation Linked Annuity Covered Bond and each Inflation Linked Equal Payment Covered Bond, including Covered Bonds with one payment of Principal on Maturity Date, will, subject to Condition 8.1(a) or (b) (as applicable) of the Terms and Conditions, be redeemed in one or more amounts, calculated in accordance with the formula specified in Condition 8.1(a) or (b), in the relevant Specified Currency on the relevant Interest Payment Dates.

If an Issuer Call is specified in the applicable Final Terms, the Issuer may redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date as set forth in the Terms and Conditions and applicable Final Terms of the Covered Bonds.

Denomination of Covered Bonds:

The Covered Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer, save that the minimum denomination of each Covered Bond will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency and save that the minimum denomination of each Covered Bond admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Regulation will be €100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amounts in such currency).

Use of Proceeds:

The net proceeds from each issue of Covered Bonds or an amount equal to the net proceeds will, as specified in the applicable Final Terms, be:

- (a) applied by the Issuer for its general corporate purposes, which include making a profit; or
- (b) applied by the Issuer to finance, refinance and/or invest in part in Eligible Activities and Assets in line with the Issuer's applicable Sustainable Finance Framework, which is available at the Issuer's website; or
- (c) used to finance any other particular identified use of proceeds as stated in the applicable Final Terms.

Taxation:

All payments in respect of the Covered Bonds will be made without deduction for or on account of withholding taxes imposed by any relevant Tax Jurisdiction, except as required by law, as provided in Condition 10 (Taxation). In the event that any such deduction is made, the Issuer will, save in certain limited circumstances detailed in Condition 10 (Taxation) of the Terms and Conditions of the Covered Bonds, be required to pay additional amounts to cover the amounts so deducted.

Insolvency of the Issuer:

In the event of insolvency of the Issuer, the Covered Bonds of each Series will not become due and payable according to the Icelandic Covered Bond Act and will remain outstanding in accordance with the Terms and Conditions of the Covered Bonds. The winding up committee shall continue to fulfil the Issuer's commitments from the Cover Pool of assets. The Covered Bondholders will have priority recourse to the assets in the Cover Pool (junior to costs incurred in connection with the operation, management, collection and realisation of the Cover Pool, and claims due to derivative agreements concluded in accordance with the provisions of the Icelandic Covered Bond Act), and rights to proceed directly against, amongst others, the Issuer.

Rating:

Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the Final Terms and be provided by S&P and/or any other rating agency as disclosed in the Final Terms from time to time. S&P is established in the European Union and is registered under the CRA Regulation. As such S&P is included in the list of credit rating agencies published by ESMA on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified->

CRA) in accordance with the CRA Regulation. 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.

Clearing Systems:

Covered Bonds issued under the Programme will be cleared through the CSDs, Euroclear, Clearstream, Luxembourg and/or any other clearing system as specified in the relevant Final Terms.

Listing:

Application has been made to the Central Bank of Ireland to approve this document as a base prospectus in respect of Covered Bonds to be issued under the Programme. Application has also been made to Euronext Dublin for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the Regulated Market.

Covered Bonds may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Covered Bonds 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 Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Passporting:

Covered Bonds may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealers in relation to a Series of Covered Bonds. In particular, Covered Bonds may be listed on Nasdaq Iceland hf., as more particularly described on page i of this Base Prospectus.

Governing law:

The Covered Bonds (except for the CSD Covered Bonds), the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with the Covered Bonds will be governed by, and shall be construed in accordance with, English law except for Condition 4 of the Terms and Conditions, which will be governed by, and construed in accordance with Icelandic law.

The Issuer irrevocably agrees that any dispute arising out of the Programme, the Covered Bonds, the Coupons, the Receipts shall be subject to the exclusive jurisdiction of the Courts of England.

The CSD Covered Bonds will be governed by and construed in accordance with Icelandic law.

Risk Factors:

There are certain risk factors that may affect the Issuer and its ability to fulfil its obligations under Covered Bonds issued under the Programme such as general economic and business conditions in Iceland and globally, credit risk, market risk, liquidity risk, operational risk and legal risk.

There are certain risk factors that are material for the purpose of assessing the risks associated with the Covered Bonds issued under the Programme, such as the fact that the Covered Bonds may not be a suitable investment for all investors, legal risk, risks relating to the structure of the Covered Bonds, the Cover Pool and certain market risks.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy, Iceland and Norway), the People's Republic of China, Hong Kong, Singapore, Switzerland, the UK, Canada and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds, see "Subscription and Sale".

United States Selling Restrictions: Regulation S, Category 2 and TEFRA C or D/TEFRA not applicable, as specified in the applicable Final Terms.

Certain Restrictions: The Issuer does not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction.

The Central Bank of Iceland published the Rules on Special reserve requirements for new foreign currency inflows. The main purpose of this instrument, a capital flow management measure, is to temper inflows of foreign currency and to affect the composition of such inflows. The Rules contain provisions on the implementation of special reserve requirements for new foreign currency inflows, including the special reserve base, holding period, special reserve ratio, settlement currency, and interest rates on deposit institutions' capital flow accounts with the Central Bank of Iceland. The special reserve base is defined as new inflows of foreign currency in connection with specified types of capital, particularly to include new investment in electronically registered bonds and bills, and deposits.

RISK FACTORS

The following factors may affect the ability of Landsbankinn hf., Reg. No. 471008-0280, Reykjastræti 6, 101 Reykjavík, Iceland (the "Issuer" and "Landsbankinn") to fulfil its obligations under the Covered Bonds issued under the Programme. In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There is a wide range of risk factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Covered Bonds. The Issuer 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 Issuer's control.

The Issuer has identified in this Base Prospectus a number of risk factors which could materially adversely affect its business and ability to make payments due under the Covered Bonds. The Issuer has assessed the materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact and has organised the following risk factors accordingly within each category, beginning with those estimated to be most significant to the Issuer.

The order in which the categories of risk factors are presented does not necessarily reflect the probability of their occurrence or the magnitude of their potential impact, as the categories of risk factors mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual category for the Issuer could be misleading, as other categories of risks factors may materialise to a greater or lesser degree.

In addition, risk factors which are material for the purpose of assessing, and are specific to, the market risks associated with Covered Bonds 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.

RISKS RELATING TO THE ISSUER, INCLUDING ITS BUSINESS AND THE ABILITY OF THE ISSUER TO FULFIL ITS OBLIGATIONS UNDER THE COVERED BOND ISSUANCE PROGRAMME

The Issuer is subject to the risk and uncertainties described below that may materially affect its business operations and financial conditions. As a result of its business activities, the Issuer is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. Failure to control these risks could result in material adverse effects on the Issuer's business, financial condition and results of operations.

Economic and financial market risk

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

These conditions include changing economic cycles that affect demand for investment and banking products. These cycles are also influenced by global political events, such as terrorist acts, war (including the war in Ukraine) and other hostilities, as well as by market-specific events, such as shifts in consumer confidence and consumer spending, the rate of unemployment, industrial output, labour or social unrest and political uncertainty.

The Issuer's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing depend on customer confidence, employment trends, state of the economy and market interest rates at each time. The current environment in Iceland is characterised by a high interest rate environment which results in interest-earning assets generating a higher yield upon

borrowing and refinancing and securities held also generating a higher level of interest income compared to an environment characterised by low interest levels.

As the Issuer currently conducts most of its business in Iceland, its performance is influenced by the level and cyclical nature of business activity in Iceland, which is in turn affected by both domestic and international economic and political events. There can be no assurance that a weakening in the Icelandic economy will not have a material effect on the Issuer's future financial results. See further "*The Issuer is vulnerable to a range of economic risks that face the Icelandic banking system*".

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

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

The Issuer operates in a market which has changed rapidly in recent years, with increased competition from Icelandic or foreign banks, which has increased downward pressure on interest rate margins. The Issuer's main competitors are Arion Bank hf. ("**Arion Bank**"), Íslandsbanki hf. ("**Íslandsbanki**"), Kvika banki hf. ("**Kvika Bank**"), Icelandic pension funds and the Icelandic Housing Financing Fund, which merged with the Iceland Construction Authority (*ice. Mannvirkjastofnun*) in 2020 and officially became the Housing and Construction Authority ("**HCA**"). See further in "*Financial Markets in Iceland - Market participants*". 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 in "*Description of the Issuer - Competition*"). The Issuer has a high market share, which it intends to maintain. The Issuer makes every effort to ensure that its product range, service and prices are competitive, while not disregarding its financial objectives, and must constantly monitor its competitors and their offerings. However, there is always a risk that the Issuer could lose its competitive edge and that new products could fail to meet the demands of the market or compete with competitors' products. All of the above could undermine the Issuer's income generation and may have a material adverse effect on the Issuer's business, financial condition and results of operations.

In addition, Iceland's economy remains vulnerable to other political and economic external factors many of which are outside the control of the Icelandic government and instability or deterioration of the international financial markets. The aforementioned could have a material adverse effect on the Icelandic economy, especially given the relatively small size of the Icelandic economy and its dependence on trade with external partners, particularly the European Union. Although the financial sector in Iceland 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 Issuer is vulnerable to a range of economic risks that face the Icelandic banking system

The Issuer's performance is influenced by the overall strength of Iceland's economy since most of its business is conducted in Iceland. Economic growth in Iceland was quite robust during the period 2015-2018 (on average

5.0 per cent.) but slowed down significantly in 2019 to 1.9 per cent. Gross domestic product ("GDP") then fell by 7.2 per cent. in 2020 due to the COVID-19 pandemic which drastically reduced the number of foreign tourist arrivals. Despite the COVID-19 pandemic still impacting the tourist industry in Iceland in 2021, GDP in 2021 increased by 4.5 per cent. from the previous year. Preliminary estimates from Statistics Iceland suggest that GDP increased by 7.2 per cent. in 2022, driven by 8.5 per cent. increase in private consumption, a 2.2 per cent. increase in government consumption, a 7.6 per cent. increase in fixed capital formation and a 22.3 per cent. increase in exports of goods and services. Imports of goods and services increased by 19.9 per cent¹.

The Icelandic economy was disproportionately negatively impacted by the COVID-19 pandemic due to the high importance of international tourism to the economy and due to the relatively small size of the Icelandic economy. Tourism related services accounted for roughly 8 per cent. of GDP in 2016-2019 and 39 per cent. of export revenues in 2016-2019. The share of tourism in GDP was 2.9 per cent. in 2020, 4.8 per cent. in 2021. Tourist arrivals grew following the removal of all restrictions due to COVID-19 and economic growth was driven by the travel sector in 2022. The share of tourism in GDP was 7.8 per cent. in 2022. The share of export revenues was 12 per cent. in 2020, 17 per cent. in 2021 and 26 per cent. in 2022².

The economic outlook of many of Iceland's main trading partner countries is bleak, not least due to the war in Ukraine, inflation and the energy crisis. Inflation has increased in Iceland which has led to several interest rate hikes by the Central Bank of Iceland.

The last meeting of the Financial Stability Committee ("FSC") of the Central Bank of Iceland was held on 18 September 2023.³ FSC agreed that the status of financial stability in Iceland was good despite high inflation and interest rates. The committee considers cybersecurity as one of the main risks to financial stability at present, although members were also of the view that risks associated with corporate debt and the commercial real estate market had increased. In the view of the committee, most indicators implied that demand pressures in the economy would subside gradually but steadily. Risks associated with the residential property market had receded, but members were nevertheless somewhat concerned about household debt. Further ahead, rapidly rising financing costs could put strain on leveraged households, although households were quite resilient overall. In addition, poorer financial conditions had adversely affected businesses.

The economic and financial environment, together with the operating and financial conditions of borrowers, may affect the Issuer's levels of non-performing loans, determination of loan values and the level of write-offs – see further in the section entitled "*Description of the Issuer – Loan portfolio*". Levels of credit impaired loans, determination of loan values and the levels of write-offs will depend on general economic developments and operating and financial conditions of the relevant borrowers. No assurance can be given that the rate of credit impaired 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.

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, higher unemployment rate, natural disasters or strikes due to unsuccessful collective bargaining negotiations, it could adversely affect the ability of the Issuer's customers to repay their loans which in turn could have a material adverse effect on the Issuer's business, financial conditions, results of operations, cash flows and prospects, and its ability to make payments in respect of the Covered Bonds.

¹ Source: Statistics Iceland

² Source: Statistics Iceland

³ Minutes published 1 November 2023

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

Liquidity risk is the risk that the Issuer will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from maturity mismatch between financial liabilities and financial assets. Liquidity risk is a significant risk factor for the Issuer and the Issuer places emphasis on monitoring and managing liquidity risk. Deposits from customers are the Issuer's single largest funding source. As of 30 September 2023, deposits from customers formed 53.7 per cent. of total assets compared to 54.2 per cent. at year end 2022⁴.

The Issuer was an active issuer in the domestic bond market in 2022 through its covered bonds issuances in the domestic market. In addition, the Issuer continued issuing bonds in foreign currencies through its Euro Medium Term Note Programme. See further in "*Description of the Issuer - Funding*". The ability of the Issuer to access the domestic and international capital markets depends on a variety of factors, including market conditions, the general availability of credit, the volume of trading activities and the credit rating of the Issuer. The aforementioned factors could limit the Issuer's ability to raise funding in the capital markets (see further section entitled "*The Issuer is exposed to refinancing risk. The inability of the Issuer to refinance its outstanding debt could have a material adverse impact on the Issuer's business*"). There is therefore a material risk that it may be unable to repay its obligations when due or will only be able to do so at excessive cost. This could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations and therefore its ability to make payments in respect of the Covered Bonds.

The Issuer's liquidity management policy is built on international standards on liquidity risk measurements developed by the Basel Committee on Banking Supervision (the "**Basel Committee**"), for example the Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**") and it also applies measurements that best suit the operating environment of the Issuer. The Issuer's total LCR at the end of Q3 2023 was 238 per cent. (year-end 2022: 134 per cent.) and the Issuer's LCR in euro was 1227 per cent. (year-end 2022: 154 per cent.) and 161 per cent. in ISK (year-end 2022: 99 per cent.), well above regulatory limits. Effective as of 1 January 2023, the minimum LCR In ISK increased from 40 per cent. to 50 per cent. and minimum LCR in euro 80 per cent., if euro-denominated liabilities constitute 10 per cent., or more of total liabilities. The Issuer's net stable funding ratio in foreign currencies was 150 per cent. at the end of Q3 2023 (year-end 2022: 132 per cent.) and total NSFR was 123 per cent. at the end of Q3 2023 (year-end 2022: 117 per cent.). See further in "*Description of the Issuer – Risk management framework*", the 9M 2023 Interim Financial Statements and the 2022 Financial Statements, which are incorporated by reference into this Base Prospectus.

Although the Issuer has in place a liquidity management policy, the Issuer will continue to be exposed to a material risk that it may be unable to repay its obligations under its funding instruments when due or will only be able to do so at excessive cost, which could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds.

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

⁴ Definition: Deposits/total assets is calculated deposits from customers/total liabilities.

Changes in interest rate levels, inflation, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. The current environment of high interest rates has resulted in interest-earning assets such as residential mortgage loans, or other loans and securities held, generating higher yields upon origination or refinancing, as well as higher levels of interest income respectively, when compared to the previous low interest rate environment. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Issuer's investment and trading portfolios.

- *A major portion of the Issuer's assets and liabilities are interest-bearing.* The Issuer's interest rate risk arises from the impact of interest rate changes on the Issuer's assets and liabilities, since a major portion of the Issuer's assets and liabilities are interest-bearing in one manner or another. Limited access to capital markets could have a negative effect on the Issuer's revenues as it may be unable to correct interest rate imbalances between assets and liabilities, based on the timing of interest rate reset or maturity. For example, risks can arise if there are fixed and variable interest rate items in the same maturity bracket; this may lead to open interest rate positions on the assets or liabilities side. This could then affect the Issuer's profitability. The Issuer may also be limited in its ability to adjust interest rates applied to customers due to competitive pressures.
- *Increased volatility in the foreign exchange markets.* The Issuer's foreign exchange risk arises from exposure to unanticipated changes in the exchange rate between currencies. Increased volatility in the foreign exchange markets could have an adverse effect on the Issuer's business, financial condition and results of operations.
- *Increased volatility in the equity markets.* The Issuer's equity risk comes from both proprietary and securities trading. Elevated uncertainty in the financial markets could lead to increased volatility in the equity markets. This could lead to a devaluation of equities and investment funds held by the Issuer and have an adverse effect on the Issuer's business, financial condition and results of operations.
- *Imbalance in Consumer Price Index ("CPI") linked assets and liabilities.* CPI indexation risk is the risk that the fair value or future cash flows of CPI linked financial instruments may fluctuate due to changes in the Icelandic CPI. The Issuer offers CPI linked mortgage loans and consumer loans and receives funding in the form of CPI linked borrowing and deposits. Therefore, the Issuer is exposed to inflation risk when there is a mismatch between its assets and liabilities linked to the CPI. In the case of deflation in the CPI, there could be a corresponding impact on the balance sheet and loss to the Issuer. The Issuer's total CPI indexation balance at year-end 2022 amounted to ISK 7.9 billion (year-end 2021: 4.9 billion)⁵, or 2.7 per cent.⁶ of total capital base.
- The Issuer's economic capital due to market risk and currency risk increased in 2022, first and foremost due to market conditions, exposure in the Issuer's trading and higher net FX balance. See further the 9M 2023 Interim Financial Statements and the 2022 Annual Financial Statements which are incorporated by reference into this Base Prospectus. Although the Issuer has in place a range of risk management procedures designed to mitigate the aforementioned risks, see further in "*Description of the Issuer - Risk management framework*", there is no guarantee that the procedures will be effective in all circumstances, in which case the Issuer could experience material losses. Any losses due to market risk exposure could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds.

⁵ See further the significant changes in note 76 of the 2022 Financial Statements which is incorporated by reference into this Base Prospectus.

⁶ Total CPI linked balance /total capital base.

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

The Issuer is predominantly funded by customer deposits, market funding and share capital. The Issuer has diversified its funding profile by issuing bonds, and Covered Bonds in the domestic and international markets, see further section entitled "*The Issuer is exposed to liquidity risk. The inability of the Issuer to anticipate and provide for unforeseen changes in funding sources could have a material adverse effect on the Issuer's ability to meet its obligations as and when they fall due.*". The inability of the Issuer to refinance its outstanding debt in the future, at the right time and at a favourable interest rate could have a material adverse effect on the Issuer's business, prospects, financial position and/or result of operations, and its ability to make payments in respect of the Covered Bonds. Information regarding the Issuer's funding is further described in "*Description of the Issuer - Funding*".

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

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

Adverse changes in the credit quality of the Issuer's customers and counterparties or a general deterioration in Icelandic or global economic conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of the Issuer's assets and require an increase in the Issuer's provision for credit exposures and other provisions. Specific issues and events where credit risk could adversely affect revenues include but are not limited to:

- *Concentration of loan portfolio in certain sectors could adversely affect the Issuer.* The Issuer's loan portfolio is relatively concentrated in key sectors. These are households, fisheries, real estate companies, construction and the travel industry. See further in "*Description of the Issuer - Loan portfolio*". Downturns in these sectors that would influence customers' ability to meet their obligations may have an adverse effect on the Issuer's business, financial condition and results of operations.
- *Deterioration of economic conditions could increase the required loan impairment for the Issuer.* The Issuer's customer loan portfolio is predominately comprised of loans to Icelandic Borrowers. Higher unemployment rates, persistent high inflation, reduced personal disposable income levels and increased personal and corporate insolvency rates may reduce customers' ability to repay loans. See further in "*Description of the Issuer - Loan portfolio*". This, in addition to depressed asset valuations could have an impact on the adequacy of the Issuer's loss reserves and future impairment charges.
- Continued seismic activities and possible volcanic eruption in the Reykjanes peninsula could have a negative effect on customers in the region. All buildings in Iceland are insured by the Natural catastrophe insurance of Iceland.

The creditworthiness of the Issuer's counterparties may deteriorate. The Issuer cannot guarantee that currently performing loans will not become credit impaired loans in the future or that impairments or losses relating to credit impaired loans will not occur. The Issuer attempts to manage the aforementioned risks through its credit risk management policies, by monitoring the extension of credit to customers and the taking of collateral, but there is no guarantee that such precautions will be effective, and the Issuer could be exposed to more credit risk than it finds acceptable. See further in "*Description of the Issuer - Risk management framework*". For instance, the credit quality of the Issuer's borrowers could decline, the value of the collateral could decline, inherent risk in each loan application could be assessed incorrectly and deviations from the rules by committees allowed to make such deviations could become more frequent, especially in response to increase competition amongst lenders due to any deterioration in the economic situation in Iceland. Furthermore, if

employees do not comply with the Issuer's credit risk management policies it can result in riskier loans being extended than permitted within the Issuer's risk appetite.

As at year-end 2022, the Issuer's key risk metrics for credit risk were all within the Issuer's risk appetite. Most measures have developed positively in 2023 and at 30 September 2023 key risk metrics were within the Issuer's risk appetite. The ratio of carrying amounts of loans in default was 1.0 per cent. at year-end 2022 and was 1.1 per cent at 30 September 2023 as the default rate remains historically low. If any customer, or an industry sector to which the Issuer is exposed, defaults or experiences a significant deterioration in business or prospects, as the case may be, the Issuer may experience a material adverse effect on its business, prospects, financial position and/or result of operation, and its ability to make payments in respect of the Covered Bonds.

Environmental, social and governance risk ("ESG")

ESG risk is defined as risk that stems from the current or prospective impact of ESG factors on an institution's counterparties or invested assets, i.e., the risk arising from the core activities of institutions. ESG risk materialises through the traditional categories of financial risks (credit risk, market risk, operational and reputational risks, liquidity and funding risks).

The Issuer publicly declared support for the Task Force on Climate-related Financial Disclosures ("**TCFD**") in 2022 and continued its work on science-based targets for reducing carbon emissions from its operation. The Issuer has assessed ESG risk in relation to other material risks for the Issuer. The largest impact of ESG risk is on credit risk, funding risk and operational risk. In 2023, the Issuer will continue to develop and implement ESG risk management within its overall risk framework based on this assessment. Failure to manage ESG risk could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds.

Business related risks

Operational risks are inherent in the Issuer's business activities and are typical of comparable businesses

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

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

Both current and former employees of the Issuer can damage the Issuer if they infringe its rules either intentionally or through negligence. While it is difficult to evaluate the damage in each instance, the loss can be financial and/or detrimental to the Issuer's reputation. The Issuer could suffer a loss as a result of criminal actions, such as a bank robbery, fraud, cyber-crimes, money laundering or embezzlement. All of these risk factors could cause the Issuer extensive damage and affect its performance.

In the first three quarters of 2023 there was a slight increase in the number of operational incidents compared to previous years. There were no major operational incidents in the first 9 months of 2023 and the operational risk profile remains stable. The war in Ukraine has not impacted the Issuer directly but has led to a review of the Issuer's crisis response plans and has prompted a review of Iceland's dependency on the undersea cables connecting the country to the internet.

The Issuer has implemented controls designed to detect, monitor and mitigate operational risks – see further in the section entitled "*Description of the Issuer – Risk management framework*". However, there is a risk that

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

Cyberattacks

Cybersecurity risks are foremost related to the Issuer's internet banking users and include potential unauthorised access to privileged and sensitive customer information, including internet banking credentials as well as account and credit card information. The Issuer is responsible for safeguarding such confidential information and must comply with strict data protection and privacy laws when dealing with such data according to the European General Data Protection Regulation (the "GDPR"). The Issuer's activities have been, and are expected to continue to be, subject to an increasing risk of ICT crime in the form of Trojan attacks and denial of service attacks, the nature of which are continually evolving. The Issuer believes it has in place investments to address threats from cyberattacks, but the Issuer cannot guarantee that these investments will be successful in part or in full or without significant additional expenditures. The Issuer may experience security breaches or unexpected disruptions to its systems and services in the future, which could, in turn, result in liabilities or losses to the Issuer, its customers and/or third parties and have an adverse effect on the Issuer's business, prospects, reputation, financial position and/or results of operations, and its ability to make payments of the Covered Bonds.

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

As a bank with substantially all of its operations in Iceland, any environmental disasters and natural catastrophes in Iceland could significantly impair the environment in which the Issuer operates. Although natural catastrophes and environmental disasters are unforeseen factors that could threaten the Issuer's ability to maintain its operations, attempts are made to limit this risk by ensuring the security of critical equipment, its location and distribution between risk areas. The Operational Risk Department is responsible for business continuity management and for maintaining the Issuer's disaster recovery plans. The Issuer also has in place specific disaster recovery and business continuity plans. See further section entitled "*Description of the Issuer - Risk management framework*". Although the Issuer endeavours to hedge operational risk by implementing appropriate control processes and maintains customary insurance policies for its operations, it is possible that these measures may prove to be ineffective and that the Issuer's insurance may not cover all losses. Any losses experienced by the Issuer due to environmental disaster, natural catastrophes, pandemics or act of wars could have a material adverse effect on the Issuer's business, prospects, financial position and/or result of operations, and its ability to make payments in respect of the Covered Bonds.

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

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to the Issuer's reputation as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice, which could have an adverse effect on the Issuer's prospects and ability to make payments in respect of the Covered Bonds. The Issuer's independent Compliance function manages compliance risk as a second line function. See further in "*Description of the Issuer – Other divisions*".

Key processes include regulatory horizon scanning, regular compliance risk assessment, compliance monitoring and follow-up, product governance, training and advice, and regular reporting to senior management.

Key compliance risks include measures against money laundering, terrorist financing, bribery and corruption, sanctions, and other forms of financial crime, personal data protection, consumer protection, market abuse and anti-trust.

The Issuer believes that current governance and controls are adequate to effectively manage compliance risk. Nevertheless, the Issuer cannot exclude the possibility of non-compliance, or the possibility of failing to adequately implement changes to regulatory requirements. Such failures may have severe legal and reputational consequences for the Issuer and could have a material adverse effect on the Issuer's financial conditions and results of operations, and its ability to make payments in respect of the Covered Bonds.

Increased competition and changes in ownership of the Issuer's main competitors may affect the Issuer and its business

As demand for new lending and other financial products increases, the Issuer expects to face increased competition from other large Icelandic banks, pension funds and smaller specialised institutions (see "*Description of the Issuer - Competition*"). In addition, if there is sufficient credit demand, the Issuer may potentially face competition from non-domestic banks seeking to establish operations in Iceland, in particular with respect to the customers of the Corporate Banking, and Asset Management & Capital Markets divisions. The Financial Stability Counsel of Iceland ("**FSC**") places the Issuer and other systemically important financial institutions under considerable regulatory scrutiny. This can hinder the Issuer's competitiveness. Due to the small economy of Iceland and the Issuer's lack of scale advantage and high regulatory obligations, as a systemically important financial institution in Iceland, foreign competitors may have more resources and financial means available to them, compared to the Issuer, allowing foreign competitors to offer banking products at a lower price. The Issuer may have to comply with regulatory requirements that may not apply to such foreign competitors, creating an unequal competitive environment. For example, in addition to the basic corporate income tax rate of 20 per cent. in Iceland (which will be temporarily increased to 21 per cent. for one year, effective for the 2024 annual results), the Issuer is subject to certain other taxes which are specific to Iceland and which increase its effective tax rate and its effective cost of funding, which in turn can inhibit its ability to compete effectively with domestic and foreign lenders who are not subject to such additional taxes (see "*Changes in tax laws or in their interpretation could harm the Issuer's business*").

Competition from emerging financial technology firms ("**fintechs**") is likely to increase further following the transposition of the Revised Payment Service Directive No. 2015/2366 ("**PSD2**") into Icelandic law with Act No. 114/2021 on payment services, which was fully implemented on 1 May 2022. PSD2 requires commercial banks to allow third-party payment service providers direct access to their customer's bank account information through application program interface solutions ("**APIs**"). 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. Now that PSD2 has come into full 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 negatively affect the Issuer's business.

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

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

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 June 2018, 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 Icelandic State Financial Investments ("ISFI"), which manages the shareholding and the corresponding voting rights in the Issuer and Íslandsbanki, on behalf of the largest shareholder, the Icelandic State Treasury, it is the intention of the ISFI to retain a substantial equity stake in the Issuer for the long-term. In 2021, 35 per cent. of shares in Íslandsbanki were sold and listed on the local regulated stock market and in March 2022, a further 22.5 per cent. of Íslandsbanki's outstanding share capital was sold. Following the transaction, the Treasury of Iceland now owns 42.5 per cent. of shares in Íslandsbanki.⁷ For further information, see the section entitled "*The Icelandic State Treasury is the largest shareholder of the Issuer*" and "*Description of the Issuer - Shareholders, Share Capital and Dividend Policy*".

In January 2023, a new savings bank, Indó, began its operation. Indó is currently solely a deposit-taking institution but is planning to offer consumer loans as well. In October 2023, the insurance company VÍS bought all shares in Fossar Investment Bank and the combined company is planning for market penetration. This may affect the Issuer and its business. Any changes in ownership of the Issuer, Arion Bank and Íslandsbanki (the "**Three Banks**"), any newcomers or mergers in the financial system can affect the competitive environment and the Issuer's business, financial condition and result of operations.

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

The Three Banks are the largest commercial banks in Iceland and were established after the banking crisis in 2008. The total assets of the Three Banks comprised 95 per cent. of the total assets of the Icelandic deposit money banks (excluding the Central Bank), as at the end of 2022⁸, according to the Central Bank of Iceland. The Icelandic banking system is small, and the Three Banks have had limited opportunities for growth.

The Issuer has so far primarily engaged in domestic lending in Icelandic krona, but the Issuer has limited funding opportunities in Icelandic krona, namely its ISK denominated deposits and its covered bond and debt securities issuance facilities. External factors may affect the Issuer's depositor base as an increase in the availability of alternative investment opportunities arise in the future. Due to the small economy and present competition for funding, there are limited opportunities for the growth of funding opportunities in krona. Consequently, the Issuer's ability to increase its corporate lending is limited and will continue to be limited unless the Issuer is able to find additional sources of funding in Icelandic krona (see "*Description of the Issuer - Funding*").

The relatively small banking system, given the small size of the Icelandic economy (see "*The Icelandic Economy*"), and the ongoing restructuring of the Icelandic banking sector have affected and continue to affect the Icelandic banks. Following the financial crisis in 2008 some political and legislative decisions have been made which have had a material adverse effect on the Issuer. Various ideas have been discussed on how to improve the banking sector in Iceland, one being to initiate a sale process on either of the two state owned banks, namely Landsbankinn and Íslandsbanki, which was the case with Íslandsbanki (see "*Increased competition and changes in ownership of the Issuer's main competitors may affect the Issuer and its business*"). Another is the introduction of a potential law requiring the separation of commercial banking activities from investment banking activities, which could require the Issuer to divest or otherwise restructure some of its operations. No such requirements have been enacted to-date, but there can be no assurance that such law or similar or related measures will not be proposed and ultimately be enacted, which in turn could have a material negative effect on the Issuer's business.

⁷ Source: <https://cdn.islandsbanki.is/image/upload/v1/documents/2022-03-23-Harpa-result-announcement.pdf>.

⁸ Source: Central Bank of Iceland, Landsbankinn, Arion Bank and Íslandsbanki

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

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

Banks and their activities are increasingly dependent on Information and communication technology ("ICT") systems, including a significant shift away from physical bank branches and towards greater reliance on internet websites and the development and use of new applications on smartphones. The Issuer's ICT systems comprise a significant operational risk, both with regard to their functioning and accessibility. The Issuer's ICT systems are varied and, in many instances, depend upon co-operating partners and they are vulnerable to a number of problems, such as software or hardware malfunctions, interruptions in network availability, hacking, human error, physical damage to vital ICT centres and computer viruses. Various kinds of external attacks, viruses, denial of service attacks or other types of attacks on the Issuer's computer systems could disrupt the Issuer's operations. The Issuer has in place specific disaster recovery and business continuity plans, including back-up sites. Furthermore, the Issuer is certified in accordance with ISO 27001, the international standards on information security. This standard helps the Issuer in assessing and monitoring operational risk in the certified areas. It is not entirely possible, however, to eliminate operational risk arising from unexpected events.

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

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

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

In 2018, GDPR was implemented in Iceland, by Act No. 90/2018, and other jurisdictions in which the Issuer operates. The Issuer is exposed to the enhanced data protection requirements under the GDPR and has needed to make additional changes to its operations, which incurred additional costs, in order to comply with the GDPR. A designated Data Protection Officer is within the Issuer, to ensure full compliance with the GDPR. Failure to comply with the GDPR could subject the Issuer to substantial fines.

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

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

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

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

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

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

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

The Issuer's 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 delay the attainment of the Issuer's business objectives significantly and could have a material adverse effect on its business, financial condition and results of operations. The average number of full-time equivalent positions in the third quarter of 2023 was 816 compared to 798 during the same period in 2022. Salaries and related expenses year over year was ISK 11,534 million for the third quarter in 2023 compared with ISK 10,488 million for the same period in the previous year.

The Issuer's remuneration policy is determined by the Board of Directors and approved by the Annual General Meeting ("AGM") and applies to the Board of Directors, the Executive Board and all the Issuer's employees.

The Issuer does not offer variable remuneration. When the labour market is experiencing wage inflation the Issuer may come under pressure to increase the salaries of its employees. Salary increases can lead to increases in the Issuer's expenditure which could have adverse effect on the Issuer's business, financial condition, and ability to make payments in respect of the Covered Bonds.

In addition, competition for personnel with relevant expertise is significant, due to the relatively small number of qualified and available individuals in Iceland, as the Issuer competes for talented personnel with both financial and non-financial services companies. Furthermore, the Issuer may be subject to additional limitations on compensation imposed by Icelandic law or public sentiment, and therefore unable to offer employees rates of compensation comparable to its larger international competitors or smaller domestic competitors which may be able to offer more flexible compensation structures. Failure to attract, recruit and retain senior management and key employees with institutional and customer knowledge may delay the Issuer's achievement of its business objectives significantly and could have a material adverse effect on the Issuer's business and its ability to make payments in respect of the Covered Bonds.

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

The image and reputation of the Issuer are some of the Issuer's most valuable assets. The risk of damage to the Issuer's image or reputation is present whenever it is the subject of discussion. The ability to attract and retain customers, staff and conduct business with its counterparties could be jeopardised if the Issuer's reputation is badly affected. Damage to its image or reputation (such as a perception that the Issuer has failed to address various issues) could prompt the Issuer's customers to direct their business elsewhere which could result in loss of revenues – see further in the section entitled "*Description of the Issuer – Competition*". This could have a negative impact on the Issuer's business and its ability to make payments in respect of the Covered Bonds. Such reputational issues include, but are not limited to:

- the fact the Icelandic State Treasury is the largest shareholder of the Issuer (see "*The Icelandic State Treasury is the largest shareholder of the Issuer. This may affect the Issuer and its business*");
- poor customer services or ICT failures or interruptions that impact customer service and accounts (see "*The Issuer is exposed to the risk of breach of security, unauthorised disclosure of confidential information and personal data, or functionality of its information systems that could have materially adverse effects on the Issuer's business*");
- failure to maintain appropriate standards of customer privacy and record keeping and disclosure of confidential information (see Cyberattacks);
- statements concerning matters of the Issuer from a high-level representative that are adversely perceived by the public;
- failure to properly identify legal, regulatory, operational, credit, liquidity and market risks that are inherent in the Issuer's services (see "*The Issuer is exposed to a range of market risks, the most significant being, interest rate, foreign exchange indexation, consumer price index risks and equity risks*" and "*Operational risks are inherent in the Issuer's business activities and are typical of comparable businesses*");
- failure to demonstrate that the Issuer adequately addresses the environmental, social and governance ("ESG") issues, as increased regulation and public awareness related to ESG related developments involves;
- breach or allegation of having breached laws or regulations (see "*Regulatory changes or enforcement initiatives could increase compliance costs and adversely affect the Issuer's business, if the Issuer becomes subject to increasingly complex requirements*", "*Litigation*" and "*Operational risks are inherent in the Issuer's business activities and are typical of comparable businesses*").

There is no guarantee that the Issuer will be able to address the aforementioned issues appropriately. Any failure to do so could damage the Issuer's reputation and make stakeholders, such as customers and investors, less willing to conduct business with the Issuer. This could cause the Issuer to suffer material losses to its revenue, and as such, its ability to make payments in respect of the Covered Bonds.

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

The financial statements of the Issuer have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (the "**IFRS**") as adopted by the European Union. The preparation of financial statements requires the Issuer's management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Identification of certain accounting policies to the 2022 financial statements have been identified as critical because they require estimates and judgements in applying accounting policies, see note 3 to the 2022 Financial Statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Estimates and assumptions involve a substantial risk which could result in material adjustments to the carrying amounts of assets and liabilities during the next financial year.

The Issuer may be impacted by changes in accounting policies or accounting standards and the interpretation of such policies and standards. From time to time the international Accounting Standards Board (the "**IASB**") changes the financial accounting and reporting standards that govern the preparation of the Issuer and its principal subsidiaries (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, subsequently, calling for a restatement of prior period financial statements necessary. There is uncertainty surrounding the Issuer's judgement, estimates and assumptions, therefore the Issuer cannot guarantee that it will not be required to make changes to the accounting estimates or restate prior financial statements in the future, which could materially and adversely affect the Issuer and its ability to make payments in respect of the Covered Bonds.

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

The Issuer has taken a conscious decision to insure itself against specific risks. The Issuer holds all mandatory insurance coverage, including fire insurance and mandatory vehicle insurance, plus comprehensive vehicle insurance. The Issuer also holds insurance policies provided for collective bargaining agreements with the Confederation of Icelandic Bank and Finance Employees, such as life and accident insurance, and insurance stipulated by other wage contracts as applicable. In addition, the Issuer has taken out liability insurance against third-party claims, insurance on moveable property and professional liability insurance for its auditors and directors' and officers' liability insurance for the Issuer's directors and senior management. The Issuer also carries insurance against comprehensive crime and professional indemnity coverage. Comprehensive crime insurance provides cover for fraud by employees and third parties. It covers financial losses sustained by the Group, including those sustained in customer accounts, which are first discovered during the period of the policy, regardless of when the fraudulent acts were committed. In addition, money transportation is insured in accordance with the interests at stake in each instance. Recently, the Issuer has taken out a cyber liability insurance which covers damages and claim expenses resulting from cyber breaches, as well as possible privacy regulatory actions. It should be borne in mind, however, that despite the insurance policies carried by the Issuer, there is no guarantee that the Issuer will be fully compensated should the Issuer need to lodge claims. If the Issuer did submit claims under its policies, the premiums it pays could be expected to increase in the future. The Issuer's insurance policies are subject to the terms and conditions of the applicable policies. If the Issuer's insurance coverage does not adequately cover all losses, the Issuer may suffer a financial loss, which could negatively impact its business.

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

As at the date of this Base Prospectus, the ISFI manages a 98.2 per cent. shareholding on behalf of the largest shareholder, the Icelandic State Treasury. The Icelandic Parliament has authorised the Minister of Finance and Economic Affairs to sell all of the Icelandic State Treasury's shares in the Issuer which are in excess of 70 per cent. of the Issuer's total share capital, subject to any proposals that may be put forward by the ISFI. Any such sale or disposal, and any conditions attaching to it, could affect the Issuer's business, financial condition and results of operations. See further in "*Description of the Issuer - Shareholders, Share Capital and Dividend Policy.*"

In certain areas, Icelandic legislation imposes special rules on the Issuer since the Icelandic State Treasury holds the majority shareholding in the Issuer. These rules may impose a heavier regulatory burden on the Issuer compared to its competitors and may thus have a negative impact on the Issuer's competitive position. The Issuer's business, financial condition and results of operations could therefore be negatively affected and impact the Issuer's ability to make payments in respect of the Covered Bonds. These rules are: (i) Article 4 of the Act on the Auditor General and the Auditing of Government Accounts No. 46/2016 (the functions of the Auditor General include auditing the annual accounts of limited liability companies where the State owns 50 per cent. of the shares or more); (ii) Article 2 of the Information Act No. 140/2012 (the Issuer is subject to provisions of the Act but can obtain a temporary exemption from falling under the scope of the Act); and (iii) Article 14 of the Act on Public Archives No. 77/2014 (the Issuer is subject to provisions of this Act). Following a settlement with the Icelandic Competition Authority on 11 March 2016 relating to the changes in ownership of Íslandsbanki and a motion approved by the AGM of the Issuer held on 14 April 2016, the Board of Directors of the Issuer added provisions on the competitive independence of the Issuer towards other state-owned commercial banks to its rules of procedures.

Legal risk relating to the Issuer

Legal and regulatory risks

The Issuer, as a systemically important financial institution in Iceland, is regulated by the Icelandic FSA and must comply with banking and financial services laws and government regulations. Legal risk includes but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions as well as private settlements. The Issuer is subject to a number of laws, regulations, administrative actions and policies governing the provision of financial services in Iceland. The Issuer is required to abide by various legal and regulatory requirements. Failure to do so may lead to litigation and administrative proceedings, which could subject the Issuer to damages claims, regulatory fines or other penalties. Although the Issuer works closely with regulators and continually monitors its legal position, future changes in regulations, fiscal or other policies can be unpredictable and are beyond the Issuer's control. Any changes to current legislation might affect the Issuer's operations and its results of operations and its ability to make payments in respect of the Covered Bonds.

Regulatory risks relate not only to regulation within Iceland, but also from the ability of Iceland, as a member of the Agreement on the European Economic Area (the "**EEA Agreement**"), to adopt, implement and administer implementation of new European directives and regulations into Icelandic rules and regulations. See further section entitled "*Iceland's national implementation of EEA rules may be inadequate in certain circumstances*". This may include late implementation into Icelandic rules and regulations and more stringent requirements where they are permitted or required to do so, like in the respect of capital requirements.

The Issuer will at any time be involved in several court proceedings, which is considered normal due to the nature of the business undertaken. In some cases, there is substantial uncertainty regarding the outcome of the proceeding and the amount of possible damages. Despite the fact the Issuer has created appropriate provisions for legal and regulatory risk, there is still a risk that such provisions will not be adequate in certain circumstances. As of 31 December 2022, economic capital for legal and regulatory risk amounted to ISK 1,773

million compared to ISK 2 million in 2021. These cases may include possible criminal or administrative proceedings by the relevant authority and claims in which the claimant has not specifically quantified the amounts in disputes. The results of any adverse proceedings could have a material adverse effect on its results and reputation. For further information on litigation see "*Description of the Issuer – Litigation*".

Changes to capital and related requirements could adversely affect the Issuer's results

The international regulatory framework for banks, Basel III, includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. See further in "*Description of the Issuer – Risk management framework*". Within the European Union the Basel III framework has been implemented in a legislative package known as CRD IV and CRR, later amended by CRD V and CRR II. Following incorporation of the legislative package into the EEA Agreement, the package has been implemented into Icelandic law in steps. On 26 April 2022, the Icelandic Central Bank Resolution Authority approved a resolution plan for the Issuer and took a decision on the Issuer's minimum requirement for own funds and eligible liabilities ("**MREL**"), in accordance with the Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms, implementing Directive 2014/59/EU (the "**Bank Recovery and Resolution Directive**" or "**BRRD**"). As of the date of this Base Prospectus, the Issuer complies with its MREL requirements.

Any failure by the Issuer to comply with its regulatory capital requirements or to comply with any other requirements introduced by regulators could result in intervention by regulators or the imposition of sanctions, which may have a material adverse effect on the Issuer's financial condition and results of operations and may also have other effects on the Issuer's financial performance and on the pricing of the Covered Bonds, both with or without the intervention by regulators or the imposition of sanctions. Changes under Basel III, CRD IV, CRD V, CRR, CRR II, the BRRD and/or the related Icelandic law may impact the capital requirements in respect of the Covered Bonds and/or the liquidity and/or value of the Covered Bonds, and therefore may affect the incentives of investors to hold onto the Covered Bonds. Therefore, prospective investors in the Covered Bonds should consult their own advisers as to the consequences of the implementation of the relevant legal measures in Iceland.

Further, in Europe, the U.S. and elsewhere, there is significant focus on fostering greater financial stability through increased regulation of financial institutions, and their corresponding capital and liquidity positions. This has resulted in a number of regulatory initiatives which are currently at various stages of implementation and which may have an impact on the regulatory position for certain investors in covered bond exposures and/or on the incentives for certain investors to hold covered bonds, and may thereby affect the liquidity of such securities. Investors in the Covered Bonds are responsible for analysing their own regulatory position and none of the Issuer or the Arranger makes any representation to any prospective investor or purchaser of the Covered Bonds regarding the treatment of their investment on the Issue Date or at any time in the future.

In particular, it should be noted that the Basel Committee on Banking Supervision ("**BCBS**") has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as "**Basel III**"). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systematically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds, may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the Solvency II framework in Europe. Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect

to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Finally, from the perspective of the UK-regulated credit institutions and investment firms, it should be noted that, following the expiry of the temporary post-Brexit transitional relief, preferential regulatory capital treatment is only available to covered bonds issued by a credit institution which has its registered office in the UK and eligibility as third country covered bond exposures for the purposes of the UK liquidity coverage ratio requirements will be subject to meeting the equivalence requirements. Therefore, prospective investors, if this is applicable to them, should make themselves aware of these changes with respect to their investment in the Covered Bonds.

Regulatory changes in Iceland

On 1 March 2023 the Icelandic legislature completed the implementation of Directive (EU) 2019/2162 (the "**Covered Bond Directive**") and Regulation (EU) 2019/2160 implementing certain amendments to Article 129 of Regulation (EU) 575/2013 (the "**CRR**" and together with the Covered Bond Directive, the "**EU Covered Bond Rules**") into Icelandic law. Implementation of the EU Covered Bond Rules has imposed certain new requirements on the Issuer, such as a new liquidity buffer requirement of 180 days and objective requirements for exercise of extendable maturity (aka 'soft bullet') rights by the Issuer (see "*The Covered Bonds may be subject to extendable obligations that may change the Maturity Date, Interest Payment Dates and Interest Periods for the Covered Bonds concerned*"). The Covered Bonds are expected to be fully compliant with the CRR and therefore qualify for a 20 per cent. risk weighting in eligible European jurisdictions. However, the Issuer cannot be certain as to how any of the regulatory developments described above or other regulatory changes not currently known to the Issuer will impact the treatment of the Covered Bonds for investors. Investors should make their own assessment of the implications of the CRR (and other relevant regulation) on their holding of the Covered Bonds.

The implementation of the BRRD in Iceland provides for a range of actions to be taken in relation to the relevant entity considered to be at risk of failing. Should the Issuer enter into resolution this could, in certain limited circumstances, ultimately entail the bail-in of any Covered Bonds

Directive 2014/59/EU (the "**Bank Recovery and Resolution Directive**" or "**BRRD**"), which provides an EEA-wide framework for the recovery and resolution of credit institutions and investment firms and its implementation into Icelandic law ultimately implies the risk of bail-in of the Covered Bonds issued by the Issuer if the Issuer were to enter into resolution, and the relevant resolution authority chose to apply the bail-in tool.

The general bail-in tool is not intended to apply to secured debt (such as the Covered Bonds). However, to the extent that claims in relation to the Covered Bonds are not met out of the assets of the Cover Pool ("**Residual Claims**") or the proceeds arising from it, the Residual Claims may be subject to write-down or conversion into equity on an application of the general bail-in tool, which may result in Covered Bondholders losing some or all of their investment. In the limited circumstances described above, the exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Covered Bondholders, the price or value of their investment in any relevant Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds. Prospective investors in Covered Bonds should consult their own advisors as to the consequences of the implementation of the BRRD into Icelandic law. See further section "*Bank Recovery and Resolution Directive*".

The BRRD II reforms introduce, in Article 33a, a new pre-resolution moratorium tool as a temporary measure in an early stage and new suspension powers, which the resolution authority can use within the resolution period. Any suspension of activities can result in the partial or complete suspension of the performance of agreements (including any payment or delivery obligation) entered into by the respective credit institution. The exercise or suggestion of exercise of any such power could, as stated above, materially adversely affect

the rights of Covered Bondholders, the price or value of their investment in any relevant Covered Bonds and/or the ability of the Issuer to satisfy its obligations under the Covered Bonds.

In addition, on 18 April 2023, the European Commission adopted a legislative package proposal to adjust and strengthen the EU's existing bank crisis management and deposit insurance framework (the "**CMDI Proposal**"). The package involves a review of the BRRD and the SRM Regulation (Regulation (EU) No 806/2014) frameworks as well as a separate legislative proposal to amend Directive 2014/49/EU on deposit guarantee schemes, all with the aim of preserving financial stability, protecting taxpayers' money and providing better protection for depositors (including new rules that foresee that all deposits are preferred relative to ordinary unsecured claims). However, the CMDI Proposal is subject to further discussion by the European Parliament and the Council and, as of the date of this Base Prospectus, there is a high degree of uncertainty with regards to the proposed adjustments and when and whether they will be finally implemented in the EU and consequently incorporated into the EEA Agreement and implemented in Iceland. Therefore, the exact impact of these adjustments and the potential effects on the Issuer cannot be assessed yet.

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

The Issuer's results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, (such as 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 addition to the basic corporate income tax rate of 20 per cent. in Iceland (which is set to be temporarily increased to 21 per cent. for one year, effective for the 2024 annual results), the Icelandic Parliament passed the Act on Special Tax on Financial Institutions, No. 155/2010, in December 2011 (the "**Special Tax on Financial Undertakings**"), under which certain types of financial institution, including the Issuer, are required to pay an annual levy of the carrying amount of their liabilities as determined for tax purposes. In 2013 the levy was increased and set at 0.376 per cent. of the total debt of the Issuer excluding tax liabilities in excess of ISK 50 billion at the end of the year. Non-financial subsidiaries are exempt from this tax. The Act on Special Tax on Financial Undertakings was amended in March 2020 with Act No. 25/2020 in relation to measures from the Icelandic Government and the Central Bank due to the COVID-19 pandemic reducing the levy to 0.145 per cent. in 2020. See further "*The Icelandic Economy*".

According to the Income Tax Act No. 90/2003, as amended (the "**ITA**") payments of Icelandic sourced interest by an Icelandic debtor, such as the Issuer, to a foreign creditor, including holders of Covered 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 Internal 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. The exemption, subject to certain other requirements, applies to bonds that are held through a clearing system, such as the NCS, Euroclear and Clearstream, Luxembourg, within a member state of the OECD, the EEA, a founding member state of EFTA or the Faroe Islands. Covered Bonds issued by the Issuer are subject to the aforementioned exemption.

According to the Act on Tax on Financial Activities, No. 165/2011, certain types of financial institutions, including the Issuer, are required to pay a special additional tax levied on all remuneration paid to employees. The levy is currently set at 5.5 per cent. of such remuneration. Additionally, according to Article 71 of the ITA, a special additional income tax on legal entities liable for taxation according to Article 2 of Act No. 165/2011, which includes the Issuer is set at 6.0 per cent. on income over ISK 1 billion, disregarding joint taxation and transferable losses. The aforementioned taxes and levies placed on the Issuer increases the cost burden on the Issuer and subjects it to a competitive disadvantage relative to other competitors, which are not subject to such taxes or levies. See further in "*Description of the Issuer- Competition*".

The Issuer may be subject to additional taxes or levies in the future, so there can be no assurance that additional taxes and levies could increase the Issuer's cost of funding and operating costs generally, reduce the ability of the Issuer to compete effectively with other lenders and/or decrease the Issuer's lending volumes and margins

any of which could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds. Any such increase could have a material adverse effect on the financial condition of the Issuer and its ability to make payments in respect of the Covered Bonds.

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, the Covered Bonds holders in some circumstances may experience different legal protections than they would expect as holders of securities issued by banks in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation. Complying with regulation that is in continual change can be resource intensive and exposes the Issuer to a risk of non-compliance, which could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations and its ability to make payments in respect of the Covered Bonds.

Judgments entered against Icelandic entities in the courts of a state which is not a party to the Lugano Convention (including, as at the date of this Base Prospectus, the United Kingdom) may not be recognised or enforceable in Iceland

A judgment entered against a company incorporated in Iceland in the courts of a state which is not a party to the Convention on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters made in Lugano on 30 October 2007 (the "**Lugano Convention**") as a Contracting State (as defined in the Lugano Convention), would not be recognised or enforceable in Iceland as a matter of law without a retrial on its merits (but will be of persuasive authority as a matter of evidence before the courts of law of Iceland). As at the date of this Base Prospectus, the United Kingdom and Iceland are not bound by any agreement, treaty or other instrument on mutual recognition and enforcement of judgments applicable in relation to the Covered Bonds. The United Kingdom has applied to re-accede to the Lugano Convention as an independent contracting state, but the other contracting states have, as at the date of this Base Prospectus, not approved the application. As a result, a final judgment in civil or commercial matters relating to the Covered Bonds obtained in the courts of England against the Issuer, will, in principle, neither be recognised nor enforceable in Iceland. However, if a Covered Bondholder brings a new action in a competent court in Iceland, the final judgment rendered in an English court may be submitted to the Icelandic court, but will only be regarded as evidence of the outcome of the dispute to which it relates, and the Icelandic court has full discretion to rehear the dispute ab initio. Any retrial on a judgment's merits could therefore significantly delay or prevent the enforcement by Covered Bondholders of the Issuer's obligations under the Covered Bonds.

Foreign exchange transactions may be subject to capital controls, which with any changes due to national economic circumstances or otherwise, could have a material adverse effect on the Issuer's business

Foreign exchange transactions are not restricted unless explicitly restricted by law. The same applies to cross-border payments and capital transfers. The Foreign Exchange Act, No. 70/2021 (the "**Foreign Exchange Act**") grants the Central Bank powers to take measures to prevent severe disruption of monetary, exchange rate, and financial stability. Central Bank Rules No. 223/2019, on special reserve requirements for new foreign currency inflow is a capital inflow management measure to temper inflows of foreign currency and to affect the composition of such inflows. See further in "*Rules on special reserve requirements for new foreign currency inflows – Capital inflow restrictions*". Central Bank Rules No. 412/2022, on derivatives transactions in which the Icelandic krona is specified in a contract against foreign currency, authorised all derivatives transactions, irrespective of their purpose, but placed restrictions on the total amount of financial institutions' derivatives transactions. If economic circumstances in Iceland were to change, there can be no assurance that the Central Bank, would not re-impose elements of the capital controls which have already been lifted. Additionally, even

if the capital controls were to be lifted in full and on a permanent basis, the level of foreign direct investment in Iceland may be affected by a market perception that capital restrictions could be re-imposed in the future, which could limit the growth prospects of the Icelandic economy and ultimately for the Issuer which could have a material adverse effect on the Issuer's business and result of operations and its ability to make payments in respect of the Covered Bonds.

FACTORS THAT ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH COVERED BONDS ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Covered Bonds

A wide range of Covered Bonds may be issued under the Programme. See further in "*Terms and Conditions of the Covered Bonds*" A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of the most common such features.

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

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

- (a) the market price for such Covered Bonds may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Covered Bonds in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the possible effect on yield.

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

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

If the optional redemption feature of the Covered Bonds is stated as being applicable in the Final Terms, it is likely to limit their market value. During any period when the Issuer may elect to redeem Covered Bonds or when the Issuer is perceived by the market to have a redemption rights available to it, the market value of those Covered Bonds generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

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

The market continues to develop in relation to risk free rates which may be reference rates for Floating Rate Covered Bonds.

Investors should be aware that the market continues to develop in relation to risk-free rates, such as the Sterling Overnight Index Average ("**SONIA**"), the Secured Overnight Financing Rate ("**SOFR**") and the new euro short-term rate ("**€STR**"), as reference rates in the capital markets for sterling, U.S. Dollar and euro bonds, respectively, and their adoption as alternatives to the relevant interbank offered rates. Likewise, the Central Bank of Iceland introduced the Icelandic Króna Overnight ("**IKON**") reference rate in 2022. In addition, market participants and relevant working groups are still exploring alternative reference rates based on risk-free rates, including various ways to produce term versions of certain risk-free rates (which seek to measure the market's forward expectation of an average of these reference rates over a designated term, as they are overnight rates) or different measures of such risk-free rates. For example, on 2 March 2020, the Federal Reserve Bank of New York, as administrator of SOFR, began publishing the SOFR Compounded Index and on 3 August 2020, the Bank of England, as the administrator of SONIA, began publishing the SONIA Compounded Index. The Central Bank of Iceland began publishing the IKON on 1 April 2022.

The market or a significant part thereof may adopt an application of risk-free rates that differs significantly from that set out in the Conditions and used in relation to Covered Bonds that reference such risk-free rates issued under this Programme. The Issuer may in the future also issue Covered Bonds referencing SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, €STR, or IKON that differ materially in terms of interest determination when compared with any previous SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, €STR, or IKON referenced Covered Bonds issued by it under this Programme. The development of risk-free rates for the Eurobond markets could result in reduced liquidity or increased volatility, or could otherwise affect the market price of any Covered Bonds that reference a risk-free rate issued under this Programme from time to time.

In addition, the manner of adoption or application of risk-free rates in the Eurobond markets may differ materially compared with the application and adoption of risk-free rates in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of such reference rates in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Covered Bonds referencing such risk-free rates.

The use of risk-free rates as reference rates for Eurobonds is nascent, and may be subject to change and development in terms of the methodology used to calculate such rates, the development of rates based on risk-free rates and the development and adoption of market infrastructure for the issuance and trading of bonds referencing risk-free rates. In particular, investors should be aware that several different methodologies have been used in covered bonds linked to such risk-free rates issued to date and no assurance can be given that any

particular methodology, including the compounding formula in the terms and conditions of the Covered Bonds, will gain widespread market acceptance. In addition, the methodology for determining any overnight rate index used to determine the Rate of Interest in respect of certain Covered Bonds could change during the life of such Covered Bonds.

Covered Bonds referencing risk-free rates may also have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities referencing such risk-free rates, such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of such Covered Bonds may be lower than those of later-issued indexed debt securities as a result. Further, if the relevant risk-free rates do not prove to be widely used in securities like the Covered Bonds, the trading price of such Covered Bonds linked to such risk-free rates may be lower than those of Covered Bonds referencing indices that are more widely used. Investors in such Covered Bonds may not be able to sell such Covered Bonds at all or may not be able to sell such Covered Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

Certain administrators of risk-free rates have published hypothetical and actual historical performance data. Hypothetical data inherently includes assumptions, estimates and approximations and actual historical performance data may be limited in the case of certain risk-free rates. Investors should not rely on hypothetical or actual historical performance data as an indicator of the future performance of such risk-free rates.

Investors should consider these matters when making their investment decision with respect to any Covered Bonds which reference SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, €STR, or IKON.

Risk-free rates differ from interbank offered rates in a number of material respects

Risk-free rates may differ from interbank offered rates in a number of material respects, including (without limitation) by being backwards-looking in most cases, calculated on a compounded or weighted average basis, risk-free, overnight rates and, in the case of SOFR, secured, whereas such interbank offered rates are generally expressed on the basis of a forward-looking term, are unsecured and include a risk-element based on interbank lending. As such, investors should be aware that risk-free rates may behave materially differently to interbank offered rates as interest reference rates for the Covered Bonds. For example, since publication of SOFR began on 3 April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmarks or other market rates.

Risk-free rates offered as alternatives to interbank offered rates also have a limited history. For that reason, future performance of such rates may be difficult to predict based on their limited historical performance. The level of such rates during the term of the Covered Bonds may bear little or no relation to historical levels. Prior observed patterns, if any, in the behaviour of market variables and their relation to such rates such as correlations, may change in the future.

Furthermore, interest on Covered Bonds which reference a backwards-looking risk-free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Covered Bonds which reference such risk-free rates to reliably estimate the amount of interest which will be payable on such Covered Bonds, and some investors may be unable or unwilling to trade such Covered Bonds without changes to their IT systems, both of which could adversely impact the liquidity of such Covered Bonds. Further, in contrast to Covered Bonds linked to interbank offered rates, if Covered Bonds referencing backwards-looking SONIA, SOFR, €STR, or IKON are redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Covered Bonds shall be determined by reference to a shortened period ending immediately prior to the date on which the Covered Bonds are scheduled for redemption.

Any of the administrators of SONIA, SOFR, €STR or IKON may make changes that could change the value of SONIA, SOFR, €STR or IKON or discontinue SONIA, SOFR, €STR or IKON respectively

The Bank of England, the Federal Reserve Bank of New York, the European Central Bank or the Central Bank of Iceland (or their successors) as administrators of SONIA (and SONIA Compounded Index), SOFR (and SOFR Compounded Index), €STR or IKON, respectively, may make methodological or other changes that could change the value of these risk-free rates and/or indices, including changes related to the method by which such rates and/or indices are calculated, eligibility criteria applicable to the transactions used to calculate such rates and/or indices, or timing related to the publication of SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, €STR, or IKON. In addition, an administrator may alter, discontinue or suspend calculation or dissemination of SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, €STR, or IKON, in which case a fallback method of determining the interest rate on the Covered Bonds will apply in accordance with the Conditions (see "*The regulation and reform of "benchmarks" may adversely affect the value of Floating Rate Covered Bonds linked to or referencing such "benchmarks"*" and "*Future discontinuance of benchmark rates (for example, EURIBOR, NIBOR) may adversely affect the value of Floating Rate Covered Bonds which are linked to or which reference any such benchmark rate*"). An administrator has no obligation to consider the interests of Covered Bondholders when calculating, adjusting, converting, revising or discontinuing any such risk-free rate.

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

Fixed/Floating Rate Covered Bonds may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this may affect the secondary market and the market value of the Covered Bonds since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Covered Bonds may be less favourable than the prevailing spreads on comparable floating rate Covered Bonds tied to the same Reference Rate. In addition, the new floating rate at any time may be lower than the rates on other Covered Bonds. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Covered Bonds.

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

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

Covered Bonds 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 Covered Bonds) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates compared to prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility compared to more conventional interest-bearing securities with comparable maturities. Any such price volatility may have an adverse effect on the market value of any Covered Bonds issued at a substantial discount or premium to their principal amount.

The Covered Bonds may be subject to extendable obligations that may change the Maturity Date, Interest Payment Dates and Interest Periods for the Covered Bonds concerned

Following the failure by the Issuer to pay the Final Redemption Amount of a Series of Covered Bonds on their Maturity Date, payment of such unpaid amounts shall be deferred if the applicable Final Terms specify that an Extended Maturity Date is applicable and a deferral of the Maturity Date is granted by the Icelandic FSA at such time (a "**Maturity Extension Approval**").

Under the Icelandic Covered Bond Act, a Maturity Extension Approval is subject to the following conditions:

- (a) the deferral is necessary for the purposes of:
 - (i) preventing default on a Covered Bond or a derivative contract without the sale of assets at a substantial discount;
 - (ii) early intervention by the Icelandic FSA or the resolution of the Issuer achieving the objective of Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms; or
 - (iii) optimising the claims of Covered Bondholders and counterparties of derivative contracts upon the winding-up or liquidation of the Issuer;
- (b) that the deferral is explicitly authorised pursuant to the Terms and Conditions of the Covered Bond, which set out the final maturity date, the maturity extension triggers, the consequences that insolvency or resolution of the Issuer may have on the extension and the role of the Icelandic FSA with regard to such deferral; and
- (c) that the deferral does not affect the maturity schedule of other Covered Bonds collateralised by the same cover pool.

The Issuer is required (pursuant to the Icelandic Covered Bond Act) to promptly inform the Covered Bondholders of the deferral of the maturity of the Covered Bonds and the duration of such deferral. Further, under Condition 9.10 (Extension of Maturity Date), the Issuer shall promptly inform the Covered Bondholders of a Maturity Extension Approval.

With respect to paragraph (a)(ii) above, the objective of the Act referred to therein (as set out in Article 1 of such Act) is to preserve financial stability, inter alia, by ensuring the continuity of essential economic activities and preventing significant adverse impact on the financial system. Further, the objective of the Act is to minimise the risk of reliance on public financial support to private companies, and to protect depositors, investors and client assets.

To the extent that the Issuer has sufficient funds available to pay in part the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds following the deferral of the Maturity Date as described above, the Issuer shall make partial payment of the relevant Final Redemption Amount as described in Condition 9.10(e). Payment of all unpaid amounts shall, following the deferral of the Maturity Date as described above, be deferred automatically until the applicable Extended Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Maturity Date.

The Extended Maturity Date and the applicable interest rate will be specified in the relevant Final Terms. Interest will continue to accrue on any unpaid amount and be payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date. In these circumstances, failure by the Issuer to make payment in respect of the Final Redemption Amount on the Maturity Date shall not

constitute a default in payment by the Issuer provided a Maturity Extension Approval has been granted by the Icelandic FSA. However, failure by the Issuer to pay the Final Redemption Amount or the balance thereof on the Extended Maturity Date and/or interest on such amount on any Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date shall constitute a default in payment by the Issuer.

Furthermore, in relation to all amounts constituting accrued interest due and payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date, as provided in the applicable Final Terms, the Issuer may pay such interest pursuant to the Floating Rate set out in the applicable Final Terms notwithstanding that the relevant Covered Bond was a Fixed Rate Covered Bond as at its relevant Issue Date.

In addition, following deferral of the Maturity Date, the Interest Payment Dates and Interest Periods may change as set out in the applicable Final Terms.

The regulation and reform of "benchmarks" may adversely affect the value of Floating Rate Covered Bonds linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks" (including EURIBOR) are the subject of international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or disappear entirely, or have other consequences that cannot be predicted.

The EU Benchmarks Regulation applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things, it (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). The UK Benchmarks Regulation among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Covered Bonds linked to a rate or index deemed to be a benchmark, in particular, if the methodology or other terms of a benchmark are changed in order to comply with the requirements of the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

The euro risk-free rate working group for the euro area has published a set of guiding principles and high level recommendations for fallback provisions in, amongst other things, new euro denominated cash products (including bonds) referencing EURIBOR. The guiding principles indicate, among other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates.

Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to such benchmark; (ii) trigger changes in the rules or methodologies used in the benchmarks or (iii) lead to the disappearance of the benchmark.

Any of the above changes or any other consequential changes to benchmarks as a result of EU, United Kingdom, or other international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes could have a material adverse effect on the trading market for, value of and return on any Covered Bonds linked to such benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation reforms and/or the UK Benchmarks Regulation, as applicable, investigations and licensing issues in making any investment decision with respect to the Covered Bonds linked to a benchmark.

Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under Covered Bonds linked to a benchmark or could have a material adverse effect on the value or liquidity of, and the amount payable under such Covered Bonds. Investors should consider these matters when making their investment decision with respect to such Covered Bonds.

Future discontinuance of benchmark rates (for example, EURIBOR, NIBOR) may adversely affect the value of Floating Rate Covered Bonds which are linked to or which reference any such benchmark rate

The Central Bank of Iceland has indicated with an announcement that the continuation of certain "IBOR" benchmark on the current basis is not guaranteed after 2021. Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Covered Bonds which are linked to or which reference such benchmark rate will be determined for the relevant period by the fallback provisions specified in the applicable Final Terms.

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 Covered Bonds, the return on the relevant Covered Bonds and the trading market for securities based on the same Benchmark.

The "*Terms and Conditions of the Covered Bonds*" provide for certain fallback arrangements in the event that a published Benchmark, including an inter-bank offered rate such as EURIBOR or other relevant reference rates (including, without limitation, SOFR, SONIA, IKON and/or €STR), (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), all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser). In certain circumstances, the ultimate fallback for the purposes of calculation of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which was applied in respect of a previous Interest Period.

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

There can be no assurance that use of proceeds of Covered Bonds issued as Sustainable Finance Instrument will be suitable for an investor's investment criteria. Any failure to use the net proceeds of any Sustainable Finance Instrument properly, may affect the value and/or trading price and/or may have consequences for certain investors, with portfolio mandates to invest in assets with particular purpose.

The Final Terms relating to any specific Series of Covered Bonds may provide that the Covered Bonds are intended to be Sustainable Covered Bonds (which may include, *inter alia*, sustainable, green, social and/or blue Covered Bonds ("**Sustainable Finance Instrument**")). The Issuer intends to allocate an amount equal to the net proceeds from Sustainable Finance Instruments to finance or refinance, in whole or in part, Eligible Activities and Assets (including loans, investments, expenditures and the Issuer's own eligible operations) that meet the eligibility criteria, which may include environmental, green, social and/or blue projects ("**Eligible Activities and Assets**"), in line with any Sustainable Finance Framework that the Issuer may publish from time to time. See further section "*Use of Proceeds*" of this Base Prospectus. For the avoidance of doubt, the Sustainable Finance Framework is not, and shall not be deemed to be, incorporated in and/or form part of this Base Prospectus.

No assurance can be given to investors that the use of proceeds from any Sustainable Finance Instrument may satisfy any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable standards, law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Activities and Assets as further described in any Sustainable Finance Framework that the Issuer may publish from time to time.

In addition, it should be noted that despite the publication of the "Green Bond Principles" by the International Capital Market Association to provide guidelines on issuing green instruments there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green", "environmental" "social" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green", "environmental" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Activities and Assets will meet any or all investor expectations regarding such "green", "environmental", "social", "sustainable" or other equivalently-labelled performance objectives (including Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, the so called "EU Taxonomy", once implemented) or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Activities and Assets.

In addition, no assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party, (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Sustainable Covered Bonds and in particular with any Eligible Activities and Assets to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, and shall not be deemed to be, incorporated in and/or form part of the Base Prospectus. Any such opinion or certification is not, and should not be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Sustainable Finance Instrument. Any such opinion or certification is only current as of the date that opinion was initially issued and currently providers of such opinions or certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in Sustainable Finance Instrument.

Furthermore, there is no guarantee that listing or admission any Sustainable Finance Instrument listed or admitted to trading on any dedicated "green", "environmental", "sustainable", "social" or other equivalently-labelled segment of any stock- exchange or securities market (whether or not regulated), will satisfy, whether

in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Activities and Assets. In addition, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. No assurance can be given that aforementioned listing or admission to trading in respect of any Sustainable Finance Instrument will be obtained or, if obtained, that any such listing or admission to trading will be maintained during the life of the Sustainable Finance Instrument.

It is the intention of the Issuer to apply an amount equal to the net proceeds of any Sustainable Finance Instrument in, or substantially in, the manner described in the Sustainable Finance Framework, however there can be no assurance that projects will be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and that accordingly such amounts will be totally or partially disbursed for such projects. Nor can there be any assurance that such projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure will not (i) give rise to any claim of the Covered Bondholder against the Issuer; (ii) constitute a default of the Issuer for any purpose or (iii) lead to an obligation of the Issuer to redeem such Sustainable Finance Instrument or be a relevant factor for the Issuer in determining whether or not to exercise any optional redemption rights in respect of any Sustainable Finance Instrument. Payment of principal and interest (as the case may be) on the Sustainable Finance Instrument shall not depend on the performance of the relevant project and no Dealer other than the Issuer will assess, verify, or monitor the proposed use of proceeds of Covered Bonds issued under the Programme.

Any such event or failure to invest an amount equal to the net proceeds of any issue of Covered Bonds in the manner described in the Sustainable Finance Framework as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Covered Bonds no longer being listed or admitted to trading on any stock exchange or securities market and/or any such failure to meet, or to continue to meet, the investment requirements of investors, with respect to such Sustainable Finance Instrument as aforesaid may have a material adverse effect on the value of such Covered Bonds and also potentially the value of any other Covered Bonds which are intended to finance projects in the manner described in the Sustainable Finance Instruments and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Prospective investors should consult with their legal and other advisers before making an investment in any such Sustainable Finance Instrument and must determine for themselves the relevance of such information for the purpose of any investment in such Sustainable Finance Instrument together with any other investigation such investor deems necessary.

Risks relating to the Covered Bonds issued by the Issuer

Changes to the law and the current legislation on covered bonds might affect the value of the Covered Bonds issued by the Issuer

The Covered Bonds are governed by law and regulations. The Icelandic Covered Bond Act provides that the Icelandic FSA may issue rules providing for the types of assets in a cover pool, methods for appraisal of collateral of bonds, terms and conditions for derivative agreements and conditions for the calculation of risk and interest payments. The Icelandic FSA has issued such rules, i.e. Rules No. 190/2023, on Covered Bonds (the "**Rules on Covered Bonds**") that concern, among other things, the conditions for being granted a licence to issue Covered Bonds, appraisal and revaluation of the assets in the cover pool, matching rules, derivative agreements, the covered bonds register and the eligibility and reporting of the cover pool monitor and reporting to the Icelandic FSA. Effective 1 January 2020, after the merger of the Icelandic FSA and the Central Bank, the Central Bank is now responsible for the task entrusted by law and governmental directives to the Icelandic

FSA, in accordance to cf. article 25 of the Icelandic Covered Bond Act, as amended. Any changes to the Icelandic Covered Bond Act and/or the Rules on Covered Bonds as well as other current legislation might affect the legal and regulatory risks relating to the Covered Bonds. The Icelandic Covered Bond Act entered into force on 20 March 2008. To date only a few licenses to issue covered bonds have been granted under the Icelandic Covered Bond Act and there are limited precedents on how its provisions will be interpreted or applied by Icelandic courts or administrative authorities. The preparatory works to the Icelandic Covered Bond Act gives limited guidance and the system of covered bonds secured by the cover pool lacks any clear analogues in Icelandic law that would allow for clear conclusions in respect of the Icelandic Covered Bond Act, the covered bonds or the cover pool. It is uncertain how the Icelandic Covered Bond Act and/or Rules on Covered Bonds will be interpreted by the courts or whether changes or amendments will be made to it which will affect Covered Bonds issued under the Programme. See further in section entitled "*Summary of Icelandic Legislation in Consideration of Covered Bonds*".

The Conditions are governed by English law and, in respect of Condition 4, Icelandic law, in each case as 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, Icelandic law and/or administrative practice after the date of this Base Prospectus.

A decline in the price of real estate and the housing market could affect the Issuer's ability to perform its obligations under the Covered Bonds

The Cover Pool which will secure the Covered Bonds is comprised of mortgage loans secured on residential property which, at the date of this Base Prospectus, are located in Iceland. These residential mortgage loans may be loans originally made to a borrower for the purpose of buying, constructing, altering or refinancing a residential property in which that borrower subsequently resides or may be mortgage loans made to a borrower for the purchase of that residential property for investment, rental or other purposes.

A borrower under a residential loan may default on its obligation under that residential loan. The credit risk relating to the Cover Pool is partly driven by the performance of the real estate and housing market in Iceland. There can be no assurance on the future development of the value of assets in the Cover Pool. Several circumstances may affect the level of credit loss such as changes in the economic climate, both nationally and internationally, changes in market rates, increases in taxation, inflation and changes in political policies etc. Borrowers may default and their financial standing may deteriorate as a result of, for example, changes in their own personal circumstances such as unemployment, death, illness or relationship status. Defaults in respect of the Issuer's assets in the Cover Pool under residential mortgage loans could jeopardise the Issuer's ability to make payment in full or on a timely basis on the Covered Bonds. If a substantial part of the assets in the Cover Pool were to default, there is no guarantee that the required level of assets in the Cover Pool could be maintained or that the Issuer would be able to replace the defaulting assets with non-defaulting assets. Any such failures could adversely affect the Issuer's results of operation, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds.

The Covered Bonds may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross-up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Covered Bonds.

No events of default

The Terms and Conditions of the Covered Bonds contain no contractual events of default or right to accelerate the Covered Bonds on a failure to pay, insolvency of the Issuer or otherwise. If the Issuer fails to make a payment when due or becomes insolvent, then the Covered Bonds remain outstanding in accordance with the Terms and Conditions of the Covered Bonds. The Icelandic Covered Bond Act does not stipulate to what extent it is necessary to register a security in respect of other assets in a cover pool.

Maintenance of the Register

The Issuer must maintain a register (the "**Cover Pool Register**") in respect of the Covered Bonds, the Cover Pool and any derivative agreements. If the Cover Pool Register or the value of the Cover Pool is not maintained in accordance with the Icelandic Covered Bond Act, the Icelandic FSA may revoke the Issuer's license to issue Covered Bonds. Assets in a cover pool must be endorsed showing they are part of a cover pool and have been entered in a register as provided for in the Icelandic Covered Bond Act. The endorsement must also indicate that such assets are to secure priority rights of a specific covered bond programme.

If the Issuer fails to enter the assets in the Cover Pool and payments received therefrom (such payments being "**Cover Pool Revenue**") in the Cover Pool Register, the Covered Bondholders and Swap Providers will not have priority claims to the Cover Pool and the Cover Pool Revenue and will rank with the Issuer's unsecured creditors in the event the Issuer is subject to winding-up proceedings.

Conflicting interests of other creditors

The rights of the Covered Bondholders rank junior to counterparties to derivative agreements (other than with respect to certain termination payments, as to which see "*Termination payments for Swaps*") included in the Cover Pool, though they have preferential right with respect to other creditors against the Cover Pool. Further, in the event of the winding-up of the Issuer, the rights of Covered Bondholders will rank junior to costs incurred in connection with the operation, management, collection and realisation of the Cover Pool, as well as the claims due to derivative agreements (other than with respect to certain termination payments, as to which see "*Termination payments for Swaps*") concluded in accordance with the provisions of the Icelandic Covered Bond Act, which will be covered before the claims of the Covered Bondholders.

To the extent that Covered Bondholders are not fully paid from the proceeds of the liquidation of the assets comprising the Cover Pool, they will be able to apply for the balance of their claims as unsecured creditors of the Issuer and will be entitled to receive payment from the proceeds of the liquidation of the other assets of the Issuer not comprising the Cover Pool. The Covered Bondholders would in such case rank *pari passu* with the other unsecured, unsubordinated creditors of the Issuer and, as a result, may not receive all amounts owed by the Issuer to such Covered Bondholders. Article 85(a) of the Act on the Resolution of Credit Institutions and Investment Firms No. 70/2020 provides that, should the Issuer enter into winding-up proceedings, such claims of Covered Bondholders would be subordinated to claims of the Issuer's depositors.

Restriction on ability to petition for bankruptcy

If distributions on realisation of the assets in the Cover Pool are insufficient to make payments on the Covered Bonds, none of the Covered Bondholders, any Swap Provider, any Paying Agent shall be entitled at any time to file against the Issuer, or join in any filing against the Issuer of any winding-up, bankruptcy, reorganisation, arrangement, insolvency or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations of the Issuer relating to the issuance of the Covered Bonds, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer in relation thereto.

Liquidity

If the Issuer is wound up, neither the Issuer nor its estate would be authorised to issue further Covered Bonds. It would therefore not be possible for a winding-up committee to raise finance in the market by the issuance of further Covered Bonds following the winding-up of the Issuer. Further, neither the Icelandic Covered Bond Act nor the Rules on Covered Bonds stipulate that the winding-up committee or the Issuer's estate may contract debt obligations of any kind in order to service timely payment under the terms of the Covered Bonds. There is no legislation in effect which states that the winding-up committee managing the Issuer's estate can raise loans or enter into any such agreements in order to service the timely payment of interest and principal on the Covered Bonds. Article 17(1) of the Icelandic Covered Bond Act states that the winding-up committee

shall fulfil an issuer's commitments under covered bonds and derivative agreements using the mortgage bonds and other assets in the cover pool and payments received on such assets, provided that the assets are listed in the register. However, neither the Icelandic Covered Bond Act nor the Rules on Covered Bonds provide any guidelines as to whether liquidity can be raised by selling the mortgage bonds and other assets registered to the cover pool in the market.

The Issuer is subject to liquidity requirements in its capacity as a commercial bank supervised by the Icelandic FSA, including a statutory requirement to maintain sufficient liquidity to enable it to discharge its obligations as they fall due. The Issuer is also subject to the Central Bank's Rules no. 266/2017, on Liquidity Ratios. The Icelandic FSA has issued guidelines on liquidity, which are not binding on the Issuer. However, any serious or systematic deviations from such guidelines may lead to the Icelandic FSA determining that the Issuer's business does not fulfil the statutory soundness requirement for commercial banks and result in the Icelandic FSA imposing sanctions against the Issuer. If this were to occur, there may not be sufficient assets in the resulting estate to pay such claims after the claims of depositors have been paid.

Under the Icelandic Covered Bond Act, the Issuer must maintain a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow on the Covered Bonds and related derivative contracts over the next 180 days. Pursuant to the Rules on Covered Bonds, the liquidity buffer can only consist of (i) assets that qualify as level 1, level 2A or level 2B assets pursuant to Regulation (EU) 2015/61 (as amended, the "**LCR Regulation**") and are not issued by the Issuer, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary or another subsidiary of its parent undertaking or by a securitisation special purpose entity with which the Issuer has close links, or (ii) short-term exposures to credit institutions that qualify for credit quality step 1 or 2, or credit step 3, subject to the conditions in point (c) of Article 129(1) of Regulation (EU) No 575/2013 (as amended). The Icelandic Covered Bond Act also specifically states that uncollateralised claims from exposures considered in default pursuant to Article 178 of the CRR cannot contribute to the cover pool liquidity buffer. Furthermore, the relevant credit institution is required to maintain liquid assets exceeding projected net liquidity outflows over a period of 30 days under stressed conditions under the LCR Regulation.

The Terms and Conditions of the Covered Bonds contain terms which permit their modification without the consent of the Covered Bondholders

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

In particular, in the case of Covered Bonds other than CSD Covered Bonds, the Fiscal Agent and the Issuer shall agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to:

- (a) any modification to any series of the Covered Bonds, the terms and conditions applying to Covered Bonds of one or more series, the Coupons, the Receipts, the Deed of Covenant, the Agency Agreement or any other document that has been entered into by the Issuer in relation to the Programme which (i) the Issuer in its sole discretion determines is not prejudicial to the interests of the Covered Bondholders and (ii) will not cause a downgrade in the rating of the Covered Bonds; or
- (b) any modification to any series of the Covered Bonds, the terms and conditions applying to Covered Bonds of one or more series, the Coupons, the Receipts, the Deed of Covenant, the Agency Agreement or any other document that has been entered into by the Issuer in relation to the Programme, which, in the opinion of the Issuer, 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 or to comply with the provisions of Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160, each as implemented into Icelandic law and/or to comply with the Icelandic Covered Bond Act.

Any such modification shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Covered Bondholders in accordance with Condition 15 as soon as practicable thereafter.

Pursuant to paragraph (a) above, the Issuer shall be entitled to determine in its sole discretion that any modification required in order to accommodate the substitution of a Rating Agency with respect to any Series of Covered Bonds will not be prejudicial to the interests of the Covered Bondholders provided that the relevant modifications are required to accommodate an equivalent or higher rating of the replacement Rating Agency. In such case, the related ratings requirements specified by and/or relating to such Rating Agency to be substituted (including those specified in the Deed of Covenant) shall be amended to refer to the respective requirements of the replacement Rating Agency.

The CSD Agent and the Issuer, may in certain circumstances, without the consent of the holders of the CSD Covered Bonds, make decisions binding on all holders relating to the Conditions which are not, in its opinion, prejudicial to the interests of the holders of the CSD Covered Bonds or are required to comply with the provisions of Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160 as implemented into Icelandic law and/or to comply with the provisions of the Icelandic Covered Bond Act.

Investors should note that a modification made to comply with Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160, each as implemented into Icelandic law or the Icelandic Covered Bond Act may not actually result in the Covered Bonds being in compliance with such Directive and/or Regulation or the Icelandic Covered Bond Act.

Further, such modifications may include (but shall not necessarily be limited to) the modifying of extension provisions and/or triggers under the relevant Conditions. Covered Bondholders should therefore be aware that the Conditions may be amended without their consent and that any provisions governing maturity extension of the Covered Bonds may be substantially different following such modification. Investors should also note that the Deed of Covenant may be modified, which may mean substituting a Rating Agency or modifying the Relevant Reference Currency Swap regime, without their consent.

Investors should consult their professional advisers in respect of such matters prior to purchasing any Covered Bonds.

Risks relating to Programme Structure and Transaction Documentation

The Issuer may not have eligible assets available to allocate as Additional Assets in the Cover Pool when required under the Deed of Covenant and Icelandic Covered Bond Act

Should, pursuant to the Deed of Covenant, the Asset Coverage Test be deemed to have been breached on a particular Monthly Calculation Date (see "*Overview of Transaction Documents - Deed of Covenant – Asset Coverage Test*"), the Issuer shall be obliged to allocate sufficient additional assets ("**Additional Assets**") to the Cover Pool to ensure that the Asset Coverage Test is met on the next following Monthly Calculation Date.

Assets included in the Cover Pool, such as mortgage bonds, are and will generally be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers. Early repayments of principal on mortgages may result in the Issuer being required to include Additional Assets in the Cover Pool in order for the Issuer to comply with the aforementioned requirements under the Deed of Covenant. The Icelandic Covered Bond Act requires a minimum overcollateralisation of 5 per cent. and the Issuer covenants under Condition 5.2 to overcollateralise the Cover Pool at all times by at least the higher of (i) 5 per cent.; (ii) such percentage as required under the Icelandic Covered Bond Act and/or the Rules on Covered Bonds from time to time; and (iii) such percentage as may be agreed between the Issuer and any rating agency from time to time. The Issuer will also maintain the overcollateralisation of the Cover Pool in accordance with the overcollateralisation committed to under the terms and conditions of its existing Covered Bonds, this being at least 20 per cent.

until October 2031 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full) and thereafter the level of overcollateralisation required to be maintained will be as required under Condition 5.2.

The inability of the Issuer to effect the addition of Additional Assets to the Cover Pool may have an adverse effect on the Issuer's ability to satisfy the Asset Coverage Test and/or any statutory requirements under the Icelandic Covered Bond Act, and may affect the ability of the Issuer to make payments to the Covered Bondholders when due.

The obligations of the Issuer under the Deed of Covenant are only applicable in certain circumstances

Investors should note that the Issuer's covenants with respect to operation of the Collateral Reserve Account, the Asset Coverage Test and the establishment of Issuer Accounts under the Deed of Covenant for the benefit of Covered Bondholders are only applicable in the circumstances set out under "*Overview of Transaction Documents – Deed of Covenant – Obligations of the Issuer*".

Security and insolvency considerations

Pursuant to and in the circumstances set out in the Deed of Covenant (see "*Overview of Transaction Documents – Deed of Covenant*"), the Issuer shall establish one or more Issuer Accounts and create security over each such Issuer Account for the benefit of the Covered Bondholders. In certain circumstances, including the occurrence of certain insolvency events in respect of the Issuer, the ability to realise any such security may be delayed and/or the value of the security impaired.

There can be no assurance that the Issuer will not become bankrupt and/or the subject of bankruptcy proceedings or resolution tools and/or that the Covered Bondholders would not be adversely affected by the application of insolvency or bankruptcy laws or resolution tools.

Risks related to the Cover Pool

Default by borrowers in paying amounts due on their loan

Borrowers may default on their obligations under the mortgage loans in the Cover Pool. Defaults may occur for a variety of reasons. The mortgage loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws or other laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in borrowers' individual, personal or financial circumstances may affect the ability of borrowers to repay the mortgage loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of borrowers and could ultimately have an adverse impact on the ability of borrowers to repay the mortgage loans. In addition, the ability of a borrower to sell a property pledged as security for a mortgage loan at a price sufficient to repay the amounts outstanding under that mortgage loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

The Icelandic Covered Bond Act provides that no mortgage loan may be registered in the Cover Pool if payment on it is in arrears 90 days or more. If a material amount of assets in the Cover Pool were to default, there is no guarantee that the required level of assets within the relevant Cover Pool could be maintained or that the Issuer would be in a position to substitute non-defaulting assets for the defaulting assets.

Non-compliance with matching rules

The Icelandic Covered Bond Act contains matching rules which, *inter alia*, require that the total current value of the assets registered to the cover pool as collateral for a specific covered bond programme must always exceed the total current value of the principal of the covered bonds of that same programme. The Icelandic Covered Bond Act also requires that the instalments and other payment flows accruing on assets in the cover pool and from derivative agreements are in such a manner that all commitments towards the covered bondholders and derivative agreements can be met.

A breach of the matching requirements prior to the winding-up of the Issuer in the circumstances where no additional assets are available to the Issuer or the Issuer lacks the ability to acquire additional assets could cause the Icelandic FSA to revoke the Issuer's license to issue Covered Bonds. The same applies in the event that the Issuer does not comply with other requirements prescribed in the Icelandic Covered Bond Act.

If the matching requirements are breached following the winding-up of the Issuer, the winding-up committee would not be permitted to add more assets to the Cover Pool. The Icelandic Covered Bond Act does not provide any further guidance as to the consequences of a breach of the matching rules following the winding-up of the Issuer.

To the extent that the Covered Bondholders are not fully paid from the proceeds of the liquidation of the assets comprising the Cover Pool, the Covered Bondholders will not be able to file against the Issuer or join in any filing against the Issuer of any winding-up proceedings, bankruptcy, reorganisation, arrangement, insolvency or liquidation proceedings see above "*Restriction on ability to petition for bankruptcy*". The explanatory memorandum for the Icelandic Covered Bond Act provides that assets can be removed from the cover pool and replaced with same kind of assets without limitations. If assets are replaced with substitute collateral there are limitations in the Icelandic Covered Bond Act as to how much can be replaced with such collateral. Neither the Icelandic Covered Bond Act nor the Rules on Covered Bonds provide clear guidance in this respect. This can, however, be subject to contract.

Overcollateralisation

The Icelandic Covered Bond Act requires the value of the assets in the Cover Pool at all times to exceed the value of the claims against the Cover Pool. The percentage level by which the value of the Cover Pool exceeds the nominal value of the liabilities, relating to the issued and outstanding Covered Bonds, along with all accrued interests, from time to time is known as "**overcollateralisation**". Failure to maintain sufficient assets in the Cover Pool could result in the Issuer being unable to issue further Covered Bonds or refinance existing Covered Bonds or revocation of the license from the Icelandic FSA to issue Covered Bonds. The Icelandic Covered Bond Act requires a minimum overcollateralisation of 5 per cent. and the Issuer covenants under Condition 5.2 to overcollateralise the Cover Pool at all times by at least the higher of (i) 5 per cent.; (ii) such percentage as required under the Icelandic Covered Bond Act and/or the Rules on Covered Bonds from time to time; and (iii) such percentage as may be agreed between the Issuer and any rating agency from time to time. The Issuer will also maintain the overcollateralisation of the Cover Pool in accordance with the overcollateralisation committed to under the terms and conditions of its existing Covered Bonds, this being at least 20 per cent. until October 2031 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full) and thereafter the level of overcollateralisation required to be maintained will be as required under Condition 5.2.

The licence from the Icelandic FSA to issue the Covered Bonds is in addition subject to a 30 per cent. maximum overcollateralisation. If overcollateralisation exceeds this limit the Issuer may be subject to fines or settlement with the Icelandic FSA, under Chapter X of Act No. 11/2008 on Covered Bonds. Further details are set out in the section "*Summary of Icelandic Legislation in Consideration of Covered Bonds – Coverage Requirements*".

The Cover Pool consists of limited assets

The Cover Pool consists of loans which are secured on interests in residential property, claims which the Issuer holds, or may acquire, against Covered Bond Swap Providers and certain substitute assets. All assets in the Cover Pool (including any derivative agreement) must comply with the Icelandic Covered Bond Act and the Rules on Covered Bonds. See the section entitled "*Summary of Icelandic Legislation in Consideration of Covered Bonds – Cover Pool Assets*" for a description of the assets that can constitute the Cover Pool. At the date of this Base Prospectus, all of the properties over which mortgages are created are located in Iceland. The value of the Cover Pool may therefore decline in the event of a general downturn in the value of property in Iceland, which could adversely affect the Issuer's operating results, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds. In order for the Covered Bonds to be issued with the "Premium" label under the Covered Bond Directive, the assets in the Cover Pool must (and are expected to) comply with the CRR.

Limited description of the Cover Pool

Save as stipulated in each applicable Final Terms, Covered Bondholders will not receive detailed statistics or information in relation to the assets contained or to be contained in the Issuer's Cover Pool. It is expected that the constitution of the Cover Pool may change from time to time due, for example, to the purchase or origination of further residential mortgages by the Issuer from time to time. Although an independent inspector appointed under the Icelandic Covered Bond Act will monitor the Issuer's compliance with some of the requirements of the Icelandic Covered Bond Act (the "**Independent Inspector**"), the Independent Inspector's report will not be made public. A regular report on the Cover Pool will however be published at least quarterly on the Issuer's website. Such report is expected to be in the form of the Harmonised Transparency Template (the "**HTT**"). The HTT is designed to be fully compliant with Article 129(7) CRR transparency requirements, and, from 8 July 2022, fully compliant with Article 14 of the Covered Bond Directive.

There is no assurance that the characteristics of further mortgages will be the same as those mortgages in the Cover Pool as at Issue Date. However, each mortgage will be required to meet the requirements set out in the Icelandic Covered Bond Act and appurtenant regulations.

Geographic concentration risks/location of the properties in the Cover Pool

Certain geographic regions of Iceland may from time to time experience weaker regional economic conditions and housing markets or be directly or indirectly affected by natural disasters or civil disturbances. Mortgage loans in such areas will experience higher rates of loss and delinquency than mortgage loans in general.

The ability of borrowers to make payments on mortgage loans may also be affected by factors which do not necessarily affect property values, such as adverse economic conditions generally, in particular geographic areas or industries, or affecting particular segments of the borrowing community (such as borrowers relying on commission income and self-employed borrowers). Such occurrences may accordingly affect the actual rate of delinquency and loss with respect to the mortgage loans in the Cover Pool.

The mortgage loans underlying certain series of Covered Bonds may be concentrated in certain regions. Such concentration may present the risk considerations described above in addition to those generally present for similar securities without such concentration.

The Cover Pool consists of mortgage loans which are secured in residential property. As at the date of the Base Prospectus all of the properties over which the mortgages are created are located in Iceland. The residential properties in the Cover Pool may, however, be concentrated in certain locations in Iceland. The value of the Cover Pool may decline in the event of a general or location-specific deterioration in prices of residential properties or general deterioration or location-specific deterioration in economic conditions. This could adversely affect the Issuer's operating results, financial condition and business prospects as well as its ability to perform its obligations under the Covered Bonds.

Appraisals

In accordance with the Icelandic Covered Bond Act, appraisals or valuation of the properties securing the mortgage loans may be undertaken by the Issuer, and take account of the following: (a) the selling price of a property on the day the transaction is made; or (b) an independent appraisal conducted by a licensed realtor; or (c) an acquisition offer, signed on behalf of both the seller and the buyer; or (d) the rateable value of the property, made by the Housing and Construction Authority. Appraisals based on the selling price of a property shall be valid for a period of 3 months from the day the transaction was made. Such appraisal undertaken by the Issuer will be verified by the Independent Inspector as being based on an accepted methodology. No assurance can be given that values of the properties underlying the mortgage loans have remained or will remain at the levels which existed on the dates of appraisal (or, where applicable, on the dates of appraisal updates) of the related mortgage loans.

The appraisal relates both to the land and to the structure; in fact, a significant portion of the appraised value of a property may be attributable to the value of the land rather than to the residence. Because of the unique locations and special features of certain properties, identifying comparable properties in nearby locations may be difficult. The appraised values of such properties will be based to a greater extent on adjustments made by the appraisers to the appraised values of reasonably similar properties rather than on objectively verifiable sales data. As a result, such appraisals could be more likely to overvalue certain properties and therefore overstate the value of the collateral underlying the Cover Pool.

Audit of the Cover Pool – no due diligence

Other than any reviewed interim financial statements or audited annual financial statements the Issuer does not publish any separate review or audits of the Cover Pool. However, the Issuer is subject to surveillance by an Independent Inspector in accordance with the requirements of the Icelandic Covered Bond Act and Icelandic FSA. This Independent Inspector monitors that the register is maintained in a correct manner See "*Summary of Icelandic Legislation in Consideration of Covered Bonds*" – "*Independent Inspector*" for a description of the Independent Inspector.

The Issuer will not undertake any investigations, searches or other actions in respect of the assets in the Cover Pool. The Covered Bondholders will not have the ability to investigate the Cover Pool but will instead rely on the obligations of the Issuer under the Icelandic Covered Bond Act and the supervision of the Independent Inspector.

Factors that may affect the realisable value of the Cover Pool

The Cover Pool Revenue or the realisable value of Cover Pool, in the event of the winding-up of the Issuer, may be reduced, which may affect the ability of the Issuer (or the winding-up committee in the event of the winding-up of the Issuer) to make payments on the Covered Bonds as a result of:

- Borrowers defaulting payments of amounts due on their mortgage loans;
- changes to the lending criteria of the Issuer;
- no representations or warranties being given by the Issuer;
- set-off risks in relation to some types of mortgage loans in the Cover Pool; and
- possible regulatory changes by regulatory authorities in Iceland.

Each of these factors is considered in more detail below. However, it should be noted that the matching rules under the Icelandic Covered Bond Act are intended to ensure that the value of the Cover Pool will be sufficient to enable the Issuer to meet its obligations under the Covered Bonds and any derivative agreements.

Changes to the lending criteria of the Issuer

Each of the mortgage loans originated by the Issuer will have been granted in accordance with its lending criteria at the time of origination. It is expected that the Issuer's lending criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ("LTV") ratio, status of applicants and credit history. The Issuer retains the right to revise its lending criteria from time to time but would do so only to the extent that such a change would be acceptable to a reasonable, prudent mortgage lender. If the lending criteria changes in a manner that affects the creditworthiness of the mortgage loans, that may lead to increased defaults by borrowers and may affect the Cover Pool revenue or the realisable value of the Cover Pool.

In accordance with the Icelandic Covered Bond Act the Issuer may only include in the Cover Pool mortgage loans issued against mortgages secured by real property if the LTV ratio does not exceed 80 per cent. for residential property, 60 per cent. for industrial, office or commercial property, and 70 per cent. for agricultural property. Moreover, as noted above, mortgage loans 90 days or more in arrears may not be registered in the Cover Pool.

Set-off risks in relation to some types of loans may adversely affect the value of the Cover Pool or any part thereof

Registration of assets in the Cover Pool will not affect the rights of borrowers. Borrowers will therefore continue to have independent set-off rights against the Issuer, such as, for example, set-off rights associated with such borrowers' holding deposits with the Issuer.

The exercise of set-off rights by borrowers may adversely affect the realisable value of the Cover Pool and/or the ability of the winding-up committee to meet in full the Issuer's obligation under the Covered Bonds.

No representations or warranties to be given by the Issuer if Cover Pool to be sold

In the event of the bankruptcy of the Issuer, the winding-up committee shall fulfil the Issuer's obligations under the Covered Bonds and any Swap agreements using the assets in the Cover Pool and the Cover Pool Revenue. In respect of any sale of assets in the Cover Pool to third parties, the Issuer may not be permitted to give representations and warranties or indemnities in respect of the assets in the Cover Pool. Accordingly, there is a risk that the realisable value of the Cover Pool could be adversely affected by the lack of representations and warranties or indemnities which in turn could adversely affect the ability of the administrator to meet in full all the Issuer's obligations under the Covered Bonds.

Risks relating to reliance on counterparties

The Issuer relies on third party service providers

The Issuer relies on the services, products and knowledge of third party service providers in the operation of its business. Accordingly, the Issuer faces the risk that such third party service providers become insolvent, enter into default or fail to perform their contractual obligations in a timely manner or at all or fail to perform at an adequate and acceptable level. Any such failure could lead to interruptions in the Issuer's operations or result in vulnerability of its IT systems, exposing the Issuer to operational failures, additional costs or cyber-attacks. The Issuer may need to replace a third party service provider on short notice to resolve any potential problems, and the search for and payment to a new third party service provider on short notice or any other measures to remedy such potential problems could have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds.

In addition, no assurance can be given that the third party service providers selected by the Issuer will be able to provide the products and services for which they have been contracted, for example, as a result of failing to have the relevant capabilities, products or services or due to changed regulatory requirements. Any failure of

third party service providers 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, claims, losses and damages and have a material adverse effect on the Issuer's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds.

The Issuer may cease to be an Eligible Institution

If the Issuer ceases to be an Eligible Institution, it will, in accordance with the Deed of Covenant, be required to establish the Issuer Accounts within 90 calendar days (or such longer period as may be agreed by S&P) of such ceasing. No assurance can be given that, particularly in circumstances where the Issuer has ceased to be an Eligible Institution, the Issuer would be able to establish the Issuer Accounts within such 90 calendar day period. Nor are there any assurances that S&P would agree to a longer period for establishment. Should the Issuer be unable to fulfil its obligations under the Deed of Covenant in this regard, the Issuer will be unable to issue Covered Bonds denominated in currencies other than ISK whilst such failure is continuing. The Issuer's inability to issue further non-ISK denominated Covered Bonds may have a negative impact on the value of the Covered Bonds. Further, the Issuer ceasing to be an Eligible Institution may itself have a detrimental impact on the then current value of the Covered Bonds.

Should the Issuer however be able to establish the relevant Issuer Accounts within the 90 calendar period referred to above, it shall, amongst other things, be required to provide, or procure the provision of, servicing, administration and cash management services with respect to the Cover Pool Revenue and the operation of the Issuer Accounts. The Issuer would therefore be required to procure third party service providers including, at least, a servicer and a cash manager. In addition to the risks set out in respect of third party service providers generally (as to which, see "*The Issuer may cease to be an Eligible Institution*"), in the circumstance of the Issuer being required to procure such services in the context of it ceasing to be an Eligible Institution, the Issuer may face certain obstacles including but not limited to (i) obtaining any such third party services (ii) contracting with such service providers on terms favourable to the Issuer or (iii) contracting with counterparties that are reputable in the relevant industry. In circumstances where the Issuer is unable to fulfil the relevant obligation in the Deed of Covenant in respect of the provision of the aforementioned services, the Issuer will be unable to issue Covered Bonds denominated in currencies other than ISK whilst such failure is continuing. This may have a negative impact on the value of the Covered Bonds.

Relevant Reference Currency Swaps

In circumstances where the Issuer has established a Collateral Reserve Account in connection with a Relevant Reference Currency Swap Agreement for the purposes of maintaining sufficient collateral to acquire a swap to exchange receipts from the assets comprising the Cover Pool payable in ISK and the currency of the relevant Series of Covered Bonds, the Issuer may enter into a Currency Swap Agreement with a Currency Swap Provider to provide payments on Covered Bonds denominated in currencies other than ISK.

There can be no assurance that the Issuer (or any servicer on its behalf) will have sufficient funds available to make a termination payment under the relevant Currency Swap, nor can there be any assurance that the Issuer will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by S&P.

In the event that the Issuer does not enter into a Currency Swap with an eligible Currency Swap Provider, amounts standing to the credit of the relevant Collateral Reserve Account from time to time will remain registered in the Cover Pool Register so as to form part of the Cover Pool and will be transferred to a corresponding Swap Collateral Account in accordance with the provisions of the Deed of Covenant.

There can be no assurance that on a bankruptcy of the Issuer amounts standing to the credit of the Collateral Reserve Account or Swap Collateral Account (as applicable) will be available exclusively for the benefit of

the Covered Bondholders of the relevant Series of Covered Bonds in connection with which such Collateral Reserve Account or Swap Collateral Account (as applicable) was established.

Reliance on Swap Providers

A brief description of certain risks relating to swaps is set out below.

Reliance on Currency Swaps

Subject to currency restrictions in place at each time, the Issuer may rely on the Currency Swap Providers under the Currency Swaps to provide payments on Covered Bonds denominated in currencies other than ISK. If the Issuer fails to make timely payments of amounts due or certain other events occur in relation to the Issuer under a Currency Swap and any applicable grace period has expired, then the Issuer will have defaulted under that Currency Swap. If the Issuer defaults under a Currency Swap due to non-payment or otherwise, the relevant Currency Swap Provider will not be obliged to make further payments under that Currency Swap and may terminate that Currency Swap. If a Currency Swap Provider is not obliged to make payments, or if it exercises any right of termination it may have under the relevant Currency Swap Agreement, or if it defaults in its obligations to make payments under a Currency Swap, the Issuer will be exposed to changes in currency exchange rates and in the associated interest rates on the currencies. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments due on the Covered Bonds.

Reliance on Interest Rate Swaps

Subject to currency restrictions in place at each time, in order to hedge the Issuer's interest rate risks in ISK and/or other currencies to the extent that these have not already been hedged by the Cover Pool Swap or a Currency Swap, the Issuer may enter into Interest Rate Swaps. If the Issuer fails to make timely payments of amounts due or certain other events occur in relation to the Issuer under an Interest Rate Swap and any applicable grace period has expired, then the Issuer will have defaulted under that Interest Rate Swap. If the substitute assets available to the Issuer on a payment date are insufficient to make the payment ordinarily required in full, the payment obligations of both the Issuer and the swap counterparty on that payment date may be reduced accordingly and may be deferred should the Issuer introduce deferral of payment mechanics into the interest rate swaps. If the Issuer defaults under an Interest Rate Swap due to non-payment or otherwise, the relevant Interest Rate Swap Provider will not be obliged to make further payments under that Interest Rate Swap and may terminate that Interest Rate Swap. If an Interest Rate Swap Provider is not obliged to make payments, or if it exercises any right of termination it may have under the relevant Interest Rate Swap Agreement, or if it defaults on its obligation to make payment under an Interest Rate Swap, the Issuer will be exposed to changes in interest rates. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments due on the Covered Bonds.

Reliance on Indexed Currency Swaps

Subject to currency restrictions in place at each time, the Issuer may rely on the Indexed Currency Swap Providers under Indexed Currency Swaps to provide payments on Covered Bonds denominated in currencies other than ISK and not pegged to an index. If the Issuer fails to make timely payment of amounts due or certain other events occur in relation to the Issuer under an Indexed Currency Swap and any applicable grace period has expired, then the Issuer will have defaulted under that Indexed Currency Swap. If the Issuer defaults under an Index Currency Swap due to non-payment or otherwise, the relevant Indexed Currency Swap Provider will not be obliged to make further payments under that Indexed Currency Swap and may terminate that Indexed Currency Swap. If an Indexed Currency Swap Provider is not obliged to make payments, or if it exercises any right of termination it may have under the relevant Indexed Currency Swap Agreement, or if it defaults in its obligations to make payments under an Indexed Currency Swap, the Issuer will be exposed to changes in currency exchange rates, the associated interest rates on the currencies and inflation. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments due on the Covered Bonds.

Reliance on Cover Pool Swap

In order to hedge the possible variance between the rates of interest payable on the Covered Bonds and the various rates of interest payable in respect of certain assets registered to the Cover Pool, the Issuer may enter into a Cover Pool Swap. If the Issuer fails to make timely payments of amounts due or certain other events occur in relation to the Issuer under the Cover Pool Swap and any applicable grace period has expired, then the Issuer will have defaulted under that Cover Pool Swap. If the Issuer defaults under the Cover Pool Swap due to non-payment or otherwise, the Cover Pool Swap Provider will not be obliged to make further payments under the Cover Pool Swap and may terminate the Cover Pool Swap. If the Cover Pool Swap Provider is not obliged to make payments, or if it exercises any right of termination it may have under the Cover Pool Swap Agreement, or if it defaults in its obligation to make payment under the Cover Pool Swap, the Issuer will be exposed to changes in interest rates. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payment due on the Covered Bonds.

Termination payments for Swaps

If any of the Interest Rate Swaps, Currency Swaps or Cover Pool Swap are terminated, the Issuer may as a result be obliged to make a termination payment to the relevant Swap Provider. The amount of the termination payment will be based on the cost of entering into a replacement Interest Rate Swap, Currency Swap or Cover Pool Swap, as the case may be. Any termination payment to be made by the Issuer to a Swap Provider will rank pari passu with payments due to the Covered Bondholders (other than in circumstances where the Issuer has entered into a Currency Swap Agreement in accordance with the provisions of the Deed of Covenant in connection with a relevant Series of Covered Bonds specifying that such termination payments are subordinated to all other amounts payable in respect of the relevant Series of Covered Bonds (see "*Overview of Transaction Documents– Deed of Covenant – Relevant Reference Currency Swaps*" for further details).

Potential amendments to swap agreements

If and when the Issuer enters into a swap agreement in the context of an issue of Covered Bonds, the terms of the swap agreement will be negotiated with the relevant swap provider. As a result of such negotiations, the terms of a swap agreement may contain terms that adversely affect the Issuer's operating results, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds.

Risks relating to covered bonds generally

Set out below is a brief description of certain risks relating to covered bonds generally:

The value of the Covered Bonds could be adversely affected by a change in English law and/or Icelandic law (as the case may be) or administrative practice

The Covered Bonds, the Receipts, and the Coupons (other than CSD Covered Bonds), and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law except for Condition 4, which is governed by, and construed in accordance with Icelandic law, in each case as in effect as at the date of this Base Prospectus. The CSD Covered Bonds are governed by, and construed in accordance with Icelandic law. No assurance can be given as to the impact of any possible judicial decision or change to Icelandic or English law (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 Covered Bonds affected by it.

In particular, there is limited available case law relating to the Icelandic Covered Bond Act, be it the initial Act adopted by the Icelandic Parliament on 4 March 2008 or the amended and restated Act adopted by the Parliament on 27 February 2023. It is uncertain how the Icelandic Covered Bond Act will be interpreted.

Covered Bonds issued under the Programme

Covered Bonds issued under the Programme (save in respect of the first issue of Covered Bonds) will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds issued from time to time will rank *pari passu* with each other in all respects and will rank *pari passu* with any other Covered Bonds which may be issued by the Issuer in accordance with the Icelandic Covered Bond Act.

Covered Bonds are obligations of the Issuer only

The Covered Bonds will constitute obligations of the Issuer only and have the benefit of a statutory preference under the Icelandic Covered Bond Act on the Cover Pool maintained by the Issuer. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any other natural or legal person.

In addition, an investment in the Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Covered Bonds. There can be no assurance that the Cover Pool will be sufficient to pay in full the amounts payable under the Covered Bonds programme.

No gross-up

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

In the event that any such withholding or deduction is required by law, the Terms and Conditions require the Issuer to pay additional amounts in respect of such withholding or deduction subject to customary exceptions see Condition 10. If withholding or deduction arises as a result of one of the circumstances described in paragraphs (a) to (d) of Condition 10, the Issuer will not be required to pay such additional amounts and affected investors will receive interest payments net of such withholding. If, however, the Issuer is required to pay additional amounts, it will have the option under Condition 9.4 to redeem the relevant Covered Bonds early.

The last paragraph of Condition 10 deals with Article 3 of the ITA, which states that any interest received from Iceland (outbound payments), such as the interest payable to bondholders 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 300,000); and (b) 12 per cent. for legal entities, unless the issue is exempt on the grounds that the Covered Bonds are registered with a securities depository within the EEA or OECD and has been registered as such. Further exemptions are available to the relevant bondholders in their home countries or under a double taxation treaty with Iceland.

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

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

In relation to any issue of Covered Bonds which have denominations consisting of a minimum specified denomination, as specified in the applicable Final Terms (the "**Specified Denomination**"), plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a holder of such Covered Bonds who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in their account with the relevant clearing system at the relevant time may not receive a Covered Bond in definitive form ("**Definitive Covered Bonds**"), in respect of such holding (should definitive Covered Bonds be printed or issued) and would need to purchase a principal amount of Covered Bonds such that its holding amounts to a Specified Denomination.

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

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

The Icelandic statutory exemption from withholding only applies to Covered Bonds held through a securities depository in an OECD state, an EU state, an EFTA state or the Faroe Islands. If Definitive Covered Bonds form are issued, bondholders should be aware that the tax exemption may not be available. However, the Issuer will be required to pay the necessary additional amounts under Condition 10 (Taxation), in such circumstances to cover any resulting amounts deducted.

Reliance on Euroclear and Clearstream, Luxembourg procedures

Covered Bonds (other than the CSD Covered Bonds) issued under the Programme may be represented on issue by one or more Global Covered Bonds that may be delivered to a common depository or common safe keeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in each Global Covered Bond, investors will not be entitled to receive Covered Bonds 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 Covered Bond held through it. While the Covered Bonds (other than the CSD Covered Bonds) are represented by a Global Covered Bonds, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

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

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

Risks related to the market generally

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

Interest rate risks

Interest rate risks occur when fixed interest periods or interest basis for assets and liabilities do not coincide. Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds. Investments in Floating Rate Covered Bonds will involve a risk of interest rate changes.

The Issuer may enter into Cover Pool Swaps and Interest Rate Swaps to ensure that the risks do not exceed the limit values approved by its Board of Directors and to ensure that matching is maintained in accordance with the Icelandic Covered Bond Act.

The secondary market generally

Covered Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Additionally, the market places concerned may be closed, or temporary restrictions may be imposed. Therefore, investors may not be able to sell their Covered Bonds 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 Covered Bonds that are especially sensitive to interest rate, currency or other 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 Covered Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities.

The Covered Bonds have not been, and will not be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof, as set forth under "*Subscription and Sale*".

Lack of liquidity in the secondary market may adversely affect the market value of the Covered Bonds

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

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

Illiquidity may have a severely adverse effect on the market value of the Covered Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency, subject to currency restrictions in place at each time, if the Covered Bonds are issued in currencies other than ISK. 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 Covered Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (iii) the Investor's Currency-equivalent market value of the Covered Bonds.

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

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

Trading in the clearing systems

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

Judicial considerations may restrict certain investments

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

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Covered Bonds. The credit 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 Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. A credit rating may not reflect all risks associated with an investment in the Covered Bonds.

In general, European regulated investors 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 the European Securities and Markets Authority ("**ESMA**"), on its website in accordance with the CRA Regulation, is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings will be disclosed in the Final Terms.

Investors regulated in the UK are subject to similar restrictions under the CRA Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**"). As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of credit ratings issued by third country non-UK credit rating agencies, third country credit ratings are either (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, has not been withdrawn or suspended, and to (b) transitional provisions that apply in certain circumstances.

If the status of the rating agency rating the Covered Bonds changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Covered Bonds may have a different regulatory

treatment, which may impact the value of the Covered Bonds and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Legal investment considerations may restrict certain investments

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

Rules on special reserve requirements for new foreign currency inflows – Capital inflow restrictions

In June 2016, the Central Bank published its Rules on Special Reserve Requirements for New Foreign Currency Inflows, No. 490/2016. 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 Special Reserve Requirement Rules 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, into the domestic bond market and high-yielding deposits and to strengthen the monetary policy transmission mechanism. It is therefore intended to reduce the risk that could accompany excessive capital inflows under the current regulatory framework for foreign exchange, support other aspects of domestic economic policy, and contribute to macroeconomic and financial stability.

The Special Reserve Requirement Rules contain provisions on the implementation of special reserve requirements for new foreign currency inflows, including the special reserve base, holding period, special reserve ratio, settlement currency, and interest rates on deposit institutions' capital flow accounts with the Central Bank. The 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 cent⁹), in a reserve account for a certain holding period¹⁰. Deposit institutions are required to deposit the special reserve amount that they hold in special reserve accounts to a capital flow account with the Central Bank of Iceland which bears 0 per cent. interest. The settlement currency for capital flow accounts shall be the Icelandic krona.

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

⁹ 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.

¹⁰ The special reserve requirement can also be satisfied via repo transactions with Central Bank certificates of deposit

FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached or uncertificated and dematerialised book entry form and cleared through the CSDs. The Covered Bonds will be offered and sold outside the United States to Non-U.S. persons in reliance on Regulation S under the Securities Act ("**Regulation S**").

Bearer Covered Bonds

Each Tranche of Bearer Covered Bonds will be in bearer form and will initially be issued in the form of a temporary global note (a "**Temporary Bearer Global Covered Bond**") or, if so specified in the applicable Final Terms, a permanent global note (a "**Permanent Bearer Global Covered Bond**" and, together with a Temporary Bearer Global Covered Bond, each a "**Bearer Global Covered Bond**") which, in either case, will:

- (α) if the Bearer Global Covered Bonds are intended to be issued in new global covered bond ("**NGCB**") 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 (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"); and
- (β) if the Bearer Global Covered Bonds are not intended to be issued in NGCB Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg.

Where the Bearer Global Covered Bonds issued in respect of any Tranche are in NGCB form, the applicable Final Terms will also indicate whether such Bearer Global Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Covered Bonds are to be so held does not necessarily mean that the Bearer Covered Bonds 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 NGCBs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Note is represented by a Temporary Bearer Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Covered Bond if the Temporary Bearer Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Covered Bond 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 Bearer Global Covered Bond is issued, interests in such Temporary Bearer Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Covered Bond of the same Series or (ii) for definitive Bearer Covered Bonds of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Covered Bonds. The holder of a Temporary Bearer Global Covered Bond 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 Bearer Global Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for definitive Bearer Covered Bonds is improperly withheld or refused.

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

The applicable Final Terms will specify that a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) the Issuer 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 (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Permanent Bearer Global Covered Bond in definitive form. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 15 (Notices) 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 Bearer Global Covered Bond) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Fiscal Agent 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 Bearer Covered Bonds (other than Temporary Bearer Global Covered Bonds), receipts and interest coupons relating to such Covered Bonds where TEFRA D is specified in the applicable Final Terms:

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

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Covered Bonds, receipts or interest coupons 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 Bearer Covered Bonds, receipts or interest coupons.

Covered Bonds which are represented by a Bearer Global Covered Bond 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.

Registered Covered Bonds

The Registered Covered Bonds of each Tranche will initially be represented by a global note in registered form (a "**Registered Global Covered Bond**").

Registered Global Covered Bonds will be deposited with a common depositary or, if the Registered Global Covered Bonds are to be held under the new safe-keeping structure (the "**NSS**"), a common safekeeper, as the case may be for Euroclear and Clearstream, Luxembourg, and registered in the name of the nominee for the Common Depositary of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Covered Bonds in fully registered form.

Where the Registered Global Covered Bonds issued in respect of any Tranche is intended to be held under the NSS, the applicable Final Terms will indicate whether or not such Registered Global Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Registered

Global Covered Bonds are to be so held does not necessarily mean that the Covered Bonds 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 time during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The common safekeeper for a Registered Global Covered Bond held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Registered Covered Bond Register as the registered holder of the Registered Global Covered Bonds. None of the Issuer, any Paying Agent, the Fiscal Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Registered Covered Bond Register on the relevant Record Date (as defined in Condition 8.5 (Payments in respect of Registered Covered Bonds)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Registered Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) the Issuer 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, in any such case, no successor clearing system is available or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 15 (Notices) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

CSD Covered Bonds

Each Tranche of CSD Covered Bonds will be issued in uncertificated and dematerialised book entry form. Legal title to the CSD Covered Bonds will be evidenced by book entries in the records of the CSD. Settlement of sale and purchase transactions in respect of CSD Covered Bonds in the CSD will take place in accordance with market practice at the time of the relevant transaction. Transfers of interests in the relevant CSD Covered Bonds will take place in accordance with the rules and procedures for the time being of the relevant CSD. CSD Covered Bonds will not be exchangeable for any physical Covered Bond or document of title other than statements of account made by a CSD.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), in the case of Covered Bonds other than CSD Covered Bonds, the Fiscal Agent shall arrange that, where a further

Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds at a point after the Issue Date of the further Tranche, the Covered Bonds of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Covered Bonds 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 Covered Bonds 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.

APPLICABLE FINAL TERMS

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

[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 Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds 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 Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (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 Covered Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[UK MiFIR PRODUCT GOVERNANCE / TARGET MARKET - Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("COBS") and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of United Kingdom (the "UK") domestic law by virtue of the European Union (Withdrawal) Act 2018 ("UK MiFIR"); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "UK MiFIR Product Governance Rules") is responsible for undertaking its own target market assessment in respect of the Covered Bonds (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 Covered Bonds 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 (EU) 2016/97 (as amended, the "Insurance Distribution 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 Regulation (EU) 2017/1129 of the European Parliament and of the Council (as amended, the "Prospectus Regulation"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS

The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union

(Withdrawal) Act 2018 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2019/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (as amended, 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 Covered Bonds [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.)¹¹

[Date]

LANDSBANKINN HF.

Legal entity identifier (LEI): 549300TLZPT6JELDWM92

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]
under the EUR 2,500,000,000
European Covered Bond (Premium) 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 30 November 2023 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation (the "**Base Prospectus**"). [This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 8 of the Prospectus Regulation and must be read in conjunction with the Base Prospectus in order to obtain all the relevant information.] Full information on the Issuer and the offer of the Covered Bonds 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 Issuer's website, www.landsbankinn.is/fjarfestar or www.landsbankinn.com/ir.

[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 [2022/2022 ISK/2021/2020/2019/2018/2017/2016/2015/2014/2013]¹² Terms and Conditions which are incorporated by reference in the Base Prospectus dated 30 November 2023 [and the supplement[s] to it dated [date] [and [date]]. [This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 8 of the Prospectus Regulation and must be read in conjunction with the

¹¹ For any Covered Bonds to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Covered Bonds pursuant to Section 309B of the SFA prior to the launch of the offer. For example, where Reset Bonds are issued.

¹² Only include reference to the Conditions under which the original first tranche was issued

Base Prospectus dated 30 November 2023 [and the supplement[s] to it dated [date] [and [date]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation (the "**Base Prospectus**"), including the [2022/2022 ISK/2021/2020/2019/2018/2017/2016/2015/2014/2013] Terms and Conditions incorporated by reference in the Base Prospectus]. Full information on the Issuer and the offer of the Covered Bonds 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 Issuer's website, www.landsbankinn.is/fjarfestar or www.landsbankinn.com/ir.

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

[When adding any other final terms or information consideration should be given as to whether such terms or information constitutes "significant new factors" and consequently triggers the need for a supplement to the Base Prospectus under Article 23 of the Prospectus Regulation.]

- | | |
|----------------|--|
| Issuer: | Landsbankinn hf. |
| 1. | <ul style="list-style-type: none"> (i) Series Number: [] (ii) Tranche Number: [] <p><i>(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)</i></p> <ul style="list-style-type: none"> (iii) Date on which the Covered Bonds will be consolidated and form a single Series: The Covered Bonds will be consolidated and form a single Series with [<i>identify earlier Tranches</i>] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond, as referred to in paragraph 24 below, which is expected to occur on or about [date]][Not Applicable] |
| 2. | Specified Currency or Currencies: [] |
| 3. | Aggregate Nominal Amount: |
| | <ul style="list-style-type: none"> (i) Series: [] (ii) Tranche: [] <p>[]</p> |
| 4. | Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [<i>insert date</i>] (<i>if applicable</i>)] |
| 5. | Specified Denominations: |
| | <ul style="list-style-type: none"> (i) Specified Denominations: [] |

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

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

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

(ii) Calculation Amount: []

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

6. (i) Issue Date: []

(ii) Interest Commencement Date: [Specify date/Issue Date/Not applicable]

(N.B. An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)

7. (i) Maturity Date: [Specify date]/[Interest Payment Date falling in or nearest to [specify month and year]]

(ii) Extended Maturity Date: [Applicable/Not Applicable]

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

Subject to Condition 9.10, the Extended Maturity Date is [specify date]/[Interest Payment Date falling in or nearest to [specify month and year]]

[If applicable, complete relevant sections regarding interest, etc.]

8. (i) Interest Basis to Maturity Date: [Inflation Linked Interest]
[[] per cent. Fixed Rate]

- [[[] month
 [EURIBOR/SONIA/SOFR/€STR/NIBOR/STIBOR/CIBOR/IKON/REIBOR] +/- [] per cent.
 Floating Rate]
 [Zero Coupon]
- (ii) Interest Basis from Maturity Date to Extended Maturity Date: [Inflation Linked Interest]
 [[[] per cent. Fixed Rate]
 [[[[] month
 [EURIBOR/SONIA/SOFR/€STR/NIBOR/STIBOR/CIBOR/IKON/REIBOR] +/- [] per cent.
 Floating Rate]
 [Zero Coupon]
- 9. Redemption/Payment Basis:** [Annuity]
 [Redemption at par]
 [Equal principal payments]
 [Instalment]
- 10. Change of Interest Basis or Redemption/Payment Basis:** [See paragraph [[15][16][17][18]/*Not Applicable*]
- 11. Issuer Call:** [Issuer Call]
 [Not applicable]
 [(*further particulars specified at paragraph 20 below*)]
- 12. Status of the Covered Bonds:** Senior
- 13. Approval for Issuance of the Covered Bonds:** [Date of [Board] approval for issuance of Covered Bonds obtained]:
 [Date/ Not Applicable]

 (*N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Covered Bonds*)
- 14. Calculation Agent:** [Issuer/(*specify other*)]

PROVISIONS RELATING TO INFLATION LINKED ANNUITY COVERED BONDS

- 15. Inflation Linked Annuity Covered Bonds:** [Applicable/Not Applicable]
 (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Rate(s) of Interest to Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
- (ii) Rate(s) of Interest from Maturity Date to Extended Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
- (iii) Number of Interest Payment Dates: []

- (iv) Interest Payment Date(s): [The [] day in the months of [] and [] in each year up to and including the Maturity Date]. First Interest Payment Date being []
- (v) Number of Principal Payment Dates: []
- (vi) Principal Payment Date(s): [On each Interest Payment Date/Maturity Date]
- (vii) Day Count Fraction: [30/360 / Actual/Actual (ICMA)]
- (viii) Base Index: means [*to be inserted*], being the value of the CPI on [*to be inserted*].

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

- 16. Inflation Linked Equal Principal Payment Covered Bonds:** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Rate(s) of Interest to Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
 - (ii) Rate(s) of Interest from Maturity Date to Extended Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
 - (iii) Number of Interest Payment Dates: []
 - (iv) Interest Payment Date(s): [The [] day in the months of [] and [] in each year up to and including the Maturity Date]. First Interest Payment Date being []
 - (v) Number of Principal Payment Dates: []
 - (vi) Principal Payment Date(s): [On each Interest Payment Date/Maturity Date]
 - (vii) Day Count Fraction: [30/360 / Actual/Actual (ICMA)]
 - (viii) Base Index: means [*to be inserted*], being the value of the CPI on [*to be inserted*].

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 17. Fixed Rate Covered Bond Provisions:** [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*

- (i) Rate(s) of Interest to Maturity Date: [] per cent. per annum payable in arrears on each Interest Payment Date
- (ii) Rate(s) of Interest from Maturity Date to Extended Maturity Date: [] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]]/[Not Applicable]
- (iii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]
- (iv) Fixed Coupon Amount(s) for Covered Bonds in definitive form (and in relation to Covered Bonds in global form see Conditions): [[] per Calculation Amount]
- (v) Broken Amount(s) for Covered Bonds in definitive form (and in relation to Covered Bonds in global form see Conditions): [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []]/[Not Applicable]
- (vi) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (vii) Determination Date(s): [[] in each year][Not Applicable]

(N.B. This will need to be amended in the case of long or short coupons.)

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)

18. Floating Rate Covered Bond Provisions:

[Applicable/Not Applicable]

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

- (i) Specified Period(s)/Specified Interest Payment Dates: [][, subject to adjustment in accordance with the Business Day Convention set out in paragraph 19(ii) below/, not subject to adjustment, as the Business Day Convention in paragraph 19(ii) below is specified to be Not Applicable]

[NB: Specify the Specified Period(s)/Specified Interest Payment Date(s) up to and including the Extended Maturity Date, if applicable]

- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[Not Applicable]]

- (iii) Additional Business Centre(s): [*Specify*/Not Applicable]

- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent): []/[Not Applicable]
- (vi) Screen Rate Determination
- Index Determination [Applicable/Not Applicable]

Insert only if Index Determination is not applicable

- Reference Rate: [currency] [] month
[EURIBOR/SONIA/SOFR/€STR/NIBOR/
STIBOR/IKON/REIBOR/CIBOR]
- Interest Determination Date(s): []
(Second day on which the T2 System is open prior to the start of each Interest Period if EURIBOR. Second Oslo, Stockholm, Reykjavík or Copenhagen (as the case may be) business day prior to the start of each Interest Period if NIBOR, STIBOR, IKON, REIBOR or CIBOR

NB: Specify the Interest Determination Date(s) up to and including the Extended Maturity Date, if applicable
- Relevant Screen Page: []/ [Bloomberg Page SONIO/N Index]/[New York Federal Reserve's Website]/[ECB's Website]/[Central Bank of Iceland's website]

(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)
- Relevant time: [[] in the Relevant Financial Centre]/[Not Applicable]¹³
- Relevant Financial Centre: []
- Calculation Method: [Weighted Average/Compounded Daily/Not Applicable]
- Observation Method: [Lag/Lock-out/Observation Shift/Payment Delay/Not Applicable]

¹³ Select "Not Applicable" for SONIA, SOFR, €STR or IKON.

- Observation Look-back Period: []/[Not Applicable]¹⁴
- D: [365/360/[●]/[Not Applicable]]
- Rate Cut-off Date: [The date falling [] Business Days prior to the Maturity Date or the date fixed for redemption, as applicable – *used for Payment Delay only*]¹⁵/[Not Applicable]

Insert only if Index Determination is applicable

- SONIA Compounded Index: [Applicable/Not Applicable]
 - SOFR Compounded Index: [Applicable/Not Applicable]
 - €STR Compounded Index [Applicable/Not Applicable]
 - Interest Determination Date: []/[The day falling the Relevant Number of Index Days prior to the relevant Interest Payment Date, or such other date on which the relevant payment of interest falls due (but which, by its definition or the operation of the relevant provisions, is excluded from the relevant Interest Period)]
 - Relevant Decimal Place: []/[As per the Conditions]¹⁶
 - Relevant Number: []/[As per the Conditions]
 - Numerator: []/[As per the Conditions]
 - (vii) ISDA Determination: [Applicable/Not Applicable]
- (If not applicable, delete the remaining items of this subparagraph (vii))*
- Floating Rate Option: []
 - Designated Maturity: []
- (A Designated Maturity period is not relevant where the relevant Floating Rate Option is a risk-free rate)*
- Reset Date: []

¹⁴ The Observation Look-back Period should be at least as many Business Days before the Interest Payment Date as the Interest Determination Date. "Observation Look-back Period" is only applicable where "Lag" or "Observation Shift" is selected as the Observation Method; otherwise, select "Not Applicable".

¹⁵ The Rate Cut-off Date should be at least 5 Business Days before the Maturity Date or the date fixed for redemption, unless otherwise agreed with the Fiscal Agent.

¹⁶ This should be a number that is five or greater where Compounded Daily SONIA is applicable and two or greater where Compounded Daily SOFR is applicable.

(In the case of a EURIBOR based option, the first day of the Interest Period)

- (viii) 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*)]
- (ix) Margin(s) to Maturity Date: [+/-] [] per cent. per annum
- (x) Margin(s) from Maturity Date to Extended Maturity Date: [+/-] [] per cent. per annum
- (xi) Minimum Rate of Interest: [[] per cent. per annum/Not Applicable]
- (xii) Maximum Rate of Interest: [[] per cent. per annum/Not Applicable]
- (xiii) Day Count Fraction: [[Actual/Actual (ISDA)][Actual/Actual][Actual/365][Actual/365 (Fixed)][Actual/365 (Sterling)][Actual/360][30/360][360/360][Bond Basis][30E/360 (ISDA)]]
- Fallback provisions and rounding provisions: [Applicable/Not Applicable]
- (xiv) Maximum Interest Amount: [Applicable/Not Applicable]

19. Zero Coupon Covered Bond Provisions: [Applicable/Not Applicable]

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

- (i) Accrual Yield: [] per cent. per annum
- (ii) Reference Price: []
- (iii) Day Count Fraction in relation to Early Redemption Amounts and late payment: [30/360][Actual/360][Actual/365]

PROVISIONS RELATING TO REDEMPTION

20. Issuer Call: [Applicable/Not Applicable]

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

- (i) Optional Redemption Date(s): []

- (ii) Optional Redemption Amount of each Covered Bond: [[] per Calculation Amount] [[] per Covered Bond of [] Specified Denomination] [Condition 9.4 applies]
- (iii) Early Redemption Amount: [As set out in Condition 9.4]
- (iv) If redeemable in part:
 - (i) Minimum Redemption Amount: []
 - (ii) Maximum Redemption Amount: []

Notice period: Minimum period: [] days

Maximum period: [] days

(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)

21. Final Redemption Amount of each Covered Bond: [] per Calculation Amount/ [[] per Covered Bond of [] Specified Denomination]/[see Appendix]/[Not Applicable]

22. Early Redemption Amount of each Covered Bond payable on redemption [] 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 COVERED BONDS

23. New Global Covered Bond: [Yes/No]

24. Form of Covered Bonds: [CSD Covered Bonds]

[Bearer Covered Bonds:

[Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for definitive Covered Bonds upon an Exchange Event]

[Temporary Global Covered Bond exchangeable for definitive Covered Bonds on and after the Exchange Date]

[Permanent Global Covered Bond exchangeable for definitive Covered Bonds upon an Exchange Event]]

[Registered Covered Bonds:

[Global Covered Bond registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]

25. Additional Financial Centre(s) or other special provisions relating to Payment Days:

[Not Applicable/*give details*]

(Note that this item relates to the place of payment and not Interest Period end dates)

26. Talons for future Coupons or Receipts to be Attached to definitive Covered Bonds (and dates on which such Talons mature):

[Yes, as the Covered Bonds 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]

27. Details relating to Instalment Covered Bonds:

(i) Instalment Amount(s):

[Not Applicable/*give details*]

(if not applicable, delete the remaining subparagraphs of this paragraph)

(ii) Instalment Date(s):

[Not Applicable/*give details*]

DISTRIBUTION

28. (i) Method of distribution:

[Syndicated/Non-syndicated]

(ii) If syndicated, names of Managers:

[Not Applicable/*give names*]

(iii) Stabilisation Manager (if any):

[Not Applicable/*give names*]

29. If non-syndicated, name of relevant Dealer:

[]

30. U.S. selling restrictions:

Reg. S. Compliance Category [2];
[TEFRA C]/[TEFRA D]/[TEFRA Not Applicable]

31. **Relevant Benchmark:** [EURIBOR/Compounded Daily SONIA/Compounded Daily SOFR/[●]] is provided by [European Money Markets Institute/[●]]. As at the date hereof, [EURIBOR/Compounded Daily SONIA/Compounded Daily SOFR/[●]] [[appears]/[does not appear]] in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the **EU Benchmarks Regulation**.) [[As far as the Issuer is aware, as at the date hereof, the transitional provisions in Article 51 of the EU Benchmarks Regulation apply, such that [European Money Markets Institute]/[●]] is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence)] OR [[●] does not fall within the scope of the EU Benchmarks Regulation]/[Not Applicable]
32. **European Covered Bonds (Premium)** [Yes]/[No]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [[*Relevant third party information, for example in compliance with Annex 15 to the Prospectus Regulation in relation to an index or its components*] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading].

THIRD PARTY INFORMATION

[[*Relevant third-party information*] has been extracted from [specify source]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By:

Duly authorised

By:

Duly authorised

PART B - OTHER INFORMATION

1. LISTING

- (i) Listing: [Official List of Euronext Dublin/Nasdaq Iceland Main Market/None]
- (ii) Admission to trading: [Application has been made for the Covered Bonds to be admitted to trading on [the Regulated Market of Euronext Dublin/the Nasdaq Iceland Main Market] with effect from [●].]/[Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading []

2. RATING

[Not Applicable]/[The Covered Bonds to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Covered Bonds 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].

[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]

[Each of *[insert legal name of relevant credit rating agency entity providing rating]* is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**").]

[Insert legal name of relevant credit rating agency entity providing rating] is not established in the EU but the rating it has given to the Covered Bonds is endorsed by *[insert legal name of credit rating agency]*, which is established in the EU and 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 is certified 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 and is not certified under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**") and the rating it has given to the Covered Bonds is not endorsed by a credit rating agency under the CRA Regulation.

(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the programme generally or, where the issue has been specifically rated, that rating.)

3. NOTIFICATION

[Applicable/Not Applicable]

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

[The [Central Bank of Ireland] [has been requested to provide/has provided – *include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues*] the [Financial Supervisory Authority of the Central Bank of Iceland] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Regulation.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the issue. 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 Issuer 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 23 of the Prospectus Regulation.)]

5. REASON FOR THE OFFER, USE OF PROCEEDS, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

(i) Reason for the offer [General corporate purposes]

[Sustainable Finance Instrument: The Issuer intends to apply an amount equal to the net proceeds from this offer of Covered Bonds specifically for Eligible Activities and Assets (*include any further detail if desired, including whether the issuance is to fund environmental, green, social and/or blue projects*), as further described in the Issuer's applicable Sustainable Finance Framework. See "*Use of Proceeds*" in the Base Prospectus and the Issuer's Sustainable Finance Framework, available at the Issuer's website.]

[Specify other]

(ii) Use of proceeds: [For general funding purposes of the Issuer/*specify other*]

(iii) Estimated net proceeds: []

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

Indication of yield: [[] per cent per annum] [/Not Applicable]

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

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

[Not Applicable/Details of historic [EURIBOR/SONIA/SOFR/€STR/NIBOR/STIBOR IKON/REIBOR/CIBOR] rates can be obtained from [Central Bank of Iceland¹⁷ /Bloomberg]]

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

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

[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 23 of the Prospectus Regulation.)]

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

9. OPERATIONAL INFORMATION

(i) ISIN: []

(ii) Common Code: []

(iii) CFI: [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: [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 Classification of Financial Instruments Code ("CFI") and/or the Financial Instrument Short Name ("FISN") is not required, requested or available, it/they should be specified to be "Not Applicable")

(v) Any Clearing system(s) other than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme (together with the address of [Not Applicable/give name(s) and number(s)]/CSD. The Issuer shall be entitled to obtain certain information from the register maintained by the relevant CSD for the purpose of performing its obligations under the issue of [CSD Covered Bonds]. The [CSD Agent] shall be entitled to

¹⁷ <https://www.cb.is/other/key-interest-rate/>

- each such clearing system) and the relevant identification number(s): obtain such information as is required to perform its duties under the Terms and Conditions of the Covered Bonds and rules and regulations of, and applicable to, the relevant CSD.]
- (vi) Delivery: Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): [Not Applicable/*give details*]
- (viii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper[,and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] *[include this text for Registered Covered Bonds which are to be held under the NSS]* and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon 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 Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper *[include this text for Registered Covered Bonds]*. Note that this does not necessarily mean that the Covered Bonds 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.]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Covered Bond (as defined below). Reference should be made to "Form of the Covered Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.

The Covered Bonds are bonds issued by Landsbankinn hf. (the "**Issuer**") in accordance with the Icelandic Covered Bond Act no. 11/2008 (as amended, the "**Icelandic Covered Bond Act**") and Rules No. 190/2023 on covered bonds (the "**Rules on Covered Bonds**").

This covered bond is one of a Series (as defined below) of Covered Bonds issued by the Issuer.

References herein to the "**Covered Bonds**" shall be references to the Covered Bonds of this Series and shall include:

- (a) in relation to any Covered Bonds represented by a global Covered Bond (a "**Global Covered Bond**"), units of the lowest denomination specified in the relevant Final Terms (the "**Specified Denomination**") in the currency specified in the relevant Final Terms (the "**Specified Currency**");
- (b) any definitive Covered Bonds in bearer form ("**Bearer Covered Bonds**") issued in exchange for a Global Covered Bond in bearer form;
- (c) any definitive Covered Bonds in registered form ("**Registered Covered Bonds**") (whether or not issued in exchange for a Global Covered Bond in registered form); and
- (d) any Covered Bonds issued in uncertificated book entry form cleared through the Nasdaq CSD, Iceland Branch, or Verðbréfamiðstöð Íslands hf. (each a "**CSD**" and together the "**CSDs**") ("**CSD Covered Bonds**"). CSD Covered Bonds are in dematerialised form. Any references in these Terms and Conditions (the "**Conditions**") to Receipts, Coupons and Talons shall not apply to CSD Covered Bonds and no global or definitive Covered Bonds will be issued in respect of CSD Covered Bonds.

The Covered Bonds (other than the CSD Covered Bonds), the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement dated 30 November 2023 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") and made between the Issuer and Citibank, N.A. London Branch as fiscal agent (the "**Fiscal Agent**", which expression shall include any successor agent) and any other paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), Citibank Europe PLC as registrar (the "**Registrar**", which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents). In relation to the CSD Covered Bonds, Landsbankinn hf. will act as the CSD system account manager (the "**CSD Agent**", which expression shall include any additional agent appointed by the Issuer from time to time in relation to the CSD Covered Bonds). The Fiscal Agent, the Calculation Agent (if any is specified in the applicable Final Terms), the Registrar and the Paying Agents, the CSD Agent, and other Transfer Agents together referred to as the "**Agents**".

Interest bearing definitive Bearer Covered Bonds have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Covered Bonds repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Covered Bonds and Global Covered Bonds do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Covered Bond (or the relevant provisions thereof), as set out in Part A of the Final Terms which are (except in the case of CSD Covered Bonds) attached to or endorsed on this Covered Bond, complete these Conditions. References to the "**applicable Final Terms**" are to Part A of the Final Terms (or the relevant provisions thereof) which are (except in the case of CSD Covered Bonds) attached to or endorsed on this Covered Bond and (in the case of the CSD Covered Bonds) which are deposited with a CSD. The expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129.

Any reference to "**Covered Bondholders**" or to **holders** or to **Investor(s)** in relation to any Covered Bonds shall mean (in the case of Bearer Covered Bonds) the holders of the Covered Bonds, (in the case of Registered Covered Bonds) the persons in whose name the Covered Bonds are registered and (in the case of CSD Covered Bonds) the persons who are for the time being shown in the records of the relevant CSD as the holders of the Covered Bonds, and shall, in relation to any Covered Bonds represented by a Global Covered Bond and any CSD Covered Bonds, be construed as provided below. Any reference herein to "**Receipholders**" shall mean the holders of the Receipts and any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

The Covered Bondholders, the Receipholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the "**Deed of Covenant**") dated 30 November 2023 and made by the Issuer. The original of the Deed of Covenant is held by the common depository 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 Issuer and at the specified office of each of the Paying Agents, save that, if this Covered Bond 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 Regulation, the applicable Final Terms can only be obtained by a Covered Bondholder holding one or more Covered Bonds and such Covered Bondholder must produce evidence satisfactory to the Issuer or, as the case may be, the relevant Paying Agent as to its holding of such Covered Bonds and identity. The Covered Bondholders, the Receipholders 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.

Copies of the applicable Final Terms are available for viewing on the Issuer's website, www.landsbankinn.is/fjarfestar or www.landsbankinn.com/ir.

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

1. DEFINITIONS

Interpretation: In these Conditions:

- Covered Bonds and Covered Bondholder shall be deemed to include references to Coupons and Coupon-holders, respectively, where relevant;
- if Talons are specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Coupons shall be deemed to include references to Talons;
- if Talons are not specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Talons are not applicable;
- any reference to principal shall be deemed to include Final Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 10, any premium payable in respect of a Covered Bond and any other amount in the nature of principal payable pursuant to these Conditions;
- any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 10 and any other amount in the nature of interest payable pursuant to these Conditions;
- if an expression is stated in this Condition 1 (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to Covered Bonds;
- CSD Covered Bonds are in dematerialised form, and any references in these Terms and Conditions to Coupons and Talons shall not apply to CSD Covered Bonds and no global or definitive Covered Bonds will be issued in respect thereof;
- if the Covered Bonds are Zero Coupon Covered Bonds, references to Coupons and Couponholders are not applicable; and
- where the word "including" appears in these Conditions the words "without limitation" shall be deemed to be inserted immediately afterwards.

Accrual Period	In accordance with Condition 7.9(c)(i), the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date.
Accrual Yield	In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.
Additional Business Centre	The meaning (if any) given in the applicable Final Terms.
Additional Financial Centre	The meaning (if any) given in the applicable Final Terms.
Amortised Face Amount	The meaning given in Condition 9.6(b).
Annuity Amount	The meaning given in Condition 8.1(a).
Annuity Covered Bonds	Covered Bonds which will be redeemed in Annuity Amounts (subject to adjustment for indexation in

	accordance with the provisions specified in the applicable Final Terms) on one or more Interest Payment Dates as specified in the applicable Final Terms.
Applicable Final Terms	The form of Final Terms (Part A of the Final Terms or the relevant provisions thereof) which will be completed for each Tranche of Covered Bonds issued under the Programme.
Base Index	Means the index value defined in the applicable Final Terms, being the value of the CPI on the date defined in the applicable Final Terms.
Business Day Convention	In respect of a Tranche of Covered Bonds and either the Specified Periods or the Interest Payment Dates, the business day convention specified in the applicable Final Terms and determined in accordance with Conditions 7.9(b).
Calculation Agent	The meaning (if any) given in the applicable Final Terms.
Clearstream, Luxembourg	Clearstream Banking, société anonyme, 42 Avenue JF KennedyL-1855, Luxembourg, or its successors.
Couponholders	The holders of the Coupons (which expression shall, unless the context otherwise requires, include the holders of the Talons).
Coupons	Interest coupons expressing the amount payable by way of interest in respect of definitive Covered Bonds.
Cover Pool	A collection of bonds, substitute collateral and other assets listed in the Register, as provided for in Chapter VI of the Icelandic Covered Bond Act, over which the Covered Bondholders and Issuer's counterparties have rights of priority pursuant to the provisions of the Icelandic Covered Bond Act.
Cover Pool Member States	A state which is a party to the Agreement on the European Economic Area or the European Free Trade Association Treaty, or the Faroe Islands.
CIBOR	Copenhagen Inter Bank Offered Rate.
CPI	The consumer price indexation, as calculated by Statistics Iceland in accordance with the Act on Price Indexation No. 12/1995 (<i>Ice. Lög um vísitölu neysluverðs nr. 12/1995</i>) and published monthly in the Legal Gazette (<i>Ice. Lögbirtingablaðið</i>) in Iceland.
CSD	Nasdaq CSD SE, Iceland Branch, Reg.No. 510119-0370, with its registered office at Laugavegur 182, 105 Reykjavík (<i>Ice. Nasdaq CSD SE, útibú á Íslandi.</i>) or

Verðbréfamiðstöð Íslands hf., Reg. No. 451015-2140, with its registered office at Fiskislóð 31, 101 Reykjavík.

Day Count Fraction	The meaning given in Condition 7.9(c).
Dealer	Any dealer appointed by the Issuer (if any).
Determination Date	The meaning given in the applicable Final Terms.
Determination Period	The meaning given in Condition 7.9(d).
Early Redemption Amount	The amount calculated in accordance with Condition 9.4.
Equal Payment Amount	The meaning given in Condition 8.1(b).
EU	The European Union.
EURIBOR	Euro-zone Inter Bank Offered Rate.
Euroclear	Euroclear Bank S.A./N.V., 1, Boulevard du Roi Albert II B – 1210 Brussels, or its successor.
Extended Maturity Date	Means, if applicable, the date specified in the applicable Final Terms as being the Extended Maturity Date.
Final Redemption Amount	The meaning given in the applicable Final Terms.
Final Terms	In relation to listing, each Tranche will be the subject to the Final Terms which, for the purposes of that Tranche only, completes the Terms and Conditions of the Covered Bonds and this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Covered Bonds are the Terms and Conditions of the Covered Bonds as completed, amended and/or replaced by the relevant Final Terms.
Fiscal Agent	Citibank, N.A., London Branch, or any successor agent appointed as such.
Fixed Rate Covered Bonds	Covered Bonds that pay a fixed rate of interest on such date or dates as specified in the applicable Final Terms.
Floating Rate Covered Bonds	Covered Bonds which bear interest at a rate determined: <ul style="list-style-type: none">(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or

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

IFRS	International Financial Reporting Standards.
IKON	Means the Icelandic króna overnight rate.
Index ratio	The value of the Index Ratio (" IR ") on the relevant Interest Payment Date shall be the value of the Reference Index (" RI ") applicable to the relevant Interest Payment Date divided by the value of the Base Index (" BI ") as calculated the Issuer.
Inflation Linked Annuity Covered Bonds	Covered Bonds that pay an Annuity Amount on such date or dates as decided by the Issuer and set out in the Final Terms.
Inflation Linked Equal Principal Payment Covered Bonds	Covered Bonds that pay an Equal Payment Amount on such date or dates as decided by the Issuer and set out in the Final Terms.
Instalment Amounts	In respect of Instalment Covered Bonds, each amount specified as such in the applicable Final Terms.
Instalment Covered Bonds	Covered Bonds which will be redeemed in Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.
Instalment Dates	In respect of Instalment Covered Bonds, each date specified as such in the applicable Final Terms.
Interest Amount	The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 7.4(d) or the amount of interest payable on Inflation Linked Annuity Covered Bonds or Inflation Linked Equal Payment Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Conditions 7.1 and 7.2 respectively.
Interest Commencement Date	In the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which interest will accrue in respect of the relevant Covered Bonds.
Interest Determination Date	In respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms.
Interest Payment Date	In respect of Fixed Rate Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Payment Covered Bonds, the meaning given in the

	applicable Final Terms and in respect of Floating Rate Covered Bonds the meaning given in Condition 7.4(a).
Interest Period	In accordance with Condition 7.7(e) the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.
ISDA	International Swaps and Derivatives Association, Inc.
ISDA Definitions	The meaning given in Condition 7.4(b).
ISDA Determination	If specified as applicable in the applicable Final Terms Document, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 7.4(b).
ISDA Rate	The meaning given in Condition 7.4(b).
ISK or Icelandic Krona or krónur	The lawful currency of the Republic of Iceland.
Issue Date	Each date on which the Issuer issues a Tranche of Covered Bonds under the Programme, as specified in the applicable Final Terms.
Issue Price	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Tranche of Covered Bonds will be issued and as specified in the applicable Final Terms.
Issuer or Landsbankinn hf.	Landsbankinn hf., Reg. No. 471008-0280, having its registered office at Reykjastræti 6, 101 Reykjavík, Iceland.
Issuer Call	If specified as applicable in the applicable Final Terms, the provision by which the Issuer may redeem a Series of Covered Bonds in accordance with Condition 9.3.
Margin	As specified in the applicable Final Terms (if any).
Maturity Date	As specified in the applicable Final Terms.
Maximum Rate of Interest	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms.
Maximum Redemption Amount	The amount specified as such in the applicable Final Terms.
Member State	A state which is a member of the European Economic Area.
Minimum Rate of Interest	In respect of Floating Rate Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms.

Minimum Redemption Amount	The amount specified as such in the applicable Final Terms.
Mortgage	Each mortgage loan referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys due or owing with respect to that mortgage loan under the relevant mortgage terms by a borrower to the Issuer on the security of a mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same, and eligible to be added to the Cover Pool.
Nasdaq Iceland	The main market of Nasdaq Iceland hf., Reg.No. 681298-2829, with its registered office at Laugavegur 182, 105 Reykjavík, Iceland.
Optional Redemption Amount	The meaning (if any) given in the applicable Final Terms.
Optional Redemption Date	The meaning (if any) given in the applicable Final Terms.
Overcollateralisation	The percentage level by which the Value of the Cover Pool exceeds the nominal value of the liabilities, relating to the issued and outstanding Covered Bonds, along with all accrued interests, from time to time.
NIBOR	Norwegian Inter Bank Offered Rate.
Payment Day	The meaning given in Condition 8.8.
Principal Amount Outstanding	The meaning given in Condition 7.7(f).
Programme	The €2,500,000,000 European covered bond (Premium) programme established by the Issuer.
Rate of Interest	In respect of a Series of interest-bearing Covered Bonds, the rate of interest payable from time to time in respect of such Covered Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms.
Rating Agency	Any rating agency engaged by the Issuer to assign a rating to a Series of Covered Bonds including any successor to any such rating agency's rating business, and Rating Agencies shall be construed accordingly.
Receipts	Receipts for the payment of instalments other than the final instalment attached on issue to Definitive Bonds repayable in instalments.
Receiptholders	The holders of Receipts (which expression shall, unless the context otherwise requires, include the holders of the Talons).
Record Date	The meaning given in Condition 8.5.

Redeemed Covered Bonds	The meaning given in Condition 9.3.
Reference Price	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.
Reference Rate	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms.
Registrar	Citibank Europe PLC, or any successor registrar appointed as such.
Registered Covered Bond Register	Register of holders of the Registered Covered Bonds maintained by the Registrar.
Regulation S	Regulation S under the Securities Act.
REIBOR	Reykjavík Inter Bank Offered Rate.
Relevant Screen Page	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the Final Terms.
Relevant Subsidiary	Means any Subsidiary other than (i) a Subsidiary acquired, formed or operated in relation to the merger and acquisitions services provided to a customer of the Issuer for the purpose of completing a transaction or restructuring a company or (ii) any Subsidiary acquired or formed as a result of the Issuer's foreclosure activities in relation to its general banking business.
Screen Rate Determination	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 7.4(b).
Series	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.
Specified Currency	Subject to any applicable legal or regulatory restrictions, euro, Sterling, U.S. Dollars and such other currency or currencies as may be agreed from time to time by the Issuer, the relevant Dealer and the Fiscal Agent and specified in the applicable Final Terms.
Specified Denomination	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds at the minimum amount of EUR 100,000 as specified in the applicable Final Terms.

Specified Interest Payment Date	In respect of Floating Rate Covered Bonds, the meaning (if any) given in the applicable Final Terms.
STIBOR	Stockholm Inter Bank Offered Rate
Subsidiary	Means an entity from time to time of which the Issuer (i) has direct or indirect control or (ii) owns directly or indirectly more than 50 per cent. of the share capital or similar ownership; "control" for this purpose means the power to direct the management and the policies of the entity, whether through the ownership of voting capital, by contract or otherwise.
Talons	Talons for further Coupons in respect of interest-bearing definitive Covered Bonds.
Terms and Conditions or Conditions	The terms and conditions of the Covered Bonds.
Tranche	An issue of Covered Bonds which are identical in all respects (including as to listing and admission to trading).
Transfer Agent	Citibank, N.A., London Branch, or any successor agent appointed as such.
Value	The nominal par value of the Cover Pool along with all accrued interest (but excluding the nominal par value of each Mortgage within the Cover Pool which is in arrears for 90 days or longer at the relevant time).
Zero Coupon Covered Bonds	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest.
€, Euro, EUR or euro	The currency of the European Economic Monetary Union.
£ or Sterling	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.
\$, U.S.\$, U.S. Dollars, US Dollars or USD	The lawful currency for the time being of the United States of America.

2. FORM, DENOMINATION AND TITLE

The Covered Bonds will be issued in bearer form (the "**Bearer Covered Bonds**"), registered form (the "**Registered Covered Bonds**"), or, in the case of CSD Covered Bonds, uncertificated book entry form, as specified in the applicable Final Terms and, in the case of definitive Covered Bonds, serially numbered, in the currency (the "**Specified Currency**") and the denomination (the "**Specified Denomination(s)**") specified in the applicable Final Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination. CSD Covered Bonds may not be exchanged for Bearer Covered Bonds or Registered Covered Bonds and *vice versa*.

The Covered Bonds may be an Inflation Linked Annuity Covered Bond, an Inflation Linked Equal Principal Payment Covered Bond, a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero

Coupon Covered Bond or a combination of any of the foregoing, depending upon the Interest Basis and Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Covered Bonds are issued with Coupons attached, unless they are Zero Coupon Covered Bonds in which case references to Coupons and Couponholders in the Conditions are not applicable. Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery and title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Covered Bond, Receipt or Coupon and the registered holder of any Registered Covered Bond 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 Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Covered Bonds are represented by a Global Covered Bond held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), or so long as the Covered Bond is a CSD Covered Bond, each person (other than Euroclear, Clearstream, Luxembourg or the CSDs, as applicable, who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg and/or the CSDs, as the case may be, as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg, or its nominee, or the CSDs as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the relevant Agents as the holder of such nominal amount of such Covered Bonds for all purposes other than (in the case only of Covered Bonds not being CSD Covered Bonds) with respect to the payment of principal or interest on the Covered Bonds, for which purpose, the bearer of the relevant Bearer Global Covered Bond or the registered holder of the relevant Registered Global Covered Bond shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond (and the expressions "**Covered Bondholder**" and "**holder of Covered Bonds**" and related expressions shall be construed accordingly). The Issuer shall be entitled to obtain certain information from the register maintained by the relevant CSD for the purpose of performing its obligations under the issue of CSD Covered Bonds. The CSD Agent shall be entitled to obtain such information as is required to perform its duties under the Terms and Conditions of the Covered Bonds and rules and regulations of, and applicable to, the CSDs.

Covered Bonds which are represented by a Global Covered Bond 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. 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.

Each Tranche of CSD Covered Bonds will be issued in uncertificated and dematerialised book entry form. Legal title to the CSD Covered Bonds will be evidenced by book entries in the records of the relevant CSD. Title to the CSD Covered Bonds will pass by registration in the register between the direct account holders at the relevant CSD in accordance with the rules and procedures of that CSD. The person evidenced (including any nominee) as a holder of the CSD Covered Bonds shall be treated by the Issuer and the CSD Agent as the holder of such CSD Covered Bonds for the purposes of payment of principal and interest on such CSD Covered Bonds. Settlement of sale and purchase transactions in respect of CSD Covered Bonds in the relevant CSD will take place in accordance with market practice at the time of the relevant transaction.

3. TRANSFERS OF REGISTERED COVERED BONDS

3.1 Transfers of interests in Registered Global Covered Bonds

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond of the same series only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

3.2 Transfers of Registered Covered Bonds in definitive form

Subject as provided in Condition 3.3 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders thereof must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

3.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Covered Bonds under Condition 9 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Covered Bonds, or part of a Registered Covered Bonds, called for partial redemption.

3.4 Costs of registration

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

4. STATUS OF THE COVERED BONDS

The Covered Bonds and any related Receipts and Coupons constitute direct, unconditional and unsubordinated obligations of the Issuer and rank *pari passu* among themselves and with all other outstanding unsubordinated obligations of the Issuer that have been provided equivalent priority of claim to Covered Bonds issued in accordance with the terms of the Icelandic Covered Bond Act.

On the winding up or voluntary or involuntary liquidation of the Issuer, the Covered Bondholders will, by virtue of the Icelandic Covered Bond Act, have certain rights of priority over, and be senior to the other creditors of the Issuer in respect of, the Cover Pool and payments received with respect to the Cover Pool, but junior to claims in respect of derivative agreements concluded or issued in accordance with the terms of the Icelandic Covered Bond Act.

5. ISSUER COVENANTS

5.1 Negative pledge

In accordance with the Icelandic Covered Bond Act, cf. Article 12(4), the Issuer undertakes, so long as any of the Covered Bonds, Receipts or Coupons remain outstanding, that it will not, and that it will procure that none of its Relevant Subsidiaries will, create or have outstanding any mortgage, charge, pledge, lien or other security interest over the assets in the Cover Pool, other than any lien arising by operation of law (if any).

5.2 Maintenance of the Issuer's Cover Pool

For so long as the Covered Bonds are outstanding, the value of the Cover Pool will not at any time be less than the total aggregate outstanding principal amount of all Covered Bonds issued under the Programme plus an Overcollateralisation of at least the higher of (i) 5 per cent.; (ii) such percentage as required under the Icelandic Covered Bond Act and/or the Rules on Covered Bonds from time to time; and (iii) such percentage as may be agreed between the Issuer and any rating agency from time to time.

The Issuer will maintain an Overcollateralisation of at least 20 per cent. until October 2031 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full).

5.3 Composition of the Issuer's Cover Pool

For so long as any of the Covered Bonds are outstanding the Issuer shall ensure that the Cover Pool maintained or to be maintained by the Issuer shall at all times comply with the requirements of the Icelandic Covered Bond Act and the Rules on Covered Bonds.

5.4 Interest cover

The amounts of interest received by the Issuer in respect of the Cover Pool and under the related derivative contracts entered into by the Issuer shall be at least equal to or exceed the amounts payable by the Issuer under the Covered Bonds and the related derivative contracts entered into by the Issuer.

6. [NOT USED]

7. INTEREST

7.1 Interest on Inflation Linked Annuity Covered Bonds

Each Inflation Linked Annuity Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest.

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

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

where,

I_k = Interest Repayment Factor for period k

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

c = the Rate of Interest of the relevant bond

f = the number of interest payments per year

n = the number of Interest Payment Dates

k = the number of payments that have already been made

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

The resultant figure shall be rounded to the nearest amount in the Specified Currency. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date. Payment(s) on each Interest Payment Date is the sum of the relevant Principal Repayment and the Interest Payment.

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

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

where,

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

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

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

where,

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

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

d = the relevant calendar date

D = number of calendar days in the relevant calendar month

Provided that if the Reference Index is lower than the Base Index, the Reference Index shall equal the Base Index.

And

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

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

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

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by using the same methodology.

7.2 Interest on Inflation Linked Equal Principal Payment Covered Bonds including Covered Bonds with one payment of Principal on Maturity Date

Each Inflation Linked Equal Principal Payment Covered Bond, including Covered Bonds with one payment of principal on Maturity Date, bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest.

Interest is calculated on each Interest Payment date as the Principal Amount Outstanding as defined in Condition 8.1(b) on each Interest Payment Date multiplied with the Rate of Interest and, the appropriate Day Count Fraction and rounding the resultant figure to the nearest amount in the Specified Currency. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by using the same methodology.

7.3 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrears on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Covered Bonds 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 or the relevant payment date if the Covered Bonds become payable on a date other than an Interest Payment Date.

Except in the case of Covered Bonds 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 Covered Bonds which are (i) represented by a Global Covered Bond; (ii) Registered Covered Bonds in definitive form or (iii) CSD Covered Bonds, the aggregate outstanding nominal amount of (A) the Fixed Rate Covered Bonds represented by such Global Covered Bond; (B) such Registered Global Covered Bonds, or (C) such CSD Covered Bonds; or
- (b) in the case of Fixed Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction.

The resultant figure (including after application of any Fixed Coupon Amount or Broken Amount, as applicable, to the aggregate outstanding nominal amount of Fixed Rate Covered Bonds which are Registered Covered Bonds in definitive form or the Calculation Amount in the case of Fixed Rate Covered Bonds which are Bearer Covered Bonds in definitive form) shall be rounded 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 Covered Bond which is a Bearer Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

7.4 Interest on Floating Rate Covered Bonds

(a) Interest Payment Dates

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

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

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

(b) **Rate of Interest**

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

(i) *ISDA Determination for Floating Rate Covered Bonds*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent or the Calculation Agent or the CSD Agent, as applicable, under an interest rate swap transaction if the Fiscal Agent or the Calculation Agent or the CSD Agent, as applicable, 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 Covered Bonds (the "**ISDA Definitions**"), and under which:

- (i) the Floating Rate Option is as specified in the applicable Final Terms;
 - (ii) the Designated Maturity is the period specified in the applicable Final Terms; and
- 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.

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

(iii) *Screen Rate Determination for Floating Rate Covered Bonds (other than Floating Rate Covered Bonds which reference SONIA, SOFR, €STR, or IKON)*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined and the Reference Rate specified in the applicable Final Terms is not SONIA, SOFR, €STR or IKON, 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 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. (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. (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 Issuer shall request each of the Reference Banks to provide the Issuer with its offered quotation (and the Issuer shall then provide the Fiscal Agent with the same) (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (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 Issuer 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 Issuer 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 the Issuer by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (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 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 Issuer 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. (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 Issuer it is quoting to leading banks in 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 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 Issuer.

- (iv) *Screen Rate Determination for Floating Rate Covered Bonds which reference SONIA, SOFR, €STR or IKON*
- (i) If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, Index Determination is specified in the relevant Final Terms as not applicable and the Reference Rate specified in the relevant Final Terms is SONIA, SOFR, €STR or IKON:
- (A) where the Calculation Method in respect of the relevant Series of Covered Bonds is specified in the relevant Final Terms as being "**Compounded Daily**", the Rate of Interest applicable to the Covered Bonds for each Interest Period will (subject to Condition 7.7 (*Interest - Benchmark discontinuation*) and Condition 7.4(c) (*Interest on Floating Rate Covered Bonds – Minimum Rate of Interest and/or Maximum Rate of Interest*) and subject as provided below) be the Compounded Daily Reference Rate plus or minus (as indicated in the relevant Final Terms) the Margin, all as determined by the Fiscal Agent on the Interest Determination Date and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards.
- (B) where the Calculation Method in respect of the relevant Series of Covered Bonds is specified in the relevant Final Terms as being "**Weighted Average**", the Rate of Interest applicable to the Covered Bonds for each Interest Period will (subject to Condition 7.7 (*Interest - Benchmark discontinuation*) and Condition 7.4(c) (*Interest on Floating Rate Covered Bonds – Minimum Rate of Interest and/or Maximum Rate of Interest*) and subject as provided below) be the Weighted Average Reference Rate plus or minus (as indicated in the relevant Final Terms) the Margin, all as determined by the Fiscal Agent on the Interest Determination Date and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards.
- (ii) Where "**SONIA**" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 7.7 (*Interest - Benchmark discontinuation*), if, in respect of any Business Day, the Fiscal Agent determines that the SONIA rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA rate shall be:
- (A) (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at 5.00 p.m. (or, if earlier, close of business) on the relevant Business Day; plus (ii) the mean of the spread of the SONIA rate to the Bank Rate over the previous five days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads); or

- (B) if the Bank Rate is not published by the Bank of England at 5.00 p.m. (or, if earlier, close of business) on the relevant Business Day, the SONIA rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding Business Day on which the SONIA rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors),

and, in each case, "r" shall be interpreted accordingly.

Notwithstanding the paragraph above, and without prejudice to Condition 7.7 (*Interest - Benchmark discontinuation*), in the event of the Bank of England publishing guidance as to (i) how the SONIA rate is to be determined or (ii) any rate that is to replace the SONIA rate, the Fiscal Agent shall, in accordance with the instructions of the Issuer, follow such guidance to the extent practicable and to the extent such guidance does not increase obligations or duties of the Fiscal Agent in order to determine the SONIA rate, for purposes of the Covered Bonds, for so long as the SONIA rate is not available or has not been published by the authorised distributors.

- (iii) Where "**SOFR**" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 7.7 (*Interest - Benchmark discontinuation*), if, in respect of any Business Day, the Fiscal Agent determines that the Reference Rate does not appear on the Relevant Screen Page, such Reference Rate shall be the SOFR for the first preceding Business Day on which the SOFR was published on the Relevant Screen Page ("r" shall be interpreted accordingly).
- (iv) where "**€STR**" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 7.7 (*Interest - Benchmark discontinuation*), if, in respect of any Business Day, the Fiscal Agent determines that the Reference Rate does not appear on the Relevant Screen Page, such Reference Rate shall be the €STR for the first preceding Business Day on which the €STR was published on the Relevant Screen Page;
- ("r" shall be interpreted accordingly).
- (v) Where "**IKON**" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 7.7 (*Interest - Benchmark discontinuation*), if, in respect of any Business Day, the Fiscal Agent determines that the Reference Rate does not appear on the Relevant Screen Page, such Reference Rate shall be the IKON for the first preceding Business Day on which the IKON was published on the Relevant Screen Page ("r" shall be interpreted accordingly).
- (vi) In the event that the Rate of Interest for the relevant Interest Period cannot be determined in accordance with the foregoing provisions by the Fiscal Agent, subject to Condition 7.7 (*Interest - Benchmark discontinuation*), the Rate of Interest for such Interest Period shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest (as specified in the relevant Final Terms) is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period), (ii) if there is no such preceding Interest Determination Date and the relevant Interest Period is the first Interest Period for the Covered Bonds, the initial Rate of Interest which would have been applicable to such Series of Covered Bonds for the first Interest Period had the Covered Bonds been in

issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period) or (iii) if there is no such preceding Interest Determination Date and the relevant Interest Period is not the first Interest Period for the Covered Bonds, the Rate of Interest which applied to the immediately preceding Interest Period.

- (vii) For the purposes of this Condition 7.4(b)(iv) (*Interest on Floating Rate Covered Bonds - Rate of Interest - Screen Rate Determination for Floating Rate Covered Bonds which reference SONIA, SOFR, €STR or IKON*):

If "**Payment Delay**" is specified in the relevant Final Terms as being applicable, all references in these Conditions to interest on the Covered Bonds being payable on an Interest Payment Date shall be read as reference to interest on the Covered Bonds being payable on an Effective Interest Payment Date instead;

"**Applicable Period**" means,

- (A) where "**Lag**", "**Lock-out**" or "**Payment Delay**" is specified as the Observation Method in the relevant Final Terms, Interest Period; and
- (B) where "**Observation Shift**" is specified as the Observation Method in the relevant Final Terms, Observation Period;

"**Business Day**" or "**BD**", means, (i) where "**SONIA**" is specified as the Reference Rate, any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London; (ii) where "**SOFR**" is specified as the Reference Rate, any day which is a U.S. Government Securities Business Day and is not a legal holiday in New York and is not a date on which banking institutions in those cities are authorised or required by law or regulation to be closed; (iii) where "**€STR**" is specified as the Reference Rate, a day on which the TARGET2 System is open; and (iv) where "**IKON**" is specified as the Reference Rate, a day on which commercial banks or savings banks are open for business in Iceland, from Monday through Friday;

"**Calculation Method**" has the meaning given in the relevant Final Terms;

"**Compounded Daily Reference Rate**" means, with respect to an Interest Period, the rate of return of a daily compound interest investment in the Specified Currency (with the applicable Reference Rate (as indicated in the relevant Final Terms and further provided for below) as the reference rate for the calculation of interest) and will be calculated by the Fiscal Agent as at the relevant Interest Determination Date as follows, and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{r_{i-pBD} \times n_i}{D} \right) - 1 \right] \times \frac{D}{d}$$

where:

"**D**" is the number specified in the relevant Final Terms;

"**d**" means, for the relevant Applicable Period, the number of calendar days in such Applicable Period;

"**d**," means, for the relevant Applicable Period, the number of Business Days in such Applicable Period;

"**Effective Interest Payment Date**" means any date or dates specified as such in the relevant Final Terms;

"**€STR**" means, in respect of any Business Day, a reference rate equal to the daily euro short-term rate for such euro Business Day as provided by the European Central Bank, as administrator of such rate (or any successor administrator of such rate), on the website of the European Central Bank as at the date of this Base Prospectus at <http://www.ecb.europa.eu>, or any successor website officially designated by the European Central Bank (the "**ECB's Website**") in each case, on or before 9:00 a.m., (Central European Time) on the Business Day immediately following such Business Day;

"**i**" means, for the relevant Applicable Period, a series of whole numbers from one to do, each representing the relevant Business Day in chronological order from, and including, the first Business Day in such Applicable Period;

"**IKON**" means, in respect of any Business Day, a reference rate equal to the weighted average interest rate on unsecured deposits held by obliged entities overnight for such Business Day as provided by the Central Bank of Iceland, as administrator of such rate (or any successor administrator of such rate), on the website of the Central Bank of Iceland, in each case, no later than at 11:00 a.m., (Greenwich Mean Time) on the Business Day immediately following such Business Day;

"**Lock-out Period**" means the period from, and including, the day following the Interest Determination Date to, but excluding, the corresponding Interest Payment Date;

"**n_i**", for any Business Day "**i**" in the Applicable Period, means the number of calendar days from, and including, such Business Day "**i**" up to but excluding the following Business Day;

"**New York Federal Reserve's Website**" means the website of the Federal Reserve Bank of New York as at the date of this Base Prospectus at <http://www.newyorkfed.org>, or any successor website of the Federal Reserve Bank of New York;

"**Observation Method**" shall be as set out in the relevant Final Terms;

"**Observation Period**" means, in respect of the relevant Interest Period, the period from, and including, the date falling "**p**" Business Days prior to the first day of such Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date which is "**p**" Business Days prior to the Interest Payment Date for such Interest Period (or the date falling "**p**" Business Days prior to such earlier date, if any, on which the Covered Bonds become due and payable);

"**p**" means, for any Interest Period:

(A) where "**Lag**" is specified as the Observation Method in the relevant Final Terms, the number of Business Days included in the Observation Look-back

Period specified in the relevant Final Terms (or, if no such number is specified two Business Days);

- (B) where "**Lock-out**" is specified as the Observation Method in the relevant Final Terms, zero;
- (C) where "**Observation Shift**" is specified as the Observation Method in the relevant Final Terms, the number of Business Days included in the Observation Look-back Period specified in the relevant Final Terms (or, if no such number is specified, two Business Days);

"r" means:

- (A) where in the relevant Final Terms "**SONIA**" is specified as the Reference Rate and either "**Lag**" or "**Observation Shift**" is specified as the Observation Method, in respect of any Business Day, the SONIA rate in respect of such Business Day;
- (B) where in the relevant Final Terms "**SOFR**" is specified as the Reference Rate and either "**Lag**" or "**Observation Shift**" is specified as the Observation Method, in respect of any Business Day, the SOFR in respect of such Business Day;
- (C) where in the relevant Final Terms "**€STR**" is specified as the Reference Rate and either "**Lag**" or "**Observation Shift**" is specified as the Observation Method, in respect of any Business Day, the €STR in respect of such Business Day;
- (D) where in the relevant Final Terms "**IKON**" is specified as the Reference Rate and either "**Lag**" or "**Observation Shift**" is specified as the Observation Method, in respect of any Business Day, the IKON in respect of such Business Day;
- (E) where in the relevant Final Terms "**SONIA**" is specified as the Reference Rate and "**Lock-out**" is specified as the Observation Method:
 - (1) in respect of any Business Day "**i**" that is a Reference Day, the SONIA rate in respect of the Business Day immediately preceding such Reference Day, and
 - (2) in respect of any Business Day "**i**" that is not a Reference Day (being a Business Day in the Lock-out Period), the SONIA rate in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date);
- (F) where in the relevant Final Terms "**SOFR**" is specified as the Reference Rate and "**Lock-out**" is specified as the Observation Method:
 - (1) in respect of any Business Day "**i**" that is a Reference Day, the SOFR in respect of the Business Day immediately preceding such Reference Day, and
 - (2) in respect of any Business Day "**i**" that is not a Reference Day (being a Business Day in the Lock-out Period), the SOFR in respect of the

Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date);

- (G) where in the relevant Final Terms "**€STR**" is specified as the Reference Rate and "**Lock-out**" is specified as the Observation Method:
- (1) in respect of any Business Day "**i**" that is a Reference Day, the €STR in respect of the Business Day immediately preceding such Reference Day, and
 - (2) in respect of any Business Day "**i**" that is not a Reference Day (being a Business Day in the Lock-out Period), the €STR in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date);
- (H) where in the relevant Final Terms "**IKON**" is specified as the Reference Rate and "**Lock-out**" is specified as the Observation Method:
- (1) in respect of any Business Day "**i**" that is a Reference Day, the IKON in respect of the Business Day immediately preceding such Reference Day, and
 - (2) in respect of any Business Day "**i**" that is not a Reference Day (being a Business Day in the Lock-out Period), the IKON in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date);
- (I) where in the relevant Final Terms "**SONIA**" is specified as the Reference Rate and "**Payment Delay**" is specified as the Observation Method, in respect of any Business Day, the SONIA rate in respect of such Business Day, **provided however that**, in the case of the last Interest Period, in respect of each Business Day in the period from (and including) the Rate Cut-off Date to (but excluding) the Maturity Date or the date fixed for redemption, as applicable, "**r**" shall be the SONIA rate in respect of the Rate Cut-off Date;
- (J) where in the relevant Final Terms "**SOFR**" is specified as the Reference Rate and "**Payment Delay**" is specified as the Observation Method, in respect of any Business Day, the SOFR in respect of such Business Day, **provided however that**, in the case of the last Interest Period, in respect of each Business Day in the period from (and including) the Rate Cut-off Date to (but excluding) the Maturity Date or the date fixed for redemption, as applicable, "**r**" shall be the SOFR in respect of the Rate Cut-off Date; and
- (K) where in the relevant Final Terms "**€STR**" is specified as the Reference Rate and "**Payment Delay**" is specified as the Observation Method, in respect of any Business Day, the €STR in respect of such Business Day, **provided however that**, in the case of the last Interest Period, in respect of each Business Day in the period from (and including) the Rate Cut-off Date to (but excluding) the Maturity Date or the date fixed for redemption, as applicable, "**r**" shall be the €STR in respect of the Rate Cut-off Date;

- (L) where in the relevant Final Terms "**IKON**" is specified as the Reference Rate and "**Payment Delay**" is specified as the Observation Method, in respect of any Business Day, the IKON in respect of such Business Day, **provided however that**, in the case of the last Interest Period, in respect of each Business Day in the period from (and including) the Rate Cut-off Date to (but excluding) the Maturity Date or the date fixed for redemption, as applicable, "**r**" shall be the IKON in respect of the Rate Cut-off Date;

"**Rate Cut-off Date**" has the meaning given in the relevant Final Terms;

"**Reference Day**" means each Business Day in the relevant Interest Period, other than any Business Day in the Lock-out Period;

"**r_{i-pDD}**" means the applicable Reference Rate as set out in the definition of "**r**" above for, (i) where, in the relevant Final Terms, "**Lag**" is specified as the Observation Method, the Business Day (being a Business Day falling in the relevant Observation Period) falling "**p**" Business Days prior to the relevant Business Day "**i**" or, (ii) otherwise, the relevant Business Day "**i**";

"**SOFR**" means, in respect of any Business Day, a reference rate equal to the daily Secured Overnight Financing Rate as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) on the New York Federal Reserve's Website, in each case on or about 5.00 p.m. (New York City Time) (the "**SOFR Determination Time**") on the Business Day immediately following such Business Day;

"**SONIA**" means, in respect of any Business Day, a reference rate equal to the daily Sterling Overnight Index Average rate for such Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors in each case on the Business Day immediately following such Business Day;

"**U.S. Government Securities Business Day**" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities; and

"**Weighted Average Reference Rate**" means:

- (A) where "**Lag**" is specified as the Observation Method in the relevant Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Observation Period, calculated by multiplying each relevant Reference Rate by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Observation Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day; and
- (B) where "**Lock-out**" is specified as the Observation Method in the relevant Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Interest Period, calculated by multiplying each relevant Reference Rate by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Period, **provided however that** for any calendar day of such Interest Period

falling in the Lockout Period, the relevant Reference Rate for each day during that Lock-out Period will be deemed to be the Reference Rate in effect for the Reference Day immediately preceding the first day of such Lock-out Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall, subject to the proviso above, be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day.

- (C) Index Determination: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined and Index Determination is specified in the relevant Final Terms as being applicable, the Rate of Interest applicable to the Covered Bonds for each Interest Period will be the compounded daily reference rate for the relevant Interest Period, calculated in accordance with the following formula and to the Relevant Decimal Place, all as determined and calculated by the Fiscal Agent on the relevant Interest Determination Date plus or minus (as indicated in the relevant Final Terms) the Margin:

$$\left(\frac{\text{Compounded Index End}}{\text{Compounded Index Start}} - 1 \right) \times \frac{\text{Numerator}}{d}$$

where:

"**Compounded Index**" shall mean either SONIA Compounded Index, the SOFR Compounded Index, or the €STR Compounded Index, as specified in the relevant Final Terms;

"**Compounded Index End**" means the relevant Compounded Index value on the day falling the Relevant Number of Index Days prior to the Interest Payment Date for such Interest Period, or such other date on which the relevant payment of interest falls due (but which, by its definition or the operation of the relevant provisions, is excluded from such Interest Period);

"**Compounded Index Start**" means the relevant Compounded Index value on the day falling the Relevant Number of Index Days prior to the first day of the relevant Interest Period;

"**d**" is the number of calendar days from (and including) the day on which the relevant Compounded Index Start is determined to (but excluding) the day on which the relevant Compounded Index End is determined;

"**Index Days**" means, in the case of the SONIA Compounded Index, London Banking Days, in the case of the SOFR Compounded Index, U.S. Government Securities Business Days, and, in the case of the €STR Compounded Index, a day on which the TARGET2 System is open;

"**London Banking Day**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"**Numerator**" shall, unless otherwise specified in the relevant Final Terms, be 365 in the case of the SONIA Compounded Index and 360 in the case of the SOFR Compounded Index and the €STR Compounded Index;

"**Relevant Decimal Place**" shall, unless otherwise specified in the relevant Final Terms, be the fifth decimal place in the case of the SONIA Compounded Index and the €STR Compounded Index and the seventh decimal place in the case of the SOFR Compounded Index, in each case rounded up or down, if necessary (with 0.000005 or, as the case may be, 0.0000005 being rounded upwards);

"**Relevant Number**" shall, unless otherwise specified in the relevant Final Terms, be five in the case of the SONIA Compounded Index and two in the case of the SOFR Compounded Index;

"**SOFR Compounded Index**" means the compounded daily SOFR rate, as published at 15:00 (New York time) by the Federal Reserve Bank of New York (or a successor administrator of SOFR) on the website of the Federal Reserve Bank of New York, or any successor source;

"**SONIA Compounded Index**" means the compounded daily SONIA rate as published at 10:00 (London time) by the Bank of England (or a successor administrator of SONIA) on the Bank of England's Interactive Statistical Database, or any successor source; and

"**€STR Compounded Index**" means the compounded daily €STR rate, as published at 09:00 (Central European Time) by the European Central Bank (or a successor administrator of €STR) on the website of the European Central Bank or any successor source.

Provided that a Benchmark Event has not occurred in respect of SONIA or a Benchmark Transition Event and its related Benchmark Replacement Date has not occurred in respect of SOFR, as the case may be, if, with respect to any Interest Period, the relevant Compounded Index Start and/or Compounded Index End is not published by the administrator, the Fiscal Agent shall calculate the Rate of Interest for that Interest Period in accordance with Condition 7.4(b)(iv) (*Interest on Floating Rate Covered Bonds – Rate of Interest – Screen Rate Determination for Floating Rate Covered Bonds which reference SONIA, SOFR, €STR or IKON*) as if Index Determination was not specified in the relevant Final Terms as being applicable. For these purposes, (i) the Reference Rate shall be deemed to be SONIA in the case of SONIA Compounded Index and SOFR in the case of Compounded SOFR Index, (ii) the Calculation Method shall be deemed to be Compounded Daily, (iii) the Observation Method shall be deemed to be Observation Shift, (iv) the Observation Look-back Period shall be deemed to be the Relevant Number, (v) D shall be deemed to be the Numerator and (vi) in the case of SONIA, the Relevant Screen Page will be determined by the Issuer in consultation with the Fiscal Agent. If a Benchmark Event has occurred in respect of SONIA, the provisions of Condition 7.7 (*Interest– Benchmark discontinuation*) shall apply *mutatis mutandis* in respect of this Condition 7.4 or if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of SOFR, the provisions of Condition 7.8 (*Interest– Effect of Benchmark Transition Event*) shall apply *mutatis mutandis* in respect of this Condition 7.4, as applicable.

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

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

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

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

The Fiscal Agent (in the case of Covered Bonds other than CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds) 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 (and the Rate of Interest in the case of CSD Covered

Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds will be determined by the Issuer).

The Fiscal Agent (in the case of Covered Bonds other than CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds) or the Issuer (in the case of CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds) will calculate the amount of interest (each an "**Interest Amount**") payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to:

- (i) in the case of Floating Rate Covered Bonds which are represented by a Global Covered Bond or a CSD Covered Bond, the aggregate outstanding nominal amount of the Covered Bonds; or
- (ii) in the case of Floating Rate Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-Unit of the relevant Specified Currency, half of any such Sub-Unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding.

(e) **Maximum Interest Amounts**

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

(f) **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.

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

Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Covered Bonds 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 15 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 Covered Bonds are for the time being listed and to the Covered Bondholders in accordance with Condition 15. 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.

(h) **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 7.4, shall (in the absence of wilful default, bad faith or manifest error as aforesaid) be binding on the Issuer, the Agents and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Covered Bondholders, the Receiptholders 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.

7.5 Accrual of interest

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date of its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue in accordance with these Terms and Conditions. In the event of non-payment of a Zero Coupon Covered Bond, interest will accrue as provided in Condition 9.9.

- (a) The Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed or the Extended Maturity Date, subject to Condition 9.10. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 7.6(b) on the Principal Amount Outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;
- (b) the Rate of interest payable from time to time under Condition 7.6(a) will be as specified in the applicable Final Terms and, where applicable, determined by the Calculation Agent so specified, three Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and
- (c) in the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 7.5 the Principal Amount Outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

7.6 Interest Payments up to the Extended Maturity Date

If an Extended Maturity Date is specified in the applicable Final Terms for a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 9.10:

- (a) The Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed or the Extended Maturity Date. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 7.6(b) on the Principal Amount Outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;
- (b) the Rate of interest payable from time to time under Condition 7.6(a) will be as specified in the applicable Final Terms and, where applicable, determined by the Issuer so specified, three Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and
- (c) in the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 7.6 the Principal Amount Outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

7.7 Benchmark discontinuation

Notwithstanding any other provision of Condition 7.4, where the Original Reference Rate applicable to the Covered Bonds is not SOFR, if a Benchmark Event occurs in relation to an Original Reference Rate by reference to which any amount payable under the Covered Bonds remains to be determined, then the following provisions of this Condition 7.7 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 7.7(b) and an Adjustment Spread if any (in accordance with Condition 7.7(c))).

An Independent Adviser appointed pursuant to this Condition 7.7 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 Covered Bondholders 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 7.7.

(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 7.7(c)) subsequently be used in place of the Original Reference Rate to determine any relevant amount(s) payable under the Covered Bonds (subject to the further operation of this Condition 7.7); 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 7.7(c)) subsequently be used in place of the Original Reference Rate to determine any relevant amount(s) payable under the Covered Bonds (subject to the further operation of this Condition 7.7).

(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 Covered Bonds 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 7.7 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 7.7(e), without any requirement for the consent or approval of Covered Bondholders, 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 7.7(d), the Issuer shall comply with the rules of any stock exchange on which the Covered Bonds 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 7.7 will be notified promptly by the Issuer to the Fiscal Agent, the Paying Agents and, in accordance with Condition 15, the Covered Bondholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Covered Bondholders of the same, the Issuer shall deliver to the Fiscal Agent a certificate, to be made available for inspection by Covered Bondholders, 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 7.7;
- (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 has 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 Agents and the Covered Bondholders.

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

Without prejudice to the obligations of the Issuer under Conditions 7.7(a), Condition 7.7(b), 7.7(c) and 7.7(d), the Original Reference Rate and the fallback provisions provided for in Conditions 7.4(b)(i) and 7.4(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 7.7(c) and (d).

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) 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).

"Alternative Rate" means an index, benchmark or other price source which the Issuer determines in accordance with Condition 7.7 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 Covered Bonds.

"Benchmark Amendments" has the meaning given to it in Condition 7.7(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 Covered Bondholder using the Original Reference Rate including, without limitation, under the Benchmark Regulation (EU) 2016/1011, if applicable.

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (ii), (iii) and (iv) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (b) in the case of sub-paragraph (v) above, on the date of the prohibition of use of the Original Reference Rate and (c) in the case of subparagraph (vi) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

"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 Covered Bonds 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.

7.8 Effect of Benchmark Transition Event

Where the Original Reference Rate applicable to the Covered Bonds is SOFR, in addition and notwithstanding the provisions above in Condition 7.4 (Interest on Floating Rate Covered Bonds) and Conditions 7.7 (Benchmark discontinuation), as applicable, this Condition 7.8 (Effect of Benchmark Transition Event) shall apply.

- (a) **Benchmark Replacement:** If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Covered Bonds in respect of all determinations on such date and for all determinations on all subsequent dates.
- (b) **Benchmark Replacement Conforming Changes:** In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time.
- (c) **Decisions and Determinations:** Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 7.8 (Effect of Benchmark Transition Event), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, will be made in the sole discretion of the Issuer or its designee, as applicable, and, notwithstanding anything to the contrary in the documentation relating to the Covered Bonds, shall become effective without consent from the Holders or any other party. The Fiscal Agent will not have any liability for any determination made by or on behalf of Issuer or its designee in connection with a Benchmark Transition Event or a Benchmark Replacement.

In no event shall the Fiscal Agent be responsible for determining if a Benchmark Transition Event has occurred or any substitute for SOFR, or for making any adjustments to any alternative benchmark or spread thereon, the business day convention, interest determination dates or any other relevant methodology for calculating any such substitute or successor benchmark. In connection with the foregoing, the Fiscal Agent will be entitled to conclusively rely on any determinations made by Issuer or its designee and will have no liability for such actions taken at the direction of the Issuer or its designee.

Notwithstanding the foregoing provisions in this Condition 7.8 (Effect of Benchmark Transition Event), no Benchmark Replacement will be adopted if and to the extent that the Issuer determines, in its sole discretion, that such Benchmark Replacement prejudices, or could reasonably be expected to prejudice, after the application of the applicable Benchmark Replacement Adjustment, the Benchmark Replacement Conforming Changes and the further decisions and determinations as described below.

In the event that the Rate of Interest for the relevant Interest Period cannot be determined in accordance with the foregoing provisions by the Issuer or its designee, the Rate of Interest for such Interest Period shall be (i) that determined as at the immediately preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest (as specified in the relevant Final Terms) is to be applied to the relevant Interest Period from that which applied to the immediately preceding Interest Period the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin relating to that immediately preceding Interest Period), or (ii) if there is no such preceding Interest Determination Date and the relevant Interest Period is the first Interest Period for the Covered Bonds,

the initial Rate of Interest which would have been applicable to such Series of Covered Bonds for the first Interest Period had the Covered Bonds been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period), or (iii) if there is no such preceding Interest Determination Date and the relevant Interest Period is not the first Interest Period for the Covered Bonds, the Rate of Interest which applied to the immediately preceding Interest Period.

For the purposes of this Condition 7.8 (*Effect of Benchmark Transition Event*):

"Benchmark" means, initially, SOFR; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to SOFR or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement;

"Benchmark Replacement" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (a) the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark and (b) the Benchmark Replacement Adjustment;
- (b) the sum of: (a) the ISDA Fallback Rate and (b) the Benchmark Replacement Adjustment; or
- (c) the sum of: (a) the alternate rate of interest that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. Dollar-denominated floating rate notes at such time and (b) the Benchmark Replacement Adjustment;

"Benchmark Replacement Adjustment" means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

- (a) the spread adjustment, or method for calculating or determining such spread adjustment (which may be a positive or negative value or zero), that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
- (b) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or
- (c) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. Dollar-denominated floating rate notes at such time;

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decide may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decide that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determine that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determine is reasonably necessary);

"Benchmark Replacement Date" means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

- (a) in the case of sub-paragraph (A) or (B) of the definition of **"Benchmark Transition Event,"** the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or
- (b) in the case of sub-paragraph (C) of the definition of **"Benchmark Transition Event,"** the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

- (a) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, **provided that**, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component);
- (b) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark (or such component), which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, **provided that**, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or
- (c) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"designee" means a designee as selected and separately appointed by the Issuer as designee for the Covered Bonds in writing;

"ISDA Fallback Adjustment" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"ISDA Fallback Rate" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"Reference Time" with respect to any determination of the Benchmark means (1) if the Benchmark is SOFR, the SOFR Determination Time, and (2) if the Benchmark is not SOFR, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

"Relevant Governmental Body" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"Unadjusted Benchmark Replacement" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

7.9 Business Day, Business Day Convention, Day Count Fraction and other adjustments

- (a) In these Terms and Conditions, **"Business Day"** means:
- (i) A day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
 - (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency as specified in applicable Final Terms (if other than Reykjavík and any Additional Business Centre and 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 Trans-European Automated Real-time Gross Settlement Express Transfer System or any successor or replacement for that system ("the **"T2 System"**") is open.
- (b) If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:
- (i) in any case where Specified Periods are specified in accordance with Condition 7.4(a), the Floating Rate Convention, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply mutatis mutandis, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
 - (ii) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
 - (iii) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
 - (iv) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **"Day Count Fraction"** means, in respect of the calculation of an amount of interest for any Interest Period:

if *Actual/Actual (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);

if *Actual/Actual (ICMA)* is specified in the applicable Final Terms:

- (i) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period (as defined in Condition 7.9(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming that interest was to be payable in respect of the whole of that year; or
- (ii) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;

if *Actual/365* is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

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

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

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

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

if *30E/360 or Eurobond Basis* is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of

February, in which case the month of February shall not be considered to be lengthened to a 30-day month); or such other Day Count Fraction as may be specified in the applicable Final Terms;

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

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

where:

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

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

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

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

"**D₁**" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

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

8. PAYMENTS

8.1 Payments in respect of Inflation Linked Covered Bonds

- (a) *Payments in respect of Inflation Linked Annuity Covered Bonds*

In case of an Inflation Linked Annuity Covered Bond, the Issuer shall, on each relevant Interest Payment Date, make a payment that is the sum of the relevant Principal Repayment as defined in this

Condition and the Interest Payment as defined in Condition 7.1 (together, the **Annuity Amount**) as calculated by the Calculation Agent.

Principal Repayment(s) is the amount calculated by the Issuer on each Interest Payment Date by multiplying the nominal amount on the Issue Date with the Index Ratio and with the factor A, which is calculated according to the following formula:

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

where,

A = Principal Repayment Factor

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

c = the Rate of Interest of the relevant bond

f = the number of interest payments per year

n = the number of Interest Payment Dates

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

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

In case of an Inflation Linked Equal Payment Covered Bond, including Covered Bonds with one payment of Principal on Maturity Date, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, as defined in this condition and interest due as defined in Condition 7.2 (together, the **Equal Payment Amount**) as calculated by the Calculation Agent.

Principal Repayment(s) is an amount calculated by the Calculation Agent on each Principal Payment Date by multiplying the Principal Amount Outstanding on the Issue Date with the Index Ratio and dividing with the number of principal Payment dates.

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

$$PAO_t = (PAO_{t-1} - PR_{t-1}) \frac{IR_t}{IR_{t-1}}$$

where, "**PAO_t**" means the Principal Amount Outstanding on the relevant Interest Payment Date.

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

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

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

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

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

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

where,

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

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

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

where,

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

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

d = the relevant calendar date

D = number of calendar days in the relevant calendar month

Provided that if the Reference Index is lower than the Base Index, the Reference Index shall equal the Base Index,

And

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

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

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

8.2 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 8 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 any law implementing an intergovernmental approach thereto.

8.3 Presentation of Definitive Bearer Covered Bonds, Receipts and Coupons

Payments of principal in respect of definitive Bearer Covered Bonds will (subject as provided below) be made in the manner provided in Condition 8.2 (Method of payment) only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Covered Bonds, and payments of interest in respect of definitive Bearer Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Covered Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 8.2 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 8.2 only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Covered Bond presented for payment of the relevant instalment together with the definitive Bearer Covered Bond to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Covered Bonds in definitive bearer form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 10) in respect of such principal 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 Covered Bond in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Covered Bond in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Bearer Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Bearer Covered Bond from (and including) the preceding

Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Covered Bonds.

8.4 Payments in respect of Bearer Global Covered Bond

Payments of principal and interest (if any) in respect of Covered Bonds represented by any Bearer Global Covered Bond will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Covered Bonds and otherwise in the manner specified in the relevant Bearer Global Covered Bond, where applicable, against presentation or surrender, as the case may be, of such Bearer Global Covered Bond 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 on such Bearer Global Covered Bond either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

8.5 Payments in respect of Registered Covered Bonds

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

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by transfer on the due date to the Designated Account of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Registered Covered Bond Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "**Record Date**"). Payment of the interest due in respect of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Covered Bond.

No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global

Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

8.6 General provisions applicable to payments

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

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

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

8.7 Payments in respect of CSD Covered Bonds

Payments of principal and interest in respect of CSD Covered Bonds will be made to the Covered Bondholders shown in the relevant records of the relevant CSD in accordance with and subject to the rules and regulations from time to time governing the relevant CSD.

8.8 Payment Day

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day in the relevant place and shall not be entitled to further interest or other sum in respect of any such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 11) 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 Covered Bonds in definitive form only, the relevant place of presentation;
 - (ii) in each Additional Financial Centre (other than the T2 System) specified in the applicable Final Terms;

- (b) if the T2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the T2 System is open; and
- (c) 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 T2 System is open.

8.9 Interpretation of principal and interest

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 10 (Taxation);
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Covered Bonds (other than Inflation Linked Annuity Covered Bonds or Inflation Linked Equal Principal Payment Covered Bonds) redeemable in instalments, the Instalment Amounts;
- (f) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 9.4); and
- (g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

Any reference in the Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 (Taxation).

9. REDEMPTION AND PURCHASE

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

Unless previously redeemed or purchased and cancelled, each Inflation Linked Annuity Covered Bond and each Inflation Linked Equal Payment Covered Bond, including Covered Bonds with one payment of Principal on Maturity Date, will, subject to Condition 8.1(a) or (b) (as applicable), be redeemed in one or more amounts, calculated in accordance with the formula specified in the applicable Final Terms, in the relevant Specified Currency on the relevant Interest Payment Dates.

9.2 Final Redemption

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

9.3 Redemption at the option of the Issuer (Issuer Call)

If an Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Covered Bondholders in accordance with Condition 15 (Notices) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner 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 Covered Bonds, the Covered Bonds to be redeemed ("**Redeemed Covered Bonds**") will (i) in the case of Redeemed Covered Bonds represented by definitive Covered Bonds, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and in accordance with the rules of the relevant CSD in the case of CSD Covered Bonds. In the Case of Redeemed Covered Bonds represented by definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 15 (Notices) not less than 15 days prior to the date fixed for redemption.

9.4 Redemption for Tax Reasons

The Covered Bonds (other than the CSD Covered Bonds) may be redeemed at the option of the Issuer in whole, but not in part, at any time or on any Interest Payment Date, on giving not less than 30 nor more than 60 days' notice to the Covered Bondholders (which notice shall be irrevocable) or, in the case of the CSD Covered Bonds, the relevant CSD, if:

- (a) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the Tax Jurisdiction (as defined in Condition 10 (Taxation)), or any change in the application or official interpretation of such laws or regulation, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Covered Bonds; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it.

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

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

Covered Bonds redeemed pursuant to this Condition 9.4 will be redeemed at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

9.5 Instalments

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 9.6(a).

9.6 Early Redemption Amounts

For the purpose of Conditions 9.4 and 9.5 above, each Covered Bond will be redeemed at an amount (the "**Early Redemption Amount**") calculated as follows:

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

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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 Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond 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 Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond 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 Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator will be 365).

9.7 Purchases

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

9.8 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 9.7 and cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and in the case of CSD Covered Bonds shall be deleted from the records of the relevant CSD and cannot be reissued or resold.

9.9 Late Payment on Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 9.2 or 9.3 above is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 9.6(b) as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond 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 Covered Bond 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 Covered Bonds has been received by the Fiscal Agent or the Registrar and notice to that effect has been given to the Covered Bondholders in accordance with Condition 15 (Notices).

9.10 Extension of Maturity Date

- (a) Extension of Maturity Date:

If an Extended Maturity Date is specified in the applicable Final Terms for a Series of Covered Bonds and the Issuer (i) has received approval from the Icelandic FSA to extend the maturity of the Covered Bonds (a "**Maturity Extension Approval**") and (ii) fails to pay the Final Redemption Amount on the Maturity Date specified in the Final Terms, the maturity of the outstanding Covered Bonds not so redeemed and the date on which such Covered Bonds will, notwithstanding any insolvency, bankruptcy or resolution in respect of the Issuer at the relevant time, be due and repayable for the purposes of these Terms and Conditions will be extended up to and including (but no later than) the Extended Maturity Date. In that event, the Issuer may redeem all or any part of the Principal Amount Outstanding of the Covered Bonds on any Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date.

The Issuer shall promptly give notice to the Fiscal Agent and the Covered Bondholders (in accordance with Condition 15 (Notices)) of such Maturity Extension Approval (provided, however, that any failure by the Issuer to give such notice shall not in any event affect the validity or effectiveness of the extension of maturity or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise with respect to the relevant Covered Bonds other than as provided for in these Conditions).

The Issuer shall give notice to the Fiscal Agent and the Covered Bondholders (in accordance with Condition 15 (Notices)) of its intention to redeem all or any of the Principal Amount Outstanding of the Covered Bonds at least four Business Days prior to the relevant Interest Payment Date. Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date, or give rise to rights to any such person.

(b) Zero Coupon Bonds:

In the case of Covered Bonds which are Zero Coupon Covered Bonds to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 9.10 the Principal Amount Outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Terms and Conditions.

(c) Extension Irrevocable:

Any extension of the Maturity Date under this Condition 9.10 shall be irrevocable. Where this Condition 9.10 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the Maturity Date under this Condition 9.10 shall not constitute an event of default or acceleration of payment for any purpose or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.

(d) Payments:

In the event of the extension of the maturity of Covered Bonds under this Condition 9.10 Interest Rates, Interest Periods and Interest Payment Dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined and made in accordance with the applicable Final Terms.

Interest will continue to accrue on any unpaid amount and be payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date.

Furthermore, in relation to all amounts constituting accrued interest due and payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date, as provided in the applicable Final Terms, the Issuer may pay such interest pursuant to the Floating Rate set out in the applicable Final Terms notwithstanding that the relevant Covered Bond was a Fixed Rate Covered Bond as at its relevant Issue Date.

(e) Partial Redemption after Maturity Date:

If the Issuer redeems part and not all of the Principal Amount Outstanding of Covered Bonds on any Interest Payment Date falling after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the Principal Amount Outstanding on the Covered Bonds shall be reduced by the level of that redemption. If any partial redemption after the Maturity Date is not sufficient to redeem all outstanding Interest Payments, then the remainder of any Interest Payment shall be added to the principal amount of the Covered Bonds.

(f) Restriction on Further Issues:

If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 9.10 subject as otherwise provided for in the applicable Final Terms, for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further Covered Bonds, unless the proceeds of issue of such further Covered Bonds are applied by the Issuer on issue to redeem in whole or in part the relevant Covered Bonds in accordance with the terms hereof.

10. TAXATION

All payments of principal and interest in respect of the Covered Bonds and Coupons by or on behalf of the Issuer will be made without withholding, or deduction for or on account of, any present or future taxes, duties assessments or governmental charges 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, in the case of a payment of interest only, the Issuer will pay such additional amount as shall be necessary in order that the net amounts received by the holders of the Covered Bonds and (if any) 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 Covered Bonds 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 Covered Bond or (if any) Coupon:

- (a) in respect of any demand made for payment in Iceland;
- (b) the holder of which is liable for such taxes, duties, assessments or government charges of whatever nature in respect of such Covered Bond or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond or Coupon;
- (c) in respect of any demand 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 such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 8.8 (Payment Day));
- (d) on account of any tax, assessment or other governmental charge that is imposed or withheld by reason of the application of Section 1471 through 1474 of the Code (or any successor provisions), any regulation, pronouncement or agreement thereunder, official interpretations thereof, or any intergovernmental agreement or any law implementing an intergovernmental approach thereto, whether currently in effect or as published and amended from time to time;
or
- (e) where such withholding or deduction is required to be made based on provisions of the Act on Withholding of Public Levies at Source No. 45/1987, as amended, the Act on Withholding of Tax on Financial Income No. 94/1996, as amended, and Article 3 of the ITA, and any other legislation, laws or regulations, replacing or supplementing the same.

As used herein:

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

"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 or the Registrar (as applicable) or, in the case of CSD Covered Bonds, the CSD Agent, as the case may be, 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 Covered Bondholders in accordance with Condition 15 (Notices).

Pursuant to point 8 of the first Paragraph of Article 3 of Icelandic Act No. 90/2003 on Income Tax, as amended (the **"ITA"**), non-Icelandic residents are not subject to tax on any interest income derived by them from the Covered Bonds and Coupons provided the Covered Bonds are registered with a securities depository within the Organisation for Economic Co-operation and Development, the European Economic Area or a member of the European Free Trade Association or the Faroe Islands (any such securities depository, an **"Eligible Securities Depository"**) and the Issuer registers the Covered Bonds with the Directorate of Internal Revenue in Iceland. The Issuer undertakes to ensure that any Covered Bonds are registered and accepted for clearance with an Eligible Securities Depository (which would include Euroclear and Clearstream, Luxembourg) and to register any Covered Bonds with the Directorate of Internal Revenue in Iceland on or prior to the Issue Date of the

Covered Bonds and to obtain a certificate of exemption in respect thereof. In the event that such exemption to the ITA is forfeited, suspended or revoked as a result of the Issuer failing to register the Covered Bonds as aforesaid or the Covered Bonds being in definitive form and held outside an Eligible Securities Depository or the Covered Bonds otherwise ceasing to be registered with an Eligible Securities Depository or for any other reason and any payment in respect of the Covered Bonds is accordingly subject to withholding or deduction pursuant to the ITA, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds or Coupons after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Covered Bonds or Coupons, as the case may be, in the absence of such withholding or deduction (and the exceptions set out in paragraphs (a) to (e) above shall not be applicable).

11. PRESCRIPTION

The Covered Bonds (whether in bearer or registered form), Receipts and Coupons will become void in accordance with Act on the Expiration of Debt and other Obligations No. 150/2007 unless presented for payment within 10 years (in the case of principal) and four years (in the case of interest or any other amount) after the Relevant Date (as defined in Condition 10 (Taxation)).

There shall not be included in any Coupon sheet issued on exchange of a Talon, any Coupon the claim for payment in respect of which would be void pursuant to this Condition 11 or Condition 8.3 or any Talon which would be void pursuant to Condition 8.3.

12. REPLACEMENT OF COVERED BONDS, RECEIPTS, COUPONS AND TALONS

This Condition 12 only applies to Covered Bonds other than CSD Covered Bonds.

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Covered Bonds, Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Agents and their initial specified offices are set out below. If any additional Paying Agents or Transfer Agents or any alternative CSD Agent is appointed in connection with any Series, the names of such agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents provided that:

- (a) there will at all times be a Fiscal Agent and a Registrar;
- (b) so long as the Covered Bonds are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) 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;
- (c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated; and

- (d) in the case of CSD Covered Bonds, there will always be a CSD Agent authorised to act as an account holding institution with the relevant CSD and one or more calculation agent(s) where the applicable Final Terms of the relevant CSD Covered Bonds so require.

In addition, in the case of Covered Bonds other than CSD Covered Bonds, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 8.6 (General provisions applicable to payments). Notice of any variation, termination, appointment or change in Agents will be given to the Covered Bondholders promptly by the Issuer in accordance with Condition 15 (Notices).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any 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 agent.

14. EXCHANGE OF TALONS

This Condition 14 only applies to Covered Bonds other than CSD Covered Bonds.

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 11 (Prescription).

15. NOTICES

15.1 Covered Bonds other than CSD Covered Bonds

This Condition 15.1 only applies to Covered Bonds other than CSD Covered Bonds.

All notices regarding the Bearer Covered Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper 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 Bearer Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication in a daily newspaper.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Registered Covered Bond Register and will be deemed to have been given on the second day after mailing and, in addition, for so long as any Registered Covered Bonds 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.

Until such time as any definitive Covered Bonds are issued, there may, so long as any Global Covered Bonds representing the Covered Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Covered Bonds provided that, for so long as any Covered Bonds 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 shall also 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 Covered Bonds on the first day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

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

15.2 CSD Covered Bonds

This Condition 15.2 only applies to CSD Covered Bonds.

All notices regarding the CSD Covered Bonds will be deemed to be validly given if published in accordance with the procedures of the relevant CSD. 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 CSD Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given to the holders of the CSD Covered Bonds on the date it is published in accordance with the procedures of the relevant CSD. Notices to be given by any holder of CSD Covered Bonds may be given by such holder through the relevant CSD in such manner as the CSD Agent and the relevant CSD may approve for this purpose. The Issuer can additionally at its own discretion obtain information from the relevant CSD on the Covered Bondholders in order to send notices to each Covered Bondholder directly.

16. MEETINGS OF COVERED BONDHOLDERS, MODIFICATION AND WAIVER

16.1 Covered Bonds other than CSD Covered Bonds

This Condition 16.1 only applies to Covered Bonds other than CSD Covered Bonds.

The Agency Agreement contains provisions for convening meetings of the Covered Bondholders (including by way of conference call or by use of a videoconference platform) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in Schedule 4, Part 1 of the Agency Agreement) of a modification of the Covered Bonds, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than 10 per cent. in nominal amount of the Covered Bonds 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 Covered Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds, the Receipts or the Coupons (including modifying the date of maturity of the Covered Bonds 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 Covered Bonds or altering the currency of payment of the Covered Bonds, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Covered Bonds 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 Covered Bonds for the time being outstanding.

The Fiscal Agent and the Issuer shall agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to:

- (a) any modification to any series of the Covered Bonds, the terms and conditions applying to Covered Bonds of one or more series (including these Terms and Conditions), the Coupons, the Receipts, the Deed of Covenant, the Agency Agreement or any other document that has been entered into by the Issuer in relation to the Programme which (i) the Issuer in its sole discretion determines is not prejudicial to the interests of the Covered Bondholders and (ii) will not cause a downgrade in the rating of the Covered Bonds; or
- (b) any modification to any series of the Covered Bonds, the terms and conditions applying to Covered Bonds of one or more series (including these Terms and Conditions), the Coupons, the Receipts, the Deed of Covenant, the Agency Agreement or any other document that has been entered into by the Issuer in relation to the Programme, which, in the opinion of the Issuer, 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 or to comply with the provisions of Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160, each as implemented into Icelandic law and/or to comply with the Icelandic Covered Bond Act.

Any such modification shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Covered Bondholders in accordance with Condition 15 as soon as practicable thereafter.

Pursuant to paragraph (a) above, the Issuer shall be entitled to determine in its sole discretion that any modification required in order to accommodate the substitution of a Rating Agency with respect to any Series of Covered Bonds will not be prejudicial to the interests of the Covered Bondholders provided that the relevant modifications are required to accommodate an equivalent or higher rating of the replacement Rating Agency. In such case, the related ratings requirements specified by and/or relating to such Rating Agency to be substituted (including those specified in the Deed of Covenant) shall be amended to refer to the respective ratings requirements of the replacement Rating Agency.

In relation to a modification made pursuant to paragraph (a) and/or (b) above, the Issuer shall consider the interest of the Covered Bondholders and in the event that the Issuer proposes any modification to the Agency Agreement, the Covered Bonds, the Receipts, the Coupons or the Deed of Covenant, the Agents shall assume without further enquiry that the conditions set out in this Condition 16 have been satisfied.

16.2 CSD Covered Bonds

This Condition 16.2 only applies to CSD Covered Bonds.

Meetings of Covered Bondholders (for the purposes of this Condition 16.2, a "**Covered Bondholders' Meeting**") may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than 5 per cent. in nominal amount of the Covered Bonds for the time being remaining outstanding. The quorum at any such meeting for passing a resolution is one or more persons holding a certificate or certificates (dated no earlier than 14 days prior to the meeting) from the relevant CSD or the CSD Agent stating that each such Covered Bondholder is entered into the records of such CSD as a Covered Bondholder, and such Covered Bondholder or Covered Bondholders collectively hold or represent not less than 50 per cent. in nominal amount of the Covered Bonds for the time being outstanding and provide an undertaking that no transfers or dealings have taken place or will take place in the relevant Covered Bonds until the conclusion of the

meeting, or at any adjourned meeting one or more such persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds so held or represented; except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds as set out in Part 2 (Provisions for Meetings of CSD Covered Bonds) of Schedule 4 (Provisions for Meetings of Covered Bondholders) of the Agency Agreement (including modifying the date of maturity of the Covered Bonds 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 Covered Bonds or altering the currency of payment of the Covered Bonds), the quorum shall be one or more such persons holding or representing not less than two-thirds in aggregate nominal amount of the Covered Bonds for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds so held or represented. A resolution passed at any meeting of the Covered Bondholders shall be binding on all the Covered Bondholders, whether or not they are present at the meeting.

For the purposes of a meeting of the Covered Bondholders, the person named in the certificate from the relevant CSD or the CSD Agent described above shall be treated as the holder of the Covered Bonds specified in such certificate, provided that he has given an undertaking not to transfer the Covered Bonds so specified (prior to the close of the meeting).

The provisions for the convening and holding of such Covered Bondholders' Meetings are set out in Part 2 (Provisions for Meetings of CSD Covered Bonds) of Schedule 4 (Provisions for Meetings of Covered Bondholders) to the Agency Agreement.

The CSD Agent and the Issuer may agree without the consent of any of the Covered Bondholders to any modification of the CSD Covered Bonds which, in the sole opinion of the Issuer, is not prejudicial to the interests of the Covered Bondholders or 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 or to comply with the provisions of the Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160, each as implemented into Icelandic law and/or to comply with the Icelandic Covered Bond Act. Any such modification shall be binding on the Covered Bondholders and any such modification shall be notified to the Covered Bondholders in accordance with Condition 15 as soon as practicable thereafter.

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further covered bonds having terms and conditions the same as the Covered Bonds 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 so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Covered Bond 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.

19. GOVERNING LAW AND JURISDICTION

19.1 Governing law

The Agency Agreement, the Deed of Covenant, the Covered Bonds, the Receipts, the Coupons (other than CSD Covered Bonds) and any non-contractual obligations arising out of or in connection with the aforesaid are governed by, and shall be construed in accordance with, English law except for Condition 4 (Status of the Covered Bonds), which will be governed by, and construed in accordance

with Icelandic Law. The CSD Covered Bonds will be governed by, and construed in accordance with Icelandic law.

19.2 Jurisdiction

- (a) Subject to Condition 19.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Covered Bonds (other than the CSD Covered Bonds), the Receipts 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 Covered Bonds (other than the CSD Covered Bonds), the Receipts and/or the Coupons (a "**Dispute**") and accordingly each of the Issuer and any Covered Bondholders (other than the CSD Covered Bondholders), Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 19.2, the Issuer 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 Covered Bondholders, the Receiptholders 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.
- (d) The Issuer irrevocably agrees that any dispute arising out of the CSD Covered Bonds shall be subject to the exclusive jurisdiction of the District Court of Reykjavík (*Ice. Héraðsdómur Reykjavíkur*) and legal action taken may be proceeded with in accordance with the Act on Civil Procedure No. 91/1991 (*Ice. Lög um meðferð einkamála*), Chapter 17.

19.3 Service of Process

The Issuer 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. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in London, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify holders of such appointment in accordance with Condition 15 (Notices). Nothing shall affect the right to serve process in any manner permitted by law.

19.4 Waiver of immunity

The Issuer hereby irrevocably and unconditionally waives with respect to the Covered Bonds and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, 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.

19.5 Other documents

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

USE OF PROCEEDS

If "general corporate purposes" is specified in the "Reason for the offer" section in Part B of the applicable Final Terms, the net proceeds of the issue of the Covered Bonds will be used for the Issuer's general corporate purposes, which may include making a profit.

If "Sustainable Finance Instrument" is specified in the "Reason for the offer" section in Part B of the applicable Final Terms, an amount equal to the net proceeds of the issue of Covered Bonds will be used to finance, refinance and/or invest in Eligible Activities and Assets in line with the Issuer's Sustainable Finance Framework (as amended and supplemented from time to time), which is available at the Issuer's website: <https://www.landsbankinn.is/en/the-bank/investor-relations/sustainable-finance>

If, in respect of any particular issue there is a particular identified use of proceeds other than as described above, this will be stated in the relevant section of the Final Terms.

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 30 November 2023, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under "Form of the Covered Bonds" and "Terms and Conditions of the Covered Bonds". In the Programme Agreement, the Issuer 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 Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

UNITED STATES

The Covered Bonds have not been and will not be registered under the Securities Act and the Covered Bonds 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.

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

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

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

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

Covered Bonds in bearer form will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of The United States Internal Revenue Code of 1986, as amended (the "**Code**")) ("**TEFRA D**") unless: (i) the applicable Final Terms state that Covered Bonds are issued in compliance with U.S. Treasury

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

EEA AND UNITED KINGDOM

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 Covered Bonds 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 (EU) 2016/97 (as amended, the "**Insurance Distribution 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 Regulation; 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

In relation to each Member State of the EEA which has implemented the Prospectus Regulation (each, a "**Relevant Member State**"), each Dealer appointed under the Programme will be required to represent and agree, it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Covered Bonds to the public" in relation to any Covered Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds, as the same may be varied in that Member State by

any measure implementing the Prospectus Regulation in that Member State, the expression "**Prospectus Regulation**" means Regulation 2017/1129/EC (as amended), and includes any relevant implementing measure in the Relevant Member State.

UNITED KINGDOM

Prohibition of Sales to United Kingdom 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 Covered Bonds 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 United Kingdom. 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 (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation as it forms part of domestic law by virtue of the EUWA; and
- (b) the expression an offer includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds."

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 made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in the United Kingdom except that it may make an offer of such Covered Bonds to the public in the United Kingdom:

- (a) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

Other regulatory restrictions

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 Covered Bonds 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 Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or 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 Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 the "FSMA") by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds 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 Icelandic FSA pursuant to the Prospectus Regulation.

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 1(4)) as defined in Article 2(e) of the Prospectus Regulation or (ii) other persons to whom this Base Prospectus may be communicated lawfully in accordance with the Prospectus Regulation (all such persons together being referred to as the Relevant Persons). This Base Prospectus must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Base Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Base Prospectus or any of its contents. This Base Prospectus must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other persons.

HONG KONG

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

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any of the Covered Bonds (except for Covered Bonds 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 Covered Bonds, 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 Covered Bonds 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.

ITALY

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of any Covered Bonds issued under the Programme has not been registered pursuant to Italian securities legislation and, accordingly, the Covered Bonds may not be offered, sold or delivered, nor may copies of this Base Prospectus or any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined in Article 2 of the Prospectus Regulation; or
- (b) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 1 of the Prospectus Regulation, Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**"), Article 34, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999 ("**Regulation No. 11971**") and applicable Italian laws, each as amended from time to time.

Furthermore, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (the "**Italian Banking Act**");
- (ii) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in accordance with any other applicable laws and regulations including those imposed by CONSOB or other Italian authority.

SWITZERLAND

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Covered Bonds. Each Dealer will be required to represent and agree that the Covered Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("**FinSA**") and no application has or will be made to admit the Base Prospectus to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus pursuant to the FinSA, and neither this Base Prospectus nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

SINGAPORE

Each Dealer has acknowledged 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 Covered Bonds or caused the Covered Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Covered Bonds or cause the Covered Bonds 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 Covered Bonds, 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 2001 of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

JAPAN

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

CANADA

Each Dealer has acknowledged that the Covered Bonds may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Each Dealer has further represented and agreed that it has only offered, sold or otherwise transferred and will only offer, sell or otherwise transfer the Covered Bonds to such purchasers in Canada.

GENERAL

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

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

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

SUMMARY OF ICELANDIC LEGISLATION IN CONSIDERATION OF COVERED BONDS

The Icelandic Covered Bond Act was adopted by the Icelandic Parliament on 4 March 2008. This legislation enables Icelandic commercial banks, savings banks and credit undertakings, which have been duly licensed to issue covered bonds as defined therein.

The Issuer is licensed by the Icelandic FSA under the Icelandic Covered Bond Act which enables it to issue the Covered Bonds. The following constitutes a general summary of the Icelandic legislation governing the issuance of covered bonds in Iceland, at the date and pursuant to this Base Prospectus, which law may be supplemented, amended, modified or varied by legislative enactment or by way of judicial decisions and administrative pronouncements, including possibly, with retroactive effect. The summary does not purport nor shall be construed as being an exhaustive description or presentation of all aspects of law, regulation, judicial decisions and administrative pronouncements relevant to the Covered Bonds. The original language of the Icelandic Covered Bond Act is Icelandic. The relevant legislation, executive orders and or regulations in the original Icelandic version should be consulted in the event of any doubt.

COVERED BONDS

The Icelandic Covered Bond Act defines "covered bonds" (Ice: *sértryggð skuldabréf*) as bonds and other unilateral, unconditional, written debt obligations which enjoy a right of priority over the cover pool (as defined below) of an issuer and which are issued in compliance with the Icelandic Covered Bond Act.

The Icelandic Covered Bond Act has been amended and restated (by way of Act no. 7/2023) and the Rules have been amended and restated (as Rules No. 190/2023) to comply with and transpose the EU Covered Bond Rules. Whilst certain non-mandatory provisions of the Covered Bond Directive have not been implemented into Icelandic legislation, covered bonds that fulfil the requirements set forth in the Icelandic Covered Bond Act, which inter alia requires that the assets included in the cover pool must meet the criteria set out in Article 129 of the CRR and appurtenant regulations may be marketed under the label 'European Covered Bond' (Ice: *evrópsk sértryggð skuldabréf*) or 'European Covered Bond' (Premium)' (Ice: *evrópsk sértryggð skuldabréf (úrvals)*), or under the official translation of the same terms of another member state of the EEA.

COVER POOL

The Icelandic Covered Bond Act defines a "cover pool" as the collection of bonds, substitute collateral and other assets that have been registered in a register in accordance with Chapter VI of the Icelandic Covered Bond Act. Covered bondholders and counterparties of the issuer under derivative agreements have a priority claim to seek enforcement in respect of such assets in accordance with the Icelandic Covered Bond Act.

A cover pool consists of certain assets, which include bonds secured by various types of mortgages, of other registered assets, bonds granted to or guaranteed by certain governmental bodies, receivables in the form of certain derivative agreements and substitute collateral. Pursuant to the Icelandic Covered Bond Act, as amended, the cover pool assets must meet the criteria set out in Article 129 of the CRR.

Pursuant to Article 129 of the CRR, in order to qualify for the preferential treatment set out in paragraph 4 and 5 of that Article, covered bonds need to be collateralised by the following eligible assets:

- (a) exposures to or guaranteed by central governments, the ESCB central banks, public sector entities, regional governments or local authorities in the European Union;
- (b) exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1, and exposures to or guaranteed by third-country public sector entities, third-country regional governments or third- country local authorities that are risk weighted as exposures to

institutions or central governments and central banks in accordance with Article 115(1) or (2), or Article 116(1), (2) or (4) respectively and that qualify for the credit quality step 1, and exposures within the meaning of this point that qualify as a minimum for the credit quality step 2, provided that they do not exceed 20 per cent. of the nominal amount of outstanding covered bonds of the issuing institutions;

- (c) exposures to credit institutions that qualify for credit quality step 1 or credit quality step 2, or exposures to credit institutions that qualify for credit quality step 3 where those exposures are in the form of (i) short-term deposits with an original maturity not exceeding 100 days, where used to meet the cover pool liquidity buffer requirement of Article 16 of the Covered Bond Directive; or (ii) derivative contracts that meet the requirements of Article 11(1) of that Directive, where permitted by the competent authorities, and meet the exposure requirements set out in paragraph 1a of Article 129 of the CRR;
- (d) loans secured by residential property up to the lesser of the principal amount of the liens that are combined with any prior liens and 80 per cent. of the value of the pledged properties.
- (e) residential loans fully guaranteed by an eligible protection provider referred to in Article 201 of the CRR qualifying for the credit quality step 2 or above, where the portion of each of the loans that is used to meet the requirement set out in this paragraph for collateralisation of the covered bond does not represent more than 80 per cent. of the value of the corresponding residential property located in France, and where a loan-to-income ratio respects at most 33 per cent. when the loan has been granted. There shall be no mortgage liens on the residential property when the loan is granted, and for the loans granted from 1 January 2014 the borrower shall be contractually committed not to grant such liens without the consent of the credit institution that granted the loan. The loan-to-income ratio represents the share of the gross income of the borrower that covers the reimbursement of the loan, including the interests. The protection provider shall be either a financial institution authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to institutions in terms of robustness or an institution or an insurance undertaking. It shall establish a mutual guarantee fund or equivalent protection for insurance undertakings to absorb credit risk losses, whose calibration shall be periodically reviewed by the competent authorities. Both the credit institution and the protection provider shall carry out a creditworthiness assessment of the borrower;
- (f) loans secured by commercial immovable property up to the lesser of the principal amount of the liens that are combined with any prior liens and 60 per cent. of the value of the pledged properties. Loans secured by commercial immovable property are eligible where the loan-to-value ratio of 60 per cent. is exceeded up to a maximum level of 70 per cent. if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 per cent., and the bondholders' claim meets the legal certainty requirements set out in Chapter 4 of the CRR. The bondholders' claim shall take priority over all other claims on the collateral;
- (g) loans secured by maritime liens on ships up to the difference between 60 per cent. of the value of the pledged ship and the value of any prior maritime liens;

Article 129 of the CRR further provides that the following criteria must be met:

- (a) immovable property and ships collateralising covered bonds that comply with the CRR, the requirements set out in Article 208 of the CRR shall be met. The monitoring of property values in accordance with point (a) of Article 208(3) of the CRR shall be carried out frequently and at least annually for all immovable property and ships;

- (b) covered bonds shall be subject to a minimum level of 5 per cent. of overcollateralisation as defined in point (14) of Article 3 of the Covered Bond Directive. For these purposes, the total nominal amount of all cover assets as defined in point (4) of Article 3 of that Directive shall be at least of the same value as the total nominal amount of outstanding covered bonds ('nominal principle'), and shall consist of eligible assets as set out above, subject to the authorisation of member states to set a lower minimum level of overcollateralisation for covered bonds or authorise their competent authorities to set such a level; and
- (c) eligible assets listed above may be included in the cover pool as substitution assets as defined in point (13) of Article 3 of the Covered Bond Directive, subject to the limits on credit quality and exposure size set out in paragraphs 1 and 1a of Article 129 of the CRR.

The real property and the registered assets which serve as security for the bonds included in the cover pool must be located in a member state of the EEA, EFTA or the Faroe Islands (each a "**Cover Pool Member State**" and collectively the "**Cover Pool Member States**"). A cover pool will consist primarily of mortgage bonds secured against residential property; industrial, office or commercial property; agricultural property; debt instruments including those issued by the Icelandic state or another member state, municipality in Iceland or in another member state, or guaranteed by such member state within the EEA, and certain collateral up to a specific limit of the value of the relevant cover pool.

Substitute collateral are assets that may be included in the cover pool and are intended to ensure that the interests of covered bondholders are not prejudiced despite changes which may occur to the assets of the cover pool. The cover pool may include the following substitute collateral; (1) Demand deposits with a financial undertaking; (2) Deposits with or claims against a Cover Pool Member State or central bank in a Cover Pool Member State; (3) Claims against other legal entities which in the Icelandic FSA's evaluation, do not involve greater risk than those in points (1) and (2) above. Substitute collateral may not comprise more than 20 per cent. of the value of the cover pool. The Icelandic FSA may however authorise an increase in the proportion of substitute collateral in the cover pool to as much as 30 per cent. of its value.

Assets in the cover pool are to be kept separate from other business operations of the issuer, as further defined below in the section *The Register*.

COVER POOL ASSETS

Eligible cover pool assets consist primarily of mortgage bonds issued by borrowers against collateral in the form of real property or public credit (i.e. loans to creditors with high credit worthiness, such as the State of Iceland, Icelandic municipalities and foreign central banks). Collateral for mortgage bonds shall consist of:

- (i) Pledged real property designated for residential purposes;
- (ii) Pledged real property designated for industrial, office or business purposes; and,
- (iii) Pledged real property designated for agricultural purposes.

The collateral may form part of the cover pool only to the extent that on the date of registration the ratio of the principal balance of the mortgage bond compared to the market value ("**LTV**") in relation to the collateral does not exceed:

- (i) 80 per cent. of the market value for real property designated for residential purposes;
- (ii) 70 per cent. of the market value for real property designated for agricultural purposes; and,
- (iii) 60 per cent. of the market value for real property designated for industrial, office or commercial purposes.

Furthermore, the mortgage bonds issued against mortgages in residential, industrial, office, commercial or agricultural purposes may not be registered in the cover pool if payment is in arrears of 90 days or more.

The market value of real properties is assessed by an appraisal which must be based on the selling price in recent transactions with comparable properties. The issuer shall regularly monitor the development of such selling prices. If the market value of collateral in the cover pool (i.e. the underlying mortgaged real estate) substantially decreases, the amount of the value of the assets in the cover pool shall be decreased to ensure that the LTV lies within the limits described above. If the market value or selling price in recent transactions with comparable properties is not available it shall be determined by a specific valuation. The valuation shall be based on generally accepted principles for market valuation of real estate. Data on real estate price developments from the Housing and Construction Authority, for instance, may be used as a basis, together with other systematic collection of real estate price data.

If an issuer assesses the market value of real estate in accordance with the foregoing, the Independent Inspector (as described below) provided for in Chapter VIII of the Icelandic Covered Bond Act, must verify that the appraisal is based on an accepted methodology. The Independent Inspector shall re-assess the market price of one or more properties if it is believed to be valued incorrectly. An appraisal of the market value of real estate must be in writing and specify what methodology is used, who has carried out the appraisal and when it was made.

COVERAGE REQUIREMENTS

The Icelandic Covered Bond Act requires the value of the assets in the cover pool at all times to exceed the value of the claims against the cover pool. The percentage level by which the value of the cover pool exceeds the nominal value of the liabilities, relating to the issued and outstanding covered bonds, along with all accrued interests, from time to time is known as "**overcollateralisation**". The Icelandic Covered Bond Act requires a minimum overcollateralisation of 5 per cent. and the Issuer covenants under Condition 5.2 to overcollateralise the Cover Pool at all times by at least the higher of (i) 5 per cent.; (ii) such percentage as required under the Icelandic Covered Bond Act and/or the Rules on Covered Bonds from time to time; and (iii) such percentage as may be agreed between the Issuer and any rating agency from time to time. The Issuer will also maintain the overcollateralisation of the Cover Pool in accordance with the overcollateralisation committed to under the terms and conditions of its existing Covered Bonds, this being at least 20 per cent. until October 2031 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full) and thereafter the level of overcollateralisation required to be maintained will be as required under Condition 5.2.

Moreover, instalments and other cash flows accruing on the assets in the cover pool and from derivative agreements shall be in such a manner that at any given time the issuer can meet all its financial obligations to covered bondholders and counterparties to derivative agreements.

In order to maintain a suitable balance between the cover pool and the corresponding covered bond programme, the issuer (a) must ensure that the assets in the cover pool (including substitute collateral) are valued having proper regard to currency exchange rates, interest rates, maturity dates, and other relevant factors; and (b) may enter into derivative agreements for the purpose of achieving this balance.

LIQUIDITY BUFFER

The Icelandic Covered Bond Act requires that an issuer must maintain a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow on the covered bonds and related derivative contracts over the next 180 days. Where the maturity of covered bonds can be extended, for the calculation of the net liquidity outflow it may be assumed that the principal amount of the covered bonds is to be repaid on the extended maturity date as determined in the contractual terms and conditions of the covered bond.

The Rules on Covered Bonds further define the assets that the liquidity buffer may consist of. Pursuant to the Rules on Covered Bonds, the liquidity buffer can only consist of (i) assets that qualify as level 1, level 2A or level 2B assets pursuant to the LCR Regulation and not issued by the credit institution issuing the covered bonds itself, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary or another subsidiary of its parent undertaking or by a securitisation special purpose entity with which the credit institution has close links, or (ii) short-term exposures to credit institutions that qualify for credit quality step 1 or 2, or credit step 3, subject to the conditions in point (c) of Article 129(1) of Regulation (EU) No 575/2013 (as amended). It should also be noted that the Icelandic Covered Bond Act specifically states that the uncollateralised claims from exposures considered in default pursuant to Article 178 of CRR cannot contribute to the cover pool liquidity buffer.

EXTENDABLE MATURITY STRUCTURES

The Icelandic Covered Bond Act allows for the exercise of extendable maturity (aka 'soft bullet') pursuant to the transposing of the EU Covered Bond Rules. Any such extension of maturity shall be subject to the approval of the Icelandic FSA. If approval is not granted, the maturity of the covered bond cannot be extended. Under the Icelandic Covered Bond Act, such approval is subject to the following conditions:

- (a) that the deferral is necessary for the purposes of:
 - (i) preventing default on a covered bond or a derivative contract without the sale of assets at a substantial discount;
 - (ii) early intervention by the Financial Supervisory Authority or the resolution of the issuer achieving the objective of Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms; or
 - (iii) optimising the claims of Covered Bondholders and counterparties of derivative contracts upon the winding-up or liquidation of the Issuer;
- (b) that the deferral is explicitly authorised pursuant to the terms and conditions of the covered bond, which set out the final maturity date, the maturity extension triggers, the consequences that insolvency or resolution of the issuer may have on the extension and the role of the Financial Supervisory Authority with regard to such deferral; and
- (c) that the deferral does not affect the maturity schedule of other covered bonds collateralised by the same cover pool.

Furthermore, an issuer, or, upon winding-up of the issuer, its winding-up committee, is required to promptly inform the covered bondholders of the deferral of the maturity of the covered bonds and the duration of such deferral. The terms and conditions of the relevant covered bond shall otherwise determine what is required to be communicated by the relevant issuer to covered bondholders with respect to the maturity of their covered bonds.

With respect to paragraph (a)(ii) above, the objective of the Act referred to therein (as set out in Article 1 of such Act) is to preserve financial stability, inter alia, by ensuring the continuity of essential economic activities and preventing significant adverse impact on the financial system. Further, the objective of the Act is to minimise the risk of reliance on public financial support to private companies, and to protect depositors, investors and client assets

ICELANDIC FSA SUPERVISION

The issue of covered bonds requires a licence from the Icelandic FSA, which monitors compliance with the Icelandic Covered Bond Act as well as being the supervisory authority for the business operations of an issuer

conducted in connection with the issue of covered bonds. Effective 1 January 2020 the Icelandic FSA merged with the Icelandic Central Bank into one institution, which in turn is subject to a new Act on the Central Bank of Iceland No. 92/2019 ("CBA"). There is no change to tasks entrusted to these two institutions. There is however integration of tasks within one institution of governance and decision-making arrangement, as further set out in the CBA, as well as Act No. 91/2019 on amendment to various Acts, as a consequence of the merger between the Central Bank and the Financial Supervisory Authority. A license from the Icelandic FSA requires, *inter alia*, that the issuance comply with the Icelandic Covered Bond Act and that a certified public accountant certifies that the issuer's budget and accounts demonstrate that its financial situation is stable enough not to jeopardise the interests of other creditors. Furthermore, the Icelandic FSA may grant the licence subject to specified conditions.

The Icelandic FSA may revoke an issuer's license to issue covered bonds if (a) the issuer no longer fulfils the requirements to issue covered bonds; (b) the issuer's budget, as attested to by a certified public accountant, demonstrates that its financial situation is no longer sufficiently sound so that the issuance of covered bonds will jeopardise the interests of other creditors; or (c) the issuer violates provisions of the Icelandic Covered Bond Act or rules adopted by virtue of it. If the Icelandic FSA revokes the issuer's license to issue covered bonds it shall decide how to terminate the activities of the issuer.

An issuer of covered bonds must annually deliver to the Icelandic FSA a report, in such format as the FSA decides, containing information on (a) cover pool assets, including liquid assets, and how they are segregated from the Issuer's other assets; (b) compliance with matching rules; (c) conditions for covered bonds' maturity extensions, as applicable; and (d) the monitoring activities of the Independent Inspector.

The Icelandic FSA may authorise that previously issued bonds and other comparable debt instruments which were issued for the purposes of financing the assets in a cover pool may be converted to covered bonds under the Icelandic Covered Bond Act. The term 'covered bond' may be used for covered bonds issued prior to 1 March 2023 that complied with the requirements laid down prior to the implementation of the EU Covered Bond Rules, as applicable on the date of their issue. The same applies to tap issues of covered bonds issued between 1 March 2023 and 31 December 2024, provided that those issues comply with certain requirements.

THE REGISTER

The issuer of covered bonds must maintain a register of the issued covered bonds, and the cover pool, together with related derivative agreements in accordance with the Icelandic Covered Bond Act. The register must, among other things include the following information; (1) the nominal value, interest terms, and final maturity of the covered bonds; (2) the types of assets in the cover pool; and (3) in respect of each mortgage bond in the cover pool, the name of the underlying borrower, their ID./Reg. No., the nominal value of the loan, date of issue, maturity, terms of instalments and interest. Furthermore, the register shall show the appraisal of the collateral security in the cover pool, when the appraisal was carried out and the premises used. Bonds in a cover pool must be endorsed showing they are part of a cover pool and have been entered into the register as provided for in Chapter VI of the Icelandic Covered Bond Act. The endorsement shall also indicate that the debt instrument is to secure priority rights of a specific programme for covered bonds.

INDEPENDENT INSPECTOR

Issuers are required to appoint an independent inspector (the "**Independent Inspector**") to supervise the issuance of covered bonds licensed by the Icelandic FSA and the Icelandic FSA must approve their appointment in accordance with the Icelandic Covered Bond Act. In seeking the Icelandic FSA's approval for the Independent Inspector's appointment, an issuer must disclose possible interrelation between the Independent Inspector and the issuer. The Independent Inspector must fulfil the eligibility criteria prescribed in the Icelandic Covered Bond Act and is assigned the task of monitoring that the register is maintained in accordance with the provisions of the Icelandic Covered Bond Act and to verify that the valuation of collateral for bonds in the cover pool is based on proper methodology. Furthermore, the Independent Inspector is tasked with the ongoing monitoring of a cover pool liquidity buffer and the dissemination of information to investors.

The Independent Inspector shall semi-annually deliver a report to the Icelandic FSA on his observations and immediately inform the Icelandic FSA of any circumstances he becomes aware of, that could affect the Icelandic FSA's assessment of the issuer, as frequently and in such format as the Icelandic FSA decides, or above and beyond this if exceptional circumstances so warrant, among other things.

INVESTOR INFORMATION

Pursuant to the Icelandic Covered Bond Act, issuers of covered bonds are required to provide information on their covered bond programmes. The information must be sufficiently detailed to allow investors to assess the profile and risks of that programme and to carry out their due diligence. At least on a quarterly basis the following minimum information shall be published:

- (a) the value of the cover pool and outstanding covered bonds;
- (b) the International Securities Identification Numbers (ISINs) for all covered bond issues under that programme, to which an ISIN has been attributed;
- (c) the geographical distribution and type of assets in the cover pool, the size of loans in the cover pool and valuation method of the cover pool assets;
- (d) the market risk, including interest rate risk and currency risk, and credit and liquidity risks;
- (e) the maturity structure of cover pool assets and covered bonds, including an overview of maturity extension triggers;
- (f) the levels of required and available coverage, and the levels of statutory, contractual and voluntary overcollateralisation above what is required by the Icelandic Covered Bond Act; and
- (g) the percentage of loans that are more than 90 days past due or are otherwise considered to be in default pursuant to Article 178 of CRR.

RIGHTS OF PRIORITY

In the event of bankruptcy of an issuer of covered bonds, covered bondholders and derivative agreement counterparties are entitled to rights of priority to the assets in the cover pool that are registered in the Register, as well as over the funds that originate from those assets.

HANDLING OF ASSETS IN THE EVENT OF WINDING-UP OF AN ISSUER

If an issuer enters into resolution, financial restructuring, bankruptcy or winding-up proceedings, any issued covered bonds do not fall due. Furthermore, any derivative agreements entered into by the issuer in relation thereto shall not accelerate upon the winding-up of the issuer and such agreements may not include provisions on automatic termination of contracts under such circumstances. In case of the winding-up of an issuer, the winding-up committee shall keep the covered bonds, substitute collateral and other assets in the cover pool segregated from other assets of the issuer's estate. The same shall apply to funds and other assets substituted for the covered bonds, substitute collateral and other assets in the cover pool, or paid in respect of such assets. Such separation shall be maintained until claims arising from the covered bonds have been paid in full.

The winding-up committee shall also keep derivative agreements, and funds returned by such assets or which must be paid from the cover pool to the counterparties to those derivative agreements, separate from other assets of the issuer's estate.

Payments received by the issuer after the date of a winding-up order in respect of funds and other assets substituted for the covered bonds, substitute collateral and other assets in the cover pool intended for payment

of claims, including fulfilment of derivative agreements, shall be entered in the register by the winding-up committee.

Article 17(1) of the Icelandic Covered Bond Act states that the winding-up committee shall fulfil the issuer's commitments under the covered bonds and derivative agreements using mortgage bonds and other assets in the cover pool and payments received on such assets provided that these assets are listed in the Register.

The separation of the cover pool shall be maintained until claims arising from the covered bonds have been paid in full. The general rule is that to the extent that a cover pool is not sufficient to cover the covered bonds and derivative agreements, the covered bondholders may continue to file claims as non-preferential creditors of the issuer and to receive dividends from the other assets of the issuer and be ranked *pari passu* with other, general non-prioritised non-preferential creditors of the issuer.

According to the Bankruptcy Act No. 21/1991, as amended (the "**Bankruptcy Act**") the covered bondholders' priority rights to the cover pool rank third after; (a) third party's assets held by an issuer, provided that the third party can prove his entitlement to the asset (no such third party's assets should be a part of the cover pool); (b)(i) certain bankruptcy (winding-up) costs; (ii) third party claims incurred after the date of the winding-up order due to agreements made on behalf of the bankruptcy estate by the winding-up committee or to liability for losses incurred by third parties as a result of any negligent act of the bankruptcy estate; and (iii) lawful third party claims, including claims due to derivative agreements concluded in accordance with the provisions of the Icelandic Covered Bond Act, incurred by the estate after the date of a moratorium order or a composition proceedings order, if applicable.

If an issuer seeks composition with creditors, the composition arrangement will not affect claims which benefit from security (such as the claims of covered bondholders), to the extent the security is sufficient to settle the claim and the security interest will not cease to exist as a result of the composition agreement. However, according to Article 60(4) of the Bankruptcy Act, if the creditor values the collateral as being insufficient to meet his claim, he may (in order to increase the chances of recovery) partly waive his right to a secured claim and thereby partly obtain a contractual claim on the debtor, to the extent of such waiver.

The part of the winding-up costs that concerns the covered bonds, the cover pool, and payments with respect to the covered bonds, cover pool or derivative agreements, shall be paid from the cover pool. Payments received by the issuer after the date of the winding-up order in accordance with the terms and conditions governing the cover pool should be entered into the Register.

Notwithstanding the provisions of Chapter XX of the Bankruptcy Act, actions taken by an issuer in accordance with the Icelandic Covered Bond Act, including the delivery of funds or substitute collateral to the cover pool, payments on the cover pool, or disposal of funds from the cover pool to fulfil obligations under a covered bond or a derivative agreement concluded in accordance with the Icelandic Covered Bond Act and in connection with the cover pool, shall not be subject to annulment or claw-back.

In relation to specific risk factors of the Icelandic Covered Bond Act that have been identified, please refer to the section on *Risk Factors* in this Base Prospectus.

THE RULES ON COVERED BONDS

The Icelandic FSA has issued Rules No. 190/2023 on Covered Bonds (the "**Rules on Covered Bonds**"), replacing Rules No. 528/2008, that concern among other things, the conditions for being granted licence to issue covered bonds, appraisal and revaluation of the assets in the cover pool, matching rules, assets that may be considered for the liquidity buffer, derivative agreements, the register, the eligibility and reporting of the Independent Inspector and reporting of the Issuer to the Icelandic FSA. The Rules on Covered Bonds are issued with reference to the Icelandic Covered Bond Act and elaborate on the provisions of said Act.

The Rules on Covered Bonds list the documents to be provided to the Icelandic FSA by an issuer who applies for the Icelandic FSA's licence to issue covered bonds. Such documents include, among other things, approvals, descriptions of the proposed programme, the issuer's budget, information and requirements concerning IT-systems, etc. The Rules on Covered Bonds describe the assets which are eligible to be registered to the cover pool and how the eligibility of such assets shall be evaluated.

The Rules on Covered Bonds provide further clarification with respect to matching requirements and provide a method of calculating the present value of assets/liabilities in relation thereto. The Rules on Covered Bonds prescribe that an issuer shall complete such calculations as often as deemed necessary and at least on a weekly basis.

The Rules on Covered Bonds provide for certain restrictions to the provisions and counterparties of derivative agreements. Such agreements may not include provisions on automatic termination of contracts upon the winding-up or resolution of the issuer, or similar insolvency events. Furthermore, counterparties to derivative agreements must be rated as qualifying for credit quality steps 1 or 2, as defined in Annex III of Regulation (EU) No. 2016/1799 (as amended), by a registered or certified credit rating agency in accordance with Regulation (EU) No. 1060/2009 (as amended). Such rating must be in place at the beginning of the contract making process for the relevant derivative agreement and cover both the institutions short- and long-term ratings. However, issuers may with the prior approval of the Icelandic FSA enter into derivative agreements with counterparties that do not meet the above criteria, if the Icelandic FSA considers the counterparty sufficiently reliable to fulfil its obligations pursuant to the relevant derivative agreement.

The Rules on Covered Bonds provide further detail on the Register. The register shall be kept in a secure manner and updated on a daily basis. The Icelandic FSA shall have access to the Register.

The Rules on Covered Bonds provide further detail on the obligations of the Independent Inspector to be appointed by the issuer. The Independent Inspector shall ensure that the register is properly maintained and updated and shall therefore verify that bonds and derivative agreements are correctly registered; only eligible assets and substitute collateral are included in the cover pool; the value of the assets registered in the cover pool and the valuation thereof is in accordance with the Icelandic Covered Bond Act and the Rules on Covered Bonds; that LTV calculations are correctly updated upon significant decrease in the market value of mortgaged assets; and that the matching rules are complied with.

The Independent Inspector shall semi-annually provide the Icelandic FSA with a written report regarding his/her surveillance, as further described in the Rules on Covered Bonds. Furthermore, the Independent Inspector shall as soon as possible notify the Icelandic FSA should he/she become aware of any matters which could affect the Icelandic FSA's assessment of the issuer's position in general. The Issuer has appointed an Independent Inspector pursuant to an agreement with KPMG ehf.

THE ISSUER'S LICENCE TO ISSUE COVERED BONDS

On 29 April 2013 the Icelandic FSA granted the Issuer a licence to issue Covered Bonds under the Icelandic Covered Bond Act. Pursuant to the terms of such a licence, the Issuer is able, from time to time, to issue Covered Bonds that entitle the holder to the benefit of a statutory preferred creditor status in respect of the assets contained in the Issuer's Cover Pool in the event of the insolvency of the Issuer.

TAXATION

The comments below are of a general nature based on the Issuer's understanding of current law and practice. They relate only to the position of persons who are the holders and absolute beneficial owners of the Covered Bonds to be issued under the Programme. They may not apply to certain classes of persons such as dealers. Prospective holders of the Covered Bonds to be issued under this Base Prospectus who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

Furthermore, investors should note that the appointment by an investor in Covered Bonds, or any person through which an investor holds Covered Bonds, of a custodian, collection agent or similar person in relation to such Covered Bonds 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 Covered Bonds, including but not limited to, the consequences of receipt of payments under the Covered Bonds 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 interest payable according to the Covered Bonds, 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) of the ITA is (a) 12 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 300,000); 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) of the ITA, cf. Article 3 (3) of Regulation no. 630/2013, the Issuer is not required by Icelandic law to deduct or withhold tax from interest payments on Covered Bonds 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 subject to restrictions, cf. chapter III of Act No. 70/2021 on Foreign Exchange. The Issuer 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 Article 3 (8) of the ITA, although an exemption will need to be applied for in respect of each Tranche of Covered Bonds. Accordingly, the Issuer will, based on this confirmation, register any Covered Bonds issued under the Programme with the RSK and request that the RSK provide a certificate confirming that the relevant Covered Bonds are exempt from such taxation.

In the absence of an applicable exemption, the Issuer 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 Covered Bonds if, at time of the death of the holder or the transfer of the Covered Bonds, such holder or transferor is not a resident of Iceland.

Capital gains on the sale of the Covered Bonds 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 Covered Bonds 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 Covered Bonds.

Icelandic Tax Residents

Owners of the Covered Bonds 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 Covered Bonds are subject to the same tax as interest income of Icelandic residents. Subject to certain exemptions (which apply, *inter alia*, to pension funds), the Issuer is required to withhold a 22 per cent. tax on the interest paid to the holders of Covered Bonds 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 Issuer 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 Issuer 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 from the withholding obligation does not affect the tax obligations of the relevant bondholder.

FATCA Withholding

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 application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, 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 Covered Bonds, 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 Bonds 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 Covered Bonds are (i) materially modified after such date or (ii) treated as equity for U.S. federal income tax purposes. However, if additional Covered Bonds that are not distinguishable from outstanding Covered Bonds 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 Covered Bonds in such Series, including grandfathered Covered Bonds, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Covered Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, 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 Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds 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 Covered Bonds 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 Covered Bonds are advised to seek their own professional advice in relation to the FTT and its potential impact on the Covered Bonds.

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.

THE ICELANDIC ECONOMY¹⁸

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 3,797 billion in 2022¹⁹. The population is also small, numbering just under 388,000, as at the end of 2022²⁰. According to World Bank data, GDP per capita, measured in terms of purchasing power parities, amounted to USD 69,000 in 2022, which is in the top twenty of the highest in the world.²¹

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 2022, services accounted for 43 per cent. of total export revenues, while exports of marine products accounted for 20 per cent. and exports of aluminium and aluminium products accounted for 23 per cent²².

Unemployment was 3.2 per cent. in October 2023²³. The exchange rate of the ISK has stabilised significantly after losing almost 50 per cent. of its value against the euro from January 2008 to November 2009. At the end of October 2023, the ISK had appreciated by 26.5 per cent. since its lowest level in November 2009²⁴.

The trade account deficit measured 0.4 per cent. of GDP in 2022 and the current account deficit was 2.0 per cent. of GDP²⁵. In 2022, the current account deficit measured ISK 76 billion compared to ISK 97 billion deficit in 2021. The trade account deficit measured ISK 27 billion in 2022 compared to ISK 65 billion surplus in 2021²⁶. Annual CPI inflation in October 2023 measured 7.9 per cent., well above the 2.5 per cent. inflation target of the Central Bank.

The IMF projects an increase in GDP of 3.3 per cent. in 2023 and 1.7 per cent. in 2024. Consumer prices are projected to increase by 8.6 per cent. in 2023 and 4.5 per cent. in 2024. The current account balance is projected to be in 0.7 per cent. deficit in 2023 and 0.4 per cent. deficit in 2024. Unemployment is projected to be 3.4 per cent. in 2023 and 3.8 per cent. in 2024²⁷.

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 had 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.

¹⁸ Sources: This chapter was compiled by Landsbankinn's Economic Research Department based on data and information obtained from Statistics Iceland, the Central Bank of Iceland, the Directorate of Labour, the International Monetary Fund and the World Bank as of 27 March 2023.

¹⁹ Source: Statistics Iceland

²⁰ Source: Statistics Iceland

²¹ Source: World Bank

²² Source: Statistics Iceland, own calculation

²³ Source: The Directorate of Labour

²⁴ Source: Central Bank of Iceland

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

²⁶ Source: Central Bank of Iceland

²⁷ Source: International Monetary Fund

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 35 per cent. of goods exported in 2022. Marine products accounted for 20 per cent. of goods and services exported in the same year. However, as exports of goods and services, especially aluminium and tourism, have been growing faster than the marine sector for the past 25 years, the share of the marine sector in goods exports has fallen a lot. The marine sector's contribution to GDP has also fallen, from 13 per cent. in the 1997 to 6.4 per cent. in 2022²⁸.

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 40 per cent. of goods exported in 2022, from 19 per cent. in 2000. Production has risen sharply this century, from 283,000 metric tonnes per year in 2002 to averaging around 870,000 metric tonnes per year since 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 export. Exports of other manufactured goods (e.g. excluding aluminium, aluminium products and marine products) accounted for 25 per cent. of goods exported in 2021.

The tourism sector

Before the COVID-19 pandemic, the tourism sector had become a big part of Iceland's economy and very decisive sector on many important economic factors such as employment, exports, economic growth, real and nominal exchange rate and therefore inflation. Just under 2.0 million foreign visitors departed through Keflavik Airport during 2019 which was a fourfold increase from 2010²⁹. Just under half a million foreign visitors departed through Keflavik Airport during 2020, a decrease of 76 per cent. from the previous year. The situation improved in 2021 when 0.7 million foreigners departed through Keflavik Airport and in 2022, when 1.7 million foreigners departed through Keflavik Airport. This sector generated 25.7 per cent. of total export revenues in 2022 compared with 16.7 per cent. in 2021 and 11.6 per cent. in 2020.

The agricultural and farming sector

The agricultural sector accounted for 1.3 per cent. of GDP in 2022. Icelandic agriculture is heavily subsidised, with total on-budget transfers to agriculture averaging around 1 per cent. of GDP in recent years³⁰. The total area of Iceland that is arable land or pasture is around 20 per cent. and roughly 6 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

See "*Financial Markets in Iceland*" below for further detail.

²⁸ Source: Statistics Iceland

²⁹ Source: The Icelandic Tourist Board

³⁰ Source: The Economy of Iceland, 2022, Central Bank of Iceland

THE RESIDENTIAL HOUSING MARKET IN ICELAND

Developments in the housing market in Iceland for the last 10-15 years have been closely intertwined with the general economic development; the upswing that began in 2003 and ended abruptly in October 2008 with the collapse of the banking sector and the following recovery. In the summer of 2004, substantial changes were introduced to the Icelandic housing market. The state-owned mortgage lender, the Housing Finance Fund, now called the Housing and Construction Authority (the "HCA"), (see further in "*Market participants*"), changed its system for backing residential mortgages. Following these changes, the new privatized commercial banks entered the market and engaged the HCA in direct competition by offering mortgage loans with longer maturities, lower interest rates, higher loan-to-value ratio, and at a later stage foreign currency indexed loans were also offered. Housing purchases were no longer a precondition for a loan, which facilitated refinancing and mortgage equity withdrawal. These changes had a profound impact on the housing and construction sector. Demand for housing increased significantly, followed by dramatic price increases and a boom in housing construction which rose steadily during this period, partly since building costs rose much slower than property prices.

Traditionally most mortgage loans in Iceland have been CPI-indexed. In recent years the share of non-index mortgage loans has increased, peaking at 59 per cent. during the period of July – November 2022. Following an increase in interest rates, the share of non-indexed mortgage loans has decreased again and was 51 per cent. in September 2023.

Household debt relative to GDP peaked at 125 per cent. in 2008³¹. Various measures undertaken by banks and the central government together with more strict behaviour of the households, have since reduced Iceland's household indebtedness down to 74 per cent. of GDP in 2018, or by nearly 50 per cent. of GDP. Compared with other countries with high household debt levels, this is a dramatic fall. Household debt as of end of Q2 2023 was 75 per cent. of GDP.

Housing prices peaked in Q1 2008 after an almost continuous rise since 1996. The nominal value of residential housing in Iceland³² has always been sticky downwards. The price was at its lowest point in Q1 2010 after nominal prices had fallen by 15 per cent. in approximately 2 years. The most significant part of the adjustment to the property market after the collapse took place through inflation and changes in real prices. The real decline in housing prices was 36 per cent. at that time.

Since 2011 housing prices have risen significantly. The nominal prices in September 2023 were 174 per cent. higher than at the peak in January 2008. The real terms prices in September 2023 were 39 per cent. higher than at the peak in the beginning of 2008. The number of transactions on the property market rose steadily from 2009 peaking in 2021 before they started decreasing again in mid-2022. Lower mortgage rates increased the demand for residential property and average prices rose by 22.2 per cent. in 2022 after rising by 14.3 per cent. in 2021. The housing market has seen a significant cool down since mid-2022. In July 2022 the nominal housing prices reached the highest value of 25.5 per cent. increase year-over-year. In September 2023, the year-over-year change was 2.6 per cent. The number of apartments sold in the capital region was 30 per cent. lower in 2022 than in 2021.

After the boom in housing construction in 2004-2008 the building activity almost came to a complete stop. The building projects that were already underway at that time were completed in a slow pace over the following years but very few new projects went into development. Together with the improved financial situation demand for housing began to rise again, especially for smaller and cheaper apartments. Building activity was slow to respond to this new demand, which especially came from young people that couldn't afford the traditional big apartments that had been the most common new constructions in the past. This situation, together with steadily increasing portion of apartments being rented to tourists in certain areas. put an upward pressure on the prices of smaller apartments, which peaked mid-2017. Widespread renting to

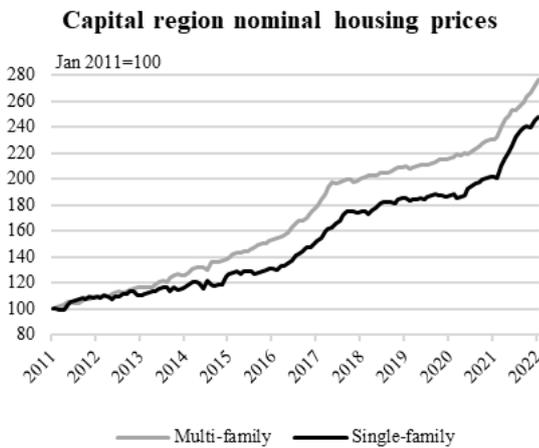
³¹ Source: Central Bank of Iceland

³² Prices and transactions apply to the capital region where the demand pressure has been the highest.

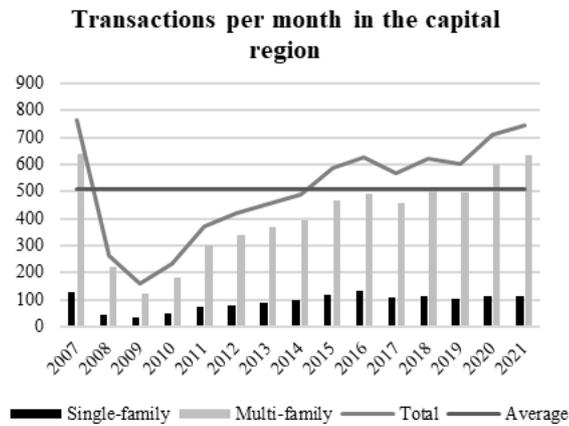
tourists also decreased the traditional rental market in Iceland where individual owners let apartments out to students and young people. With the COVID-19 pandemic the number of apartments rented out to tourists however decreased and the relative demand shifted from smaller apartments to larger single-family homes.

Following sharp interest rates hikes in 2022 and a slowdown in the price development in the housing market, clear signs of a slowdown in housing construction have emerged. Despite a booming population and a growing tourist sector, it seems unlikely that the supply of housing will meet the demand in the coming years. It is therefore expected that housing prices will pick up again when interest rates start moving downwards.

The growth in disposable income has outpaced growth in private consumption in recent years, which means that households have been accumulating savings. That situation has changed a little and private consumption and real disposable income are following more similar trend now. The financial situation of households has improved considerably in recent years, the recession due to the COVID-19-pandemic did not cause a setback in the real estate market, on the contrary, sales grew, and prices increased. Construction of rental apartments in co-operation between municipals and trade unions have started along with a government loan scheme aimed at first time buyers issued by the HCA (hlutdeildarlán³³) similar to "help-to-buy" in the UK.

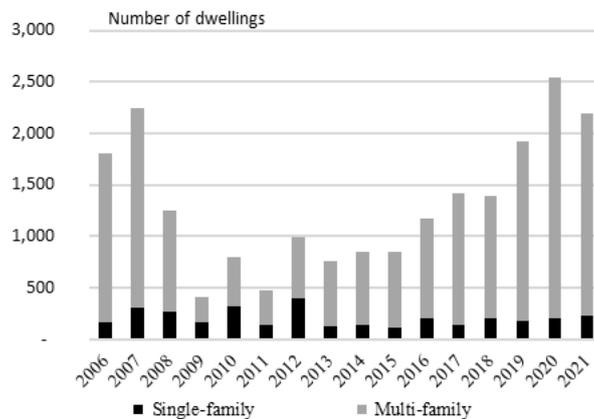


Source: Registers Iceland



Source: Registers Iceland

Annual increase of housing in the capital region



Heimild: Registers Iceland

³³ Source: <http://hlutdeildarlan.is/>

FINANCIAL MARKETS IN ICELAND

In the first decade of the 21st century, Iceland's financial services sector grew substantially, catalysed by financial globalisation and de-regulation in the 1990s and, in 2003, the privatisation of state-owned banks. Following the privatisation of the three major banks in Iceland, the resulting financial undertakings focused on foreign investments and opened branches abroad and acquired operations in several foreign countries. By the end of 2007, the banking system's assets were roughly 10 times that of the country's GDP. In autumn 2008, the three major banks collapsed and in 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, estimated at 1.4 times Iceland's GDP as of 31 December 2022³⁴. There are now four commercial banks and as of January 2023 there are five savings banks currently operating in Iceland and their main focus is on the domestic market. The state is the majority owner of one of the commercial banks, namely the Issuer and a part owner of Íslandsbanki. In 2018, an initial public offering of shares in Arion Bank took place and the shares were listed on the Icelandic and Swedish stock markets. According to the ISFI which manages the shareholding and the corresponding voting rights in the Issuer on behalf of the largest shareholder, the Icelandic State Treasury, it is the intention of the ISFI to retain a substantial equity stake in the Issuer for the long-term. According to the Icelandic State Ownership Strategy for Financial Services, published by the Finance Ministry in 2020, no decision on the equity stake sale will be made until the ISFI has sold all its shares in Íslandsbanki.³⁵ In 2021, 35 per cent. of shares in Íslandsbanki were sold and listed on the local regulated stock market. In March 2022, a further 22.5 per cent. of Íslandsbanki's outstanding share capital were sold. Following the transaction, the Icelandic State Treasury owns 42.5 per cent. in Íslandsbanki and became a blocking minority shareholder.³⁶ Those holdings will continue to be managed by the ISFI.³⁷

Size of the banking system

Total assets of Icelandic deposit money banks, which are four commercial banks and four savings banks, amounted to ISK 5.103 billion as at 31 December 2022, of which foreign assets were ISK 486 billion, or 9.5 per cent. The Icelandic financial market is therefore highly exposed to the Icelandic economy³⁸.

The total assets of the three largest commercial banks, the Issuer, Íslandsbanki and Arion Bank, comprised 95 per cent. of the total assets of the Icelandic deposit money banks³⁹ as at the end of 2022.

Total assets of the Icelandic financial system excluding the Central Bank, e.g., deposit money banks, government credit funds and other financial corporations, amounted to ISK 6.405 billion as at 31 December 2022. The proportion of the three largest commercial banks of total assets of the financial system was 75 per cent. at year-end 2022. The proportion of government credit funds, of which ÍL-sjóður is largest was 17 per cent. of the total assets of the financial system. For more information on the merger of the Housing Finance Fund and the Icelandic Construction Authority, see the section entitled "*Market participants*" below.

³⁴ Source: Central Bank of Iceland, Statistics Iceland, own calculations

³⁵ Source: "The Icelandic State's ownership strategy for Financial Services" published in February 2020 by the Ministries of Finance and Economic Affairs: http://www.bankasysla.is/files/EigandastefnaRikisins2020_02_loka_968608008.pdf

³⁶ : "The Icelandic State's ownership strategy for Financial Services" published in February 2020 by the Ministries of Finance and Economic Affairs: http://www.bankasysla.is/files/EigandastefnaRikisins2020_02_loka_968608008.pdf

³⁷ Source: "Bankasýsla rikisins" published in January 2022 by the ISFI: <http://www.bankasysla.is/fjolmidlar/frettir/nr/401/>

³⁸ Source: Central Bank of Iceland

³⁹ Source: Central Bank of Iceland, Landsbankinn, Arion Bank and Íslandsbanki annual reports

Market participants

Icelandic credit institutions are comprised of four commercial banks, five savings banks and four credit undertakings subject to minimum reserve requirements. The financial market also includes eight investment firms, nine authorised alternative investment funds and six management companies of UCITS, twenty-one pension funds, as well as one supervised entity Depositors' and Investors' Guarantee Fund⁴⁰.

The Housing Finance Fund, a fully state-owned institution, operates in Iceland and offers financing for residential housing in Iceland. The establishment of the aforementioned mortgage lender was approved at the beginning of 1999. The Housing Finance Fund is based on legislation approved by the Icelandic Parliament in June 1998, which was aimed at rationalising the existing state financing system for housing. The Housing Finance Fund 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. On 1 January 2020, the Housing Finance Fund partially merged with the Iceland Construction Authority (*ice. Mannvirkjastofnun*) and became officially the HCA, in accordance with Act No. 137/2019 on Housing and Construction Authority⁴¹. The main operation of the HCA is to work in administrative projects in the areas of housing civil engineering, electrical safety and construction, and fire protection matters, as well as providing the aforementioned financing for residential housing.

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 investment 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, TM hf., Sjóvá-Almennar tryggingar hf., VÍS, and Vörður tryggingar hf., which are licensed to operate in Iceland. Tryggingamiðstöðin hf., Sjóvá Almennar tryggingar hf., and VÍS have been active in the financial market through their investment activities in Iceland. TM hf., Sjóvá-Almennar tryggingar hf., and Vátryggingafélag Íslands hf. insurance companies are listed on Nasdaq Iceland. The commercial bank, Kvik Bank and TM hf. merged into one entity on 30 March 2021, after regulatory and shareholders approvals⁴². In October 2023 Kvik Bank announced the board of director's decision to initiate a process for the sale or listing of TM hf.⁴³ In February 2023, the insurance company VÍS. and the credit undertaking company Fossar announced they would begin a preliminary discussion on a potential combination of the two companies. In October 2023, VÍS and Fossar announced that the merger of the two companies had been completed.

Financial market supervision and other relevant institutions in the financial markets

One stock exchange is operated in Iceland, Nasdaq Iceland hf., operating under Act. No. 115/2021 on Markets in Financial Instruments. Nasdaq Iceland hf. is part of the Nasdaq Group and is licensed to operate a regulated market as well as a multilateral trading facility ("MTF"), the first in the North Iceland market. Both issuer rules and trading rules are largely harmonised with the sister exchanges run by Nasdaq Group in the Nordic countries (Stockholm, Helsinki and Copenhagen).

⁴⁰ Source: Financial Supervisory Authority, <https://en.fme.is/supervision/supervised-entities/>

⁴¹ Source: Icelandic parliament: <https://www.althingi.is/lagas/150a/2019137.html>

⁴² Source: S&P Global-Market Intelligence: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/iceland-s-kvika-tm-and-lykill-to-merge-into-1-entity-61468315>

⁴³ Source: Kvik - TM Insurance to be sold or listed

There are also two securities depositories, Nasdaq CSD Iceland, ("**NCSD**") and Verðbréfamistöð Íslands hf., Securities depositories are operated under Act No. 7/2020, on Securities Depositories Settlement and Electronic Registration of Rights of Securities (*Ice. lög um verðbréfamistöðvar, uppgjör og rafræna eignaskráningu fjármálagæringna*). NCSD has been the main central securities depository for the Icelandic securities market and as such it is a notary, a depository and a clearing house for settlement of securities in dematerialised form. NCSD merged with Nasdaq CSD in May 2020, which operates in Latvia, Lithuania and Estonia and will simultaneously migrate to a common CSD IT platform with Nasdaq CSD.

In 1999, the Issuer Inspectorate of the Central Bank and the Insurance Supervisory Authority were merged into a new independent entity, the FSA. As of 1 January 2020, the Financial Supervisory Authority ("**FSA**") merged with the Central Bank, in accordance with Act no 92/2019 on Central Bank of Iceland. The aim is to create one supervisory authority for the financial market. The tasks carried out by the FSA will be carried out by a division of the Central Bank (the "**Icelandic FSA**").

Icelandic financial markets are supervised by the Icelandic FSA. Entities engaging in financial activities which are subject to licence are regulated by the Icelandic FSA, including credit institutions, insurance companies and pension funds. The activities of the Icelandic FSA 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 European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority and European Systemic Risk Board have been given certain surveillance powers in Iceland, since the introduction of the act on the European Surveillance System in the Financial Markets on 9 May 2017, and the adoption of the European framework in Iceland for bank surveillance. The aforementioned framework aims to enhance the stability and the health of the financial system through Act No. 24/2017 on the European Financial Markets Surveillance System, with the following⁴⁴;

- EU Regulation No. 1092/2010 of the European Parliament and of the Council dated 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board
- EU Regulation No. 1093/2010 of the European Parliament and of the Council dated 24 November 2010 establishing the European Banking Authority, amending Decision No. 716/2009/EC and repealing Commission Decision 2009/78/EC;
- EU Regulation No. 1094/2010 of the European Parliament and of the Council dated 24 November 2010 establishing the European Insurance and Occupational Pensions Authority, amending Decision No. 716/2009/EC and repealing Commission Decision 2009/79/EC; and
- EU Regulation No. 1095/2010 of the European Parliament and of the Council dated 24 November 2010 establishing the European Securities and Markets Authority, amending Decision No. 716/2009/EC and repealing Commission Decision No. 2009/77/EC⁴⁵.

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. 92/2019, on the Central Bank, which took effect on 1 January 2020. The Central Bank promotes price stability, financial stability and sound and secure financial activities. The Central Bank undertakes such tasks as are consistent with its role as a central bank, such as maintaining international reserves and promoting safe, effective financial system including domestic and cross-border payment intermediation⁴⁶. The Central Bank imposes a reserve requirement on all the commercial and savings

⁴⁴ Source: Icelandic Parliament <https://www.althingi.is/altext/stjt/2017.024.html>

⁴⁵ Source: Icelandic Parliament; <https://www.althingi.is/altext/stjt/2017.024.html>

⁴⁶ Source: The Central Bank of Iceland; <https://www.cb.is/about-the-bank/central-bank-of-iceland/>

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. The Central Bank oversees surveillance of the rules on Foreign Exchange.

In accordance with the aforementioned merger, the Central Bank is now responsible for the tasks entrusted by law and governmental directives to the Icelandic FSA and the financial supervision is now part of the Central Bank. The Central Bank shall therefore monitor supervised entities to ensure that their activities are in compliance with the law and with governmental directives, and that they are in other respects consistent with sound and appropriate business practices.

Bank Recovery and Resolution Directive

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. The BRRD has been implemented into Icelandic law through Act 54/2018, amending the Act on Financial Undertaking, and Act No. 70/2020 on Recovery and Resolution of Credit Institutions, and more recently, by the Hierarchy of Claims Act (as defined herein) making further amendments to the Act on Financial Undertakings, the Recovery and Resolution Act and the Deposit Insurance and Insurance Schemes Act No. 98/1999.

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). The powers currently set out in the BRRD will in certain circumstances, impact the rights of creditors. Holders of uncollateralised bonds, which are issued by the Issuer, may be subject to the application of the general bail-in tool which may result in such holders losing some or all of their investment.

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, issued by the Issuer under its Euro Medium Term Note programme ("**EMTN**"). 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.

Any application of the general bail-in tool under the BRRD shall follow the hierarchy of claims in normal insolvency proceedings in Iceland. Accordingly, the impact of such application on holders of the Covered

Bonds will depend on their ranking in accordance with such hierarchy, including any priority given to other creditors such as depositors. See further section "*The implementation of the BRRD in Iceland provides for a range of actions to be taken in relation to the relevant entity considered to be at risk of failing. Should the Issuer enter into resolution this could, in certain limited circumstances, ultimately entail the bail-in of any Covered Bonds*".

Under the BRRD, resolution authorities must set a minimum level of own funds and other eligible liabilities ("**MREL**")⁴⁷ 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.

In addition, following the publication on 7 June 2019 in the Official Journal of the EU of (i) the Directive (EU) 2019/879 of the European Parliament and of the Council dated 20 May 2019 amending the BRRD (the "**BRRD II**") as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC and (ii) the Regulation (EU) 2019/877, of the European Parliament and of the Council dated 20 May 2019, amending the Single Resolution Mechanism Regulation, as regards the loss absorbing and recapitalisation capacity of credit institutions and investment firms, a comprehensive legislative package has been produced which intends to reduce risks in the banking sector and the financial system, reinforce bank's ability to withstand potential shocks and strengthen the banking union from 28 December 2020. BRRD II was incorporated into the EEA Agreement by EEA Joint Committee Decision No. 145/2022. In June 2023, the Icelandic Parliament approved a bill implementing BRRD II into Icelandic law.

⁴⁷ Minimum Requirement for own funds and Eligible Liabilities (MREL)

OVERVIEW OF TRANSACTION DOCUMENTS

Cover Pool Swap Agreement

The Issuer may enter into an interest rate swap transaction governed by an ISDA Master Agreement (including a schedule, a credit support annex and confirmation(s)) in respect of the assets registered to the Cover Pool (respectively, the "**Cover Pool Swap**" and the "**Cover Pool Swap Agreement**") with a "**Cover Pool Swap Provider**".

On each monthly payment date under the Cover Pool Swap, the Issuer may pay to the Cover Pool Swap Provider all revenue payments (i.e. excluding principal payments) received in respect of the assets (other than Eligible Swaps) registered to the Cover Pool and the Cover Pool Swap Provider may pay to the Issuer an amount calculated on the nominal amount of the assets (other than Eligible Swaps) which are registered to the Cover Pool, based on the applicable floating rate or fixed rate payable under the Covered Bonds plus a margin.

The matching requirements referred to in "*Summary of Icelandic Legislation in Consideration of Covered Bonds – Coverage Requirements*" above will apply in respect of the Cover Pool Swap.

Ratings downgrade

Under the Cover Pool Swap Agreement, in the event that the relevant rating(s) of the Cover Pool Swap Provider are downgraded by a rating agency below the rating(s) specified in the Cover Swap Agreement (in accordance with the requirements of the rating agencies) for the Cover Pool Swap Provider, the Cover Pool Swap Provider will, in accordance with the Cover Pool Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the Cover Pool Swap, arranging for its obligations under the Cover Pool Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the Cover Pool Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the Cover Pool Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the Cover Pool Swap or taking some other action as it may agree with the relevant rating agency.

Termination events

The Cover Pool Swap Agreement will or may be terminated under certain circumstances, including the following:

- (a) at the option of the Cover Pool Swap Provider, if the Issuer is in breach of representations contained in the Cover Pool Swap Agreement to register the Cover Pool Swap Agreement and the Cover Pool Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the Cover Pool Swap Agreement, if there is a failure by the other party to pay any amounts due under the Cover Pool Swap Agreement and any applicable grace period has expired;
- (c) at the option of the Issuer, upon the occurrence of an insolvency of the Cover Pool Swap Provider or its guarantor, or the merger of the Cover Pool Swap Provider without an assumption of its obligations under the Cover Pool Swap Agreement, or if a material misrepresentation is made by the Cover Pool Swap Provider under the Cover Pool Swap Agreement, or if the Cover Pool Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and the Cover Pool Swap Provider or if a breach of a provision of the Cover Pool Swap Agreement by the Cover Pool Swap Provider is not remedied within the applicable grace period;

- (d) if a change in law results in the obligations of one party becoming illegal or if a *force majeure* event occurs;
- (e) at the option of the Cover Pool Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the Cover Pool Swap Provider under the Cover Pool Swap due to a change in law;
- (f) if the Cover Pool Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the Cover Pool Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the Cover Pool Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the Cover Pool Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources) and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from the Cover Pool Swap Provider.

Transfer

The Cover Pool Swap Provider may, subject to certain conditions specified in the Cover Pool Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under the Cover Pool Swap to another entity.

Taxation

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Cover Pool Swap Provider will rank senior to the Covered Bondholders in respect of its claims against the Issuer in respect of assets registered to the Cover Pool.

The margins over the applicable floating rate or fixed rate applicable to the Cover Pool Swap will be determined on the effective date of such swap and may be varied from time to time by the Issuer and the Cover Pool Swap Provider, subject to written confirmation from the rating agencies that the proposed amendment will not adversely affect the then current ratings of the Covered Bonds.

The Cover Pool Swap Agreement will be governed by English law.

Interest Rate Swap Agreements

The Issuer may also, from time to time, enter into additional interest rate swaps with Interest Rate Swap Providers by executing an ISDA Master Agreement (including schedules, a credit support annex and confirmations) (each such agreement, an "**Interest Rate Swap Agreement**" and each of the transactions thereunder, an "**Interest Rate Swap**"), in order to hedge the Issuer's interest rate risks in ISK and/or other

currencies to the extent that these have not already been hedged by the Cover Pool Swap, Currency Swap or an Indexed Currency Swap, subject always to the matching requirements as referred to in "*Summary of Icelandic Legislation in Consideration of Covered Bonds – Coverage Requirements*" above.

Ratings downgrade

Under each of the Interest Rate Swap Agreements, in the event that the relevant rating(s) of an Interest Rate Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the rating agencies) for such Interest Rate Swap Provider, the relevant Interest Rate Swap Provider will, in accordance with the relevant Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Interest Rate Swap, arranging for its obligations under the relevant Interest Rate Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Interest Rate Swap or taking some other action as it may agree with the relevant rating agency.

Termination events

The Interest Rate Swap Agreements will or may be terminated under certain circumstances, including the following:

- (a) at the option of each Interest Rate Swap Provider, if the Issuer is in breach of representations contained in the relevant Interest Rate Swap Agreement to register the relevant Interest Rate Swap Agreement and each Interest Rate Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the relevant Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under that Interest Rate Swap Agreement and any applicable grace period has expired;
- (c) at the option of the Issuer, upon the occurrence of an insolvency of the relevant Interest Rate Swap Provider or its guarantor, or the merger of the relevant Interest Rate Swap Provider without an assumption of its obligations under the relevant Interest Rate Swap Agreement, or if a material misrepresentation is made by the relevant Interest Rate Swap Provider under the relevant Interest Rate Swap Agreement, or if the relevant Interest Rate Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Interest Rate Swap Provider or if a breach of a provision of the relevant Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- (d) if a change in law results in the obligations of one party becoming illegal or if a force majeure event occurs;
- (e) at the option of the relevant Interest Rate Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Interest Rate Swap Provider under the relevant Interest Rate Swap due to a change in law;
- (f) if the relevant Interest Rate Swap Provider, or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Interest Rate Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the relevant Interest Rate Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Interest Rate Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from an Interest Rate Swap Provider.

Transfer

Each Interest Rate Swap Provider may, subject to certain conditions specified in the relevant Interest Rate Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Interest Rate Swap to another entity.

Taxation

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Interest Rate Swap Agreements will be governed by English law.

The Interest Rate Swap Providers will rank senior to the Covered Bondholders in respect of their claims against the Issuer in respect of assets registered to the Cover Pool.

Currency Swap Agreements

Subject to currency restrictions in place at each time, if Covered Bonds are issued in currencies other than ISK, the Issuer may enter into Currency Swaps from time to time with Currency Swap Providers by executing ISDA Master Agreements (including schedules, a credit support annex and confirmations) (each such agreement, a "**Currency Swap Agreement**" and each of the transactions thereunder, a "**Currency Swap**"), in order to hedge currency risks arising between (a) Covered Bonds issued in currencies other than ISK and (b) assets (other than Mortgage Bonds and Eligible Swaps) forming part of the Cover Pool but denominated in ISK, subject always to the matching requirements as referred to in "*Summary of Icelandic Legislation in Consideration of Covered Bonds - Coverage Requirements*" above.

Ratings downgrade

Under each of the Currency Swap Agreements, in the event that the relevant rating(s) of a Currency Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Currency Swap Agreement (in accordance with the requirements of the rating agencies) for such Currency Swap Provider, the relevant Currency Swap Provider will, in accordance with the relevant Currency Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Currency Swap, arranging for its obligations under the relevant Currency Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Currency Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Currency Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as

applicable, in respect of its obligations under the relevant Currency Swap or taking some other action as it may agree with the relevant rating agency.

Termination events

The Currency Swap Agreements will or may be terminated under certain circumstances, including the following:

- (a) at the option of each Currency Swap Provider, if the Issuer is in breach of representations contained in the relevant Currency Swap Agreement to register the relevant Currency Swap Agreement and each Currency Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the relevant Currency Swap Agreement, if there is a failure by the other party to pay any amounts due under that Currency Swap Agreement and any applicable grace period has expired;
- (c) at the option of the Issuer, upon the occurrence of an insolvency of the relevant Currency Swap Provider or its guarantor, or the merger of the relevant Currency Swap Provider without an assumption of its obligations under the relevant Currency Swap Agreement, or if a material misrepresentation is made by the relevant Currency Swap Provider under the relevant Currency Swap Agreement, or if the relevant Currency Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Currency Swap Provider or if a breach of a provision of the relevant Currency Swap Agreement by the Currency Swap Provider is not remedied within the applicable grace period;
- (d) if a change in law results in the obligations of one party becoming illegal;
- (e) at the option of the relevant Currency Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Currency Swap Provider under the relevant Currency Swap due to a change in law;
- (f) if the relevant Currency Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Currency Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the relevant Currency Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Currency Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from a Currency Swap Provider.

Transfer

Each Currency Swap Provider may, subject to certain conditions specified in the relevant Currency Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Currency Swap to another entity.

Taxation

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Currency Swap Agreements will be governed by English law.

The Currency Swap Provider will rank senior to the Covered Bondholders in respect of their claims against the Issuer in respect of assets registered to the Cover Pool.

Where the Issuer enters into both interest rate swap transactions and currency swap transactions with the same counterparty these may be entered into under the same ISDA Master Agreement.

Indexed Currency Swap Agreements

The Issuer may enter into Indexed Currency Swaps from time to time with Indexed Currency Swap Providers by executing ISDA Master Agreements (including schedules, a credit support annex and confirmations) (each such agreement, an "**Indexed Currency Swap Agreement**") and each of the transactions thereunder, an "**Indexed Currency Swap**" in order to hedge currency and inflation risks arising between (a) Covered Bonds issued in currencies other than ISK and (b) assets forming part of the Cover Pool but denominated in ISK and index linked, subject always to the matching requirements as referred to in "*Summary of Icelandic Legislation in Consideration of Covered Bonds - Coverage Requirements*" above.

Ratings downgrade

Under each of the Indexed Currency Swap Agreements, in the event that the relevant rating(s) of an Indexed Currency Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the rating agencies) for such Indexed Currency Swap Provider, the relevant Indexed Currency Swap Provider will, in accordance with the relevant Indexed Currency Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Indexed Currency Swap, arranging for its obligations under the relevant Indexed Currency Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Indexed Currency Swap or taking some other action as it may agree with the relevant rating agency.

Termination events

The Indexed Currency Swap Agreements will or may be terminated under certain circumstances, including the following:

- (a) at the option of each Indexed Currency Swap Provider, if the Issuer is in breach of representations contained in the relevant Indexed Currency Swap Agreement to register the relevant Indexed Currency Swap Agreement and each Indexed Currency Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the relevant Indexed Currency Swap Agreement, if there is a failure by the other party to pay any amounts due under that Indexed Currency Swap Agreement and any applicable grace period has expired;

- (c) at the option of the Issuer, upon the occurrence of an insolvency of the relevant Indexed Currency Swap Provider or its guarantor, or the merger of the relevant Indexed Currency Swap Provider without an assumption of its obligations under the relevant Indexed Currency Swap Agreement, or if a material misrepresentation is made by the relevant Currency Swap Provider under the relevant Indexed Currency Swap Agreement, or if the relevant Indexed Currency Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Indexed Currency Swap Provider or if a breach of a provision of the relevant Indexed Currency Swap Agreement by the Indexed Currency Swap Provider is not remedied within the applicable grace period;
- (d) if a change in law results in the obligations of one party becoming illegal or if a force majeure event occurs;
- (e) at the option of the relevant Indexed Currency Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Indexed Currency Swap Provider under the relevant Indexed Currency Swap due to a change in law;
- (f) if the relevant Indexed Currency Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Indexed Currency Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the relevant Indexed Currency Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Indexed Currency Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from a Indexed Currency Swap Provider.

Transfer

Each Indexed Currency Swap Provider may, subject to certain conditions specified in the relevant Indexed Currency Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Indexed Currency Swap to another entity.

Taxation

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Indexed Currency Swap Agreements will be governed by English law.

Eligibility Criteria for Swap Providers

The Issuer will only enter into Swaps with entities which are "qualified counterparties" for the purposes of the Icelandic Covered Bond Act (such Swaps, the "**Eligible Swaps**").

Deed of Covenant

The Issuer has entered into a Deed of Covenant for the benefit of the Covered Bondholders, including amongst others, the following covenants:

Relevant Reference Currency Swaps

- (a) In connection with an issuance of a Series of Covered Bonds denominated in a currency other than ISK and assigned a rating by S&P, in circumstances where the Issuer does not otherwise enter into a Currency Swap in connection with such issuance, the Issuer covenants to establish on or before the Issue Date of such Series and maintain and update (to the extent required) on a weekly basis in its books an account (a "**Collateral Reserve Account**"). All amounts of cash and, if applicable, securities standing to the credit of the relevant Collateral Reserve Account will be denominated in the relevant currency and registered and updated (to the extent required) on a weekly basis in the Cover Pool Register so as to form part of the Cover Pool.
- (b) The Issuer shall within one Business Day of a relevant issuance and thereafter on a weekly basis (to the extent required under the terms of the Relevant Reference Currency Swap Agreement) credit and/or debit cash or securities to or from the relevant Collateral Reserve Account in accordance with paragraph (c) below.
- (c) The amount of cash or securities required to be maintained in the relevant Collateral Reserve Account will be equal to the amount commensurate with an "adequate" collateral framework assessment under the relevant S&P criteria that a Currency Swap Provider would have been required to maintain under the credit support annex forming part of an agreement in the form of the Relevant Reference Currency Swap Agreement if it had entered into such an agreement with the Issuer in connection with the relevant Series of Covered Bonds.
- (d) In the event of the Issuer ceasing to hold such rating from S&P (the "**Rating**") that is required to support the then current rating by S&P of an issuance of Covered Bonds under an "adequate" collateral framework assessment (such Rating being, as at the date hereof, 'BBB'), the Issuer shall use commercially reasonable endeavours to enter into a Currency Swap Agreement substantially in the form of the Relevant Reference Currency Swap Agreement (together with such amendments as may be agreed by the Issuer) with an eligible Currency Swap Provider and may use amounts standing to the credit of the relevant Collateral Reserve Account to enter into such Currency Swap to exchange receipts from the assets comprising the Cover Pool payable in ISK and the currency of the relevant Series of Covered Bonds. For the purposes of this provision, "eligible Currency Swap Provider" means such Currency Swap Provider whose rating is capable of supporting the then current rating by S&P of the relevant issuance of Covered Bonds and whose rating is in accordance with the provisions of the Icelandic Covered Bond Act.
- (e) Where a Currency Swap Agreement is entered into between the Issuer and an eligible Currency Swap Provider, such Currency Swap Agreement shall be registered in the Cover Pool Register so as to form part of the Cover Pool and the requirement to maintain the relevant Collateral Reserve Account pursuant to paragraph (a) above shall cease.

- (f) In the event that the Issuer does not enter into a Currency Swap with an eligible Currency Swap Provider in accordance with paragraph (d) above the requirements of paragraph (a) shall continue to apply and amounts standing to the credit of the relevant Collateral Reserve Account from time to time will remain registered in the Cover Pool Register so as to form part of the Cover Pool and will be transferred to a corresponding Swap Collateral Account in accordance with the Issuer's obligations as to the establishment of Issuer Accounts (in respect of which see paragraph (a) of "*Establishment of Issuer Accounts*" below).
- (g) The Issuer shall use reasonable endeavours to ensure that any Currency Swap Agreement entered into pursuant to paragraph (d) above includes a subordinated swap termination payment provision, such that any Early Termination Amount (as defined in the relevant Currency Swap Agreement) due and payable by the Issuer to the relevant Currency Swap Provider under the relevant Currency Swap Agreement following the occurrence of (i) an Event of Default or a Termination Event (each as defined in the relevant Currency Swap Agreement) in respect of a Tax Event upon Merger (as defined in the relevant Currency Swap Agreement) where the Currency Swap Provider is the Defaulting Party or the sole Affected Party (each as defined in the relevant Currency Swap Agreement), respectively, or (ii) an Additional Termination Event (as defined in the relevant Currency Swap Agreement) in respect of the Currency Swap Provider following a ratings downgrade of such Currency Swap Provider shall be subordinated to all other amounts payable in respect of the relevant Series of Covered Bonds.

Asset Coverage Test

- (a) On each Monthly Calculation Date, the Issuer shall determine whether the then total value, without double counting, of:
 - (i) the assets comprising the Cover Pool (including any amounts comprising the liquidity buffer required to be maintained in accordance with the Icelandic Covered Bond Act) (the "**Cover Pool Value**") (calculated in accordance with the Icelandic Covered Bond Act);
 - (ii) any amounts standing to the credit of the Collateral Reserve Account or the Swap Collateral Account; and
 - (iii) any cash amounts or securities (excluding any amounts included in paragraph (ii) above) in any Issuer Account,
 (such total value amount being the "**ACT Assets Amount**") exceeds the then total value of:
 - (iv) the Principal Amount Outstanding of all Series of Covered Bonds, together with all accrued interest thereon (provided that for the purpose of calculating such amounts in respect of any Series of Covered Bonds denominated in a currency other than ISK, the Principal Amount Outstanding (and such accrued interest) shall be calculated according to (i) the relevant prevailing spot exchange rate (as determined by the Issuer) on the relevant Monthly Calculation Date or (ii) if a Currency Swap has been entered into in respect of such Series of Covered Bonds, the relevant rate under that Currency Swap);
 - (v) any other payment obligations that must be paid from the Cover Pool in accordance with the Icelandic Covered Bond Act during the period to and including the next following Monthly Calculation Date; and
 - (vi) the Deposit Set-off Amount,

(such total value amount being the "**ACT Liabilities Amount**") provided that if on such Monthly Calculation Date the ACT Assets Amount does not exceed the ACT Liabilities Amount (such determination, the "**Asset Coverage Test**") the Asset Coverage Test shall be deemed to have been breached for the purpose of paragraph (b) below.

- (b) In the event of a breach of the Asset Coverage Test on a Monthly Calculation Date, the Issuer shall use reasonable endeavours to allocate sufficient additional assets to the Cover Pool and register such assets in the Cover Pool Register in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Monthly Calculation Date.
- (c) In calculating the Cover Pool Value, subject to the provisions of paragraph (a)(iv) above, the value of any non-ISK denominated assets comprising the Cover Pool shall be converted into ISK on the basis of the exchange rate published by the Central Bank of Iceland as at such Monthly Calculation Date.

Establishment of Issuer Accounts

- (a) If the Issuer ceases to be an Eligible Institution, the Issuer shall within 90 calendar days (or such longer period as may be agreed by S&P) following the first Business Day on which it ceases to be an Eligible Institution, establish one or more of the following bank accounts in its name with an Eligible Institution:
 - (i) a transaction account denominated in ISK (the "**Transaction Account**");
 - (ii) an account comprising the liquidity buffer required to be maintained in accordance with the Icelandic Covered Bond Act (the "**Liquidity Buffer Account**"); and
 - (iii) if required, a swap collateral cash and securities account denominated in the relevant currency in respect of each relevant Series of Covered Bonds (each such account, a "**Swap Collateral Account**" and together with the Transaction Account and the Liquidity Buffer Account, the "**Issuer Accounts**").
- (b) Following the establishment of the Issuer Accounts in accordance with paragraph (a) above, the Issuer shall:
 - (i) transfer all payments received from the Cover Pool ("**Cover Pool Revenue**") to the Transaction Account within 3 Business Days of receipt by the Issuer (any such amounts being capable of being withdrawn from such account either to discharge the obligations of the Issuer under the Covered Bonds or otherwise used by the Issuer as it considers appropriate and shall only be so withdrawn if (A) to do so would not breach the Icelandic Covered Bond Act (including as regards any asset coverage, liquidity buffer or overcollateralisation requirements thereunder), (B) on the subsequent Monthly Calculation Date the amounts so withdrawn would not, in the Issuer's opinion, be required to enable the Asset Coverage Test to be complied with and (C) the Issuer is not otherwise in breach of its obligations under the Deed of Covenant or the Terms and Conditions of the Covered Bonds then outstanding);
 - (ii) only if required in accordance with paragraph (f) of the section *Relevant Reference Currency Swaps* above following the event described in paragraph (a) (of this section *Establishment of Issuer Accounts*), transfer all amounts standing to the credit of any Collateral Reserve Account to the relevant Swap Collateral Account and thereafter on a weekly basis (to the extent required) credit and/or debit cash or securities to or from the Swap Collateral Account in accordance with paragraph (c) of the section *Relevant Reference Currency Swaps* above and continue to maintain and update (to

the extent required) on a weekly basis thereafter, a record of such amounts on the relevant Collateral Reserve Account;

- (iii) provide, or procure the provision of, servicing, administration and cash management services with respect to the Cover Pool Revenue and the operation of the Issuer Accounts;
 - (iv) create security over each Issuer Account for the benefit of the Covered Bondholders; and
 - (v) take all necessary steps to register the Issuer Accounts and the amounts standing to the credit of the Issuer Accounts in the Register.
- (c) In the event that any Eligible Institution appointed pursuant to paragraph (a) ceases to be an Eligible Institution, the Issuer will be obliged to transfer the relevant Issuer Account to a credit institution with the appropriate minimum ratings.

Obligations of the Issuer

- (a) The obligations of the Issuer under the aforementioned sections, *Relevant Reference Currency Swaps*, *Asset Coverage Test* and *Establishment of Issuer Accounts* shall only apply:
 - (i) to the extent that compliance with such obligations is required to maintain the ratings of the relevant Series of the Covered Bonds;
 - (ii) in respect of the Issuer's obligations under *Relevant Reference Currency Swaps* only, during such time that the Issuer does not maintain a long-term issuer credit rating ("**ICR**"), long-term resolution counterparty rating ("**RCR**") or reference rating level ("**RRL**") of at least 'A-' by S&P and shall cease at any time that the Issuer satisfies one or more of such ratings;
 - (iii) in respect of the Issuer's obligations under *Establishment of Issuer Accounts* only, during such time that the Issuer does not maintain the ratings specified in the definition of 'Eligible Institution' and shall cease at any time that the Issuer satisfies the relevant rating; and
 - (iv) to the extent that any mitigants as may be agreed with S&P for the purposes of maintaining the rating of the relevant Series of Covered Bonds are not otherwise available.
- (b) The obligations of the Issuer under *Establishment of Issuer Accounts* shall cease to apply in their entirety if its long-term issuer credit rating by S&P is at any time at least 'BBB' (or such other lower rating as may be agreed by S&P), notwithstanding any subsequent downgrade of the long-term issuer credit rating of the Issuer by S&P.
- (c) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps*, *Asset Coverage Test* or *Establishment of Issuer Accounts* will not result in any events of default relating to the Issuer, accordingly payments under the Covered Bonds will not be accelerated in such circumstances and any such failure by the Issuer to comply with these obligations will not entitle Covered Bondholders to accelerate the Covered Bonds.
- (d) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps*, *Asset Coverage Test* or *Establishment of Issuer Accounts* will result in the Issuer not being able to issue further Covered Bonds whilst such failure is continuing. For the avoidance of doubt, the Issuer will be able to continue issuing ISK Covered Bonds.

The defined terms used in this section *Deed of Covenant* shall have the following meanings:

"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;

"Cover Pool" means the pool of eligible assets recorded in the Cover Pool Register maintained by the Issuer in accordance with the Icelandic Covered Bond Act;

"Cover Pool Register" has the meaning given to "Register" in the Icelandic Covered Bond Act;

"Currency Swap Agreement" means the ISDA Master Agreement, schedule, credit support annex (if applicable) and confirmation(s) (as amended and supplemented from time to time) relating to the Currency Swap(s) entered into from time to time between the Issuer and each Currency Swap Provider;

"Currency Swap Provider" means any reference or actual (as the context requires) third party counterparty;

"Currency Swap" means a currency swap which enables the Issuer to hedge currency risks arising from (a) Covered Bonds which are issued in currencies other than ISK and (b) if required, assets (other than bonds as defined in Article 2 of the Icelandic Covered Bond Act which are issued by borrowers and as described in Article 5 of the Icelandic Covered Bond Act) which are registered to the Cover Pool and are denominated in ISK;

"Deposit Set-off Amount" means (i) nil, (A) if the rating assigned to the Covered Bonds by S&P is at least 'A' and the Issuer's long-term ICR, long-term RCR or RRL is at least 'BBB' by S&P, or (B) if the rating assigned to the covered bonds by S&P is no longer at least 'A' and the Issuer's long-term ICR meets the requirement specified in S&P's methodology at the relevant time, or (ii) if (i) is not applicable, the "Potential Set-Off Amount" calculated pursuant to the relevant S&P rating methodology;

"Eligible Institution" means any bank whose long-term ICR, long-term RCR or, in the case of the Issuer, RRL is at least 'BBB' by S&P;

"Monthly Calculation Date" means the last Business Day of each month;

"Relevant Reference Currency Swap Agreement" means, in relation to a Series of Covered Bonds which are denominated in a currency other than ISK, an agreement in the form of an ISDA 2002 Master Agreement including the Schedule and Credit Support Annex thereto, together with the relevant form of currency swap confirmation for a Currency Swap, in each case in the form annexed to the applicable Series Deed of Covenant;

"S&P" means S&P Global Ratings Europe Limited; and

"Series Deed of Covenant" means a deed of covenant prepared in relation to a particular Series of Covered Bonds including the applicable form of Relevant Reference Currency Swap Agreement, and **"applicable Series Deed of Covenant"** shall mean the Series Deed of Covenant applicable to the relevant particular Series of Covered Bonds.

The Deed of Covenant is governed by English Law.

DESCRIPTION OF THE ISSUER

OVERVIEW

The Issuer is a leading Icelandic financial institution, offering a full range of financial services in the Icelandic financial service sector with a total of 36 branches and outlets across the country. The Issuer was established on 7 October 2008 as a limited liability company, but the history of its predecessor, Landsbanki Íslands hf. ("**LBI**") dates back to 1886.

The Issuer has been granted an operating licence to act as a commercial bank and it operates pursuant to the provisions of the Act on Financial Undertaking, No 161/2002, the Act on Public Limited Companies, No. 2/1995 and the Act on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. No. 125/2008. The Issuer is supervised by the Icelandic FSA.

Landsbankinn hf. (referred to as Landsbankinn) is registered with the Register of Enterprises in Iceland with registration number 471008-0280. The Issuer's registered office is located at Reykjastræti 6, 101 Reykjavík, Iceland and its telephone number is: +354 410 4000. The Legal Entity Identifier ("**LEI**") of the Issuer is 549300TLZPT6JELDWM92.

On 17 November 2023, the international rating agency S&P Global Ratings revised the Issuer's long-term issuer credit rating at BBB/A-2, from a stable to positive outlook. The previous rating was from April 2020, when S&P lowered the long-term issuer credit rating of the Issuer to BBB/A-2, with a stable outlook. S&P affirmed the previous rating in October 2021 and July 2022.

As at 30 September 2023, the Group's net interest income was ISK 42.78 billion. For the year ended 31 December 2022, the Group's net interest income was ISK 46.46 billion compared to ISK 38.95 billion in 2021. Total operating income as at 30 September 2023 was ISK 52.01 billion and its total operating income in 2022 was ISK 53.25 billion compared to ISK 62.33 billion in 2021. Profit for the first nine months 2023 was ISK 22.38 billion and profit for the year ended 31 December 2022 was ISK 16.99 billion compared to ISK 28.92 billion in 2021. As at 30 September 2023 the Group's total assets were ISK 1,982 billion and at year-end 2022, the Group's total assets were ISK 1,787 billion compared to ISK 1,730 billion, at year-end 2021.

Further information can be found in the 2022 Financial Statements and the 9M 2023 Interim Financial Statements, which are incorporated by reference into this Base Prospectus.

HISTORICAL BACKGROUND

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

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

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 Icelandic FSA took control of LBI on 7 October 2008. The Issuer, wholly owned by the Icelandic State, was established around the domestic deposits and the majority of the Icelandic assets of the old bank. All liabilities and assets not transferred to the Issuer were retained in LBI and a Resolution Committee was appointed to supersede the board of directors of LBI. LBI was a public limited liability company (hf.) but changed to a private limited liability company (ehf.) in 2016.

SHAREHOLDERS, SHARE CAPITAL AND DIVIDEND POLICY

As at 30 September 2023, the Issuer had 855 shareholders. The ISFI manages 23,567,013,778 (98.2 per cent.) shares and the corresponding voting rights on behalf of the largest shareholder, the Icelandic State Treasury. The ISFI manages its holdings in the Issuer in accordance with its publicly available ownership policy. The second largest shareholder is the Issuer, which holds 378,995,724 (1.58 per cent.) of its own shares after acquisition by the Issuer of its own shares under its buy-back programme originally initiated in December 2018.

	Shares as at 30 September 2023	% of the Issuer's share capital
Icelandic State Treasury	23,567,013,778	98.20%
Landsbankinn's own shares	378,995,724	1.58%
Other shareholders	53,990,498	0.22%
Total shares	24,000,000,000	100%

The Issuer is not directly or indirectly owned or controlled by others, other than those listed above. The Issuer is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Issuer.

According to the Icelandic State Ownership Strategy for Financial Services, published by the Finance Ministry in 2020, it is the intention of the ISFI to retain substantial equity stake in the Issuer for the long-term to contribute, among other things, to financial system stability. No decision on the equity stake sale will be made until the ISFI has sold all its shares in Íslandsbanki.⁴⁸

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

Share capital

The Issuer's total share capital is ISK 24,000,000,000 of which 23,621,004,276 shares are outstanding. Each share has a nominal value of one ISK and the owner is entitled to one vote at shareholders' meetings.

The Issuer's AGM held on 23 March 2023 authorised the Issuer, in accordance with Article 55 of the Act on Public Limited Companies, No. 2/1995, to acquire its own shares, up to 10 per cent. of the nominal value. The minimum and maximum amounts the Issuer is authorised to pay for each share shall be equivalent to its book value, i.e. ratio of shareholder equity to share capital, as disclosed in the most recent annual or interim financial statements published before the purchase of own shares takes place. This authorisation is valid until the 2024

⁴⁸ Source: "*The Icelandic State's ownership strategy for Financial Services*" published in February 2020 by the Ministries of Finance and Economic Affairs: http://www.bankasysla.is/files/EigandastefnaRikisins2020_02_loka_968608008.pdf

AGM of the Issuer. The disposition of own shares purchased by the Issuer is based on this authorisation and is subject to approval by a shareholder's meeting.

Dividend policy

The Issuer's current dividend policy provides that the Issuer aims to pay regular dividends to shareholders, amounting in general to around 50 per cent. of the previous year's profit. To achieve the Issuer's target capital ratio, special dividend payments may also be made to optimise its capital structure. Regard shall be had for risk in the Issuer'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 Issuer, held on 23 March 2023, approved the motion of the Board of Directors to pay shareholders a dividend amounting to ISK 0.36 per share for the operating year 2022 and to pay the dividend in two instalments. The first date of payment (ISK 0.18 per share) was 29 March 2023. The latter date of payment (ISK 0.18 per share) was 20 September 2023. The total dividend for the accounting year 2022, based on outstanding shares, amounts to ISK 8.504 million, equivalent to 50 per cent. of the year's profit.

ORGANISATIONAL STRUCTURE

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

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

When Landsbankinn was originally founded in 1886, its main purpose was to facilitate the country's monetary transactions and support the progress of its industries. The core of this original function remains pertinent and is captured in the Issuer's current purpose statement:

Purpose: Banking for our future

Value: Trust

Trust is the Issuer's core value, a common thread that runs through the entire operation, connecting customer relations and external partners to internal activities. Customers can trust that the Issuer is there to help and that the Issuer is confidently managed.

Vision: Landsbankinn, an ever-smarter bank

The Issuer's 2020-2030 strategy, *Landsbankinn, an ever-smarter bank*, is deeply rooted in the purpose statement. The title of the strategy is intended to reflect the Issuer's vision of continuous development and emphasis on personal banking service in a constantly changing world. Implementation of the strategy began in 2021. The strategic goals were revised towards the end of 2022 and in 2023 as several goals were achieved ahead of schedule.

The strategy rests on the following four pillars:

Positive impact

The first pillar sets out the Issuer's focus on being a positive and dynamic presence in communities throughout Iceland and on promoting the future welfare of the country and its inhabitants. The Issuer both practices and promotes sustainability. The Issuer is among the leading European banks in ESG ratings and has implemented a sustainability policy in its core operations. Credit is extended to projects under the Issuer's Sustainable Finance Framework, both retail and corporate customers are offered sustainable savings options, and the Issuer's carbon footprint from own operations is known with reasonable assurance, published and offset. A more detailed overview of sustainable development and the Issuer's sustainability policy is provided in its Annual & Sustainability Report.

Satisfied customers

The second pillar is about simplifying life for customers and also relates to the personal aspect of the Issuer's service. The Issuer strives to find ways to improve and successfully respond to challenges, reflecting the rapid technological changes of modern life by offering a plethora of innovative, user-friendly digital and self-service solutions. This involves initiative, the mindset underpinning the strategy *Landsbankinn, an ever-smarter bank*. The cutting-edge solutions are combined with a personal approach to service, ensuring that customers receive the best of both worlds.

Continuous development

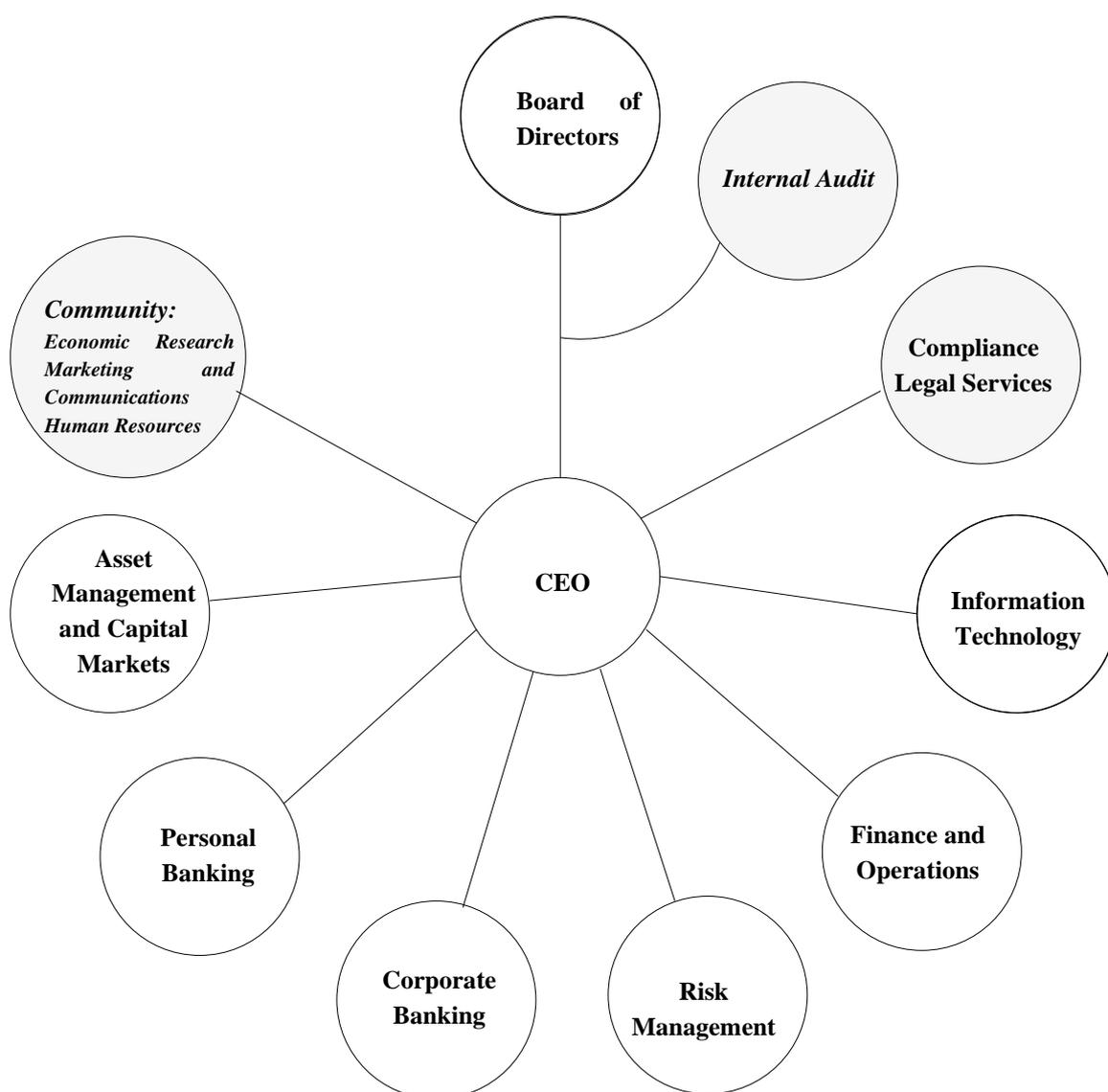
The third pillar supports stable and sound operation. Along with a strong balance sheet, these factors form the foundation for the progress that allows the Issuer to grow ever smarter. The Issuer builds on solid technical infrastructure. Emphasis is placed on technical development and digital solutions that prioritise reliability, security and user experience. The Issuer is also an active participant in the development of the local financial system and is defined by regulators as a systematically important institution in the Icelandic financial system.

Passion for success

The fourth pillar is about employees and creating an environment that fosters exceptional results. Passion for success refers to personal success but also joint success, achieved by a positive and solution-oriented team that works across departments to provide exceptional service. The Issuer's culture is success-driven, guided by the interests of the Issuer's customers, society, co-workers and owners. The Issuer has adopted guidelines on remote work and flexibility, ensures that employees receive 80 per cent. of wages while on parental leave, and, in 2023, relocated its central operation to new headquarters at Reykjastræti 6, where the environment is designed to be flexible and project-oriented.

Business

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



The Issuer has three reporting segments: Personal Banking, Corporate Banking and Asset Management & Capital Markets.

Personal Banking

The Personal Banking division ("**Personal Banking**") offers individuals and small and medium-sized enterprises ("**SME**") outside the capital city region comprehensive financial services and advice. The emphasis is on digital service channels and self-service solutions, both through online banking and the Issuer's mobile application, together with conventional service through the Issuer's branch network and Customer Service Centre.

Personal Banking comprises four departments: the Branch Network, the Customer Service Centre, Business Solutions, that manages products, sales campaigns and debt collection for the retail part of the Issuer, and Business Development, that manages product development for the retail part of the Issuer.

The Issuer operates 34 branches and outlets around Iceland. Its distribution channel strategy is to ensure the provision of personal, economical and value-added banking services to its customers.

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

Among the Issuer's customers are over 130,000 individuals and around 11,000 SMEs. Its market share is around 39 per cent. with respect to individuals, and 41 per cent. with respect to SMEs around the country, according to a survey conducted by Gallup in 2023.

Corporate Banking

Corporate Banking ("**Corporate Banking**") provides comprehensive financial services and advice to large, small and medium sized corporate clients and municipalities, as well as tailored services to meet customer specific needs. Corporate Banking also handles corporate and SMEs' services in the capital region. In addition, it emphasises digital service channels and self-service solutions such as corporate online banking and the Issuer's mobile application. 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 2022, is around 34 per cent.

Corporate Banking comprises six business units and two 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 and larger customers in fisheries and agriculture; the second unit manages relations with industrial companies and companies in trade and service; the third unit manages relations with around 7,000 SMEs in the capital region. The fourth business unit focuses on fleet-, machinery and equipment financing and leasing. The fifth unit is an acquiring service for merchants and the retail sector. Finally, there is a corporate finance unit that provides advisory services to companies and investors and is focused on services in relation to mergers and acquisitions, purchase and sale of companies and advice on project financing. The unit 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

Corporate Banking has two support units: Business Support and Legal and Credit Analysis.

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

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

The unit also provides analyses, management and negotiations regarding the restructuring of problematic assets in the corporate loan portfolio and legal advice regarding corporate lending and restructuring and is responsible for drafting more complex loan contracts and collateral agreements.

Asset Management & Capital Markets

Asset Management and Capital Markets provides brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. The division offers a range of wealth and asset management products and services for individuals, corporations and institutional investors. The division comprises three departments: Asset Management, Capital Markets and Business Solutions. Fund management firm Landsbréf hf., a subsidiary of the Issuer, is included under Asset Management and Capital Markets in the Issuer's income statement.

Asset Management offers comprehensive asset management services, from advising on the selection of appropriate short or long-term savings options to more tailored services, such as management of customer

portfolios. Asset Management has a diverse range of customers that includes individuals, companies, pension funds and municipalities. Investment funds managed by Landsbréf hf. are part of Asset Management's product offering. Two pension funds are fully managed by Asset Management, which includes management of their securities portfolios, supervising accounting, registration of pension rights and pension payments.

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 government bonds.

Business Solutions is a support unit designed to assist the business units and manage the product development process for the division. The department is an important contributor to the security element of Landsbankinn's online banking platform and its mobile application. Business Solutions is responsible for implementing changes to the division's processes in response to changes in the legal and regulatory environment.

Support divisions

The Issuer has four support divisions: Risk Management, Finance and Operations, IT & Community.

Risk Management

The role of the Risk Management division is to measure, monitor and report on the Issuer's credit risk, market risk, liquidity risk, and operational risk. The Risk Management division is responsible for the maintenance and analysis of the Issuer's risk assessment systems. Subsidiaries of the Issuer have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group exposures. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions to various internal departments and committees and supervisory authorities.

As of the date of this Base Prospectus, the Risk Management Division is comprised of six departments.

- The Credit Management Department reviews, and confirms or vetoes, credit decisions made by the Issuer's business units when credit applications exceed the business units' limits. Confirmation by Credit Management implies that Credit Management has reviewed the credit application and has not exercised its veto rights. Credit applications exceeding the confirmation limits of the Risk Management Division are referred to the Issuer's Credit Committee. The department also oversees regular updates of the Issuer's credit policies and other rules related to the credit process.
- The Credit Risk Department is responsible for measuring and monitoring credit risk as well as for providing the Issuer with systems and processes to measure, monitor and control credit risk in credit and policy decisions. Credit Risk is further responsible for analysis and reporting on credit risk, economic capital and impairment. Credit Risk is also responsible for setting rules and procedures regarding credit risk, such as procedures for impairment measurement, credit mitigation and forbearance.
- The Market Risk Department is responsible for measuring, monitoring and reporting on market risk, liquidity risk and interest rate risk in the Issuer's banking book along with limit monitoring and reporting. The department develops and maintains the Issuer's market risk models and maintains the Issuer's Market Risk Policy and Liquidity Risk Policy, as well as implementing processes to measure and monitor market risk and liquidity risk. Market Risk is also responsible for monitoring all derivatives trading the Issuer enters into, both for hedging and trading purposes, as well as FX balance monitoring for the Issuer.
- The Operational Risk Department is responsible for ensuring centralised management of operational risk other than compliance and conduct risk. The department assists in mapping the Issuer's operational risk in a comprehensive risk assessment and in executive assessment and analysis of

operational and loss events. The Operational Risk Department is involved in the design and testing of the Group's continuity plans and the department is responsible for ensuring compliance with the ISO 27001 standard for information security.

- The Internal Modelling Department is responsible for providing the Issuer with Internal Rating Based ("**IRB**") and Economic Capital ("**EC**") models and related processes to estimate credit risk and link the risk to equity, as well as for providing support during the implementation of those models and processes. The department is also responsible for the development of models for pre-approved limits.
- The Risk Solutions Department develops and operates external solutions, as well as maintaining the development and reporting environments used by the Risk Management Division. The department is also responsible for monitoring and maintaining periodic executions of code by the Division and reporting to supervisory parties. The department has also been responsible for the implementation of the Basel Committee on Banking Supervision for the effective risk data aggregation and risk reporting standard, or Banking Supervision standard number 239 ("**BCBS 239**").

Finance

Finance is a division that incorporates both support and profit functions. The division comprises six departments: Treasury, Accounting & Financial Reporting ("**A&FR**"), Transaction Services, Loan Administration, Market Making and Sustainability.

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

A&FR is responsible for financial accounting and budgeting within the Issuer. The Department handles the compilation and communication of management information; monthly, quarterly and annual financial statements; and budgeting and rolling financial forecasts. A&FR is further responsible for carrying out earnings measurements, analysis, and has a control function within the Issuer.

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

Loan Administration manages all loans for the Issuer and third-party owned loans, including documentation and payments information disclosure and amendments to loans. The department is also responsible for appendices and inventory of active loans and the final processing of settled documents for permanent archiving. The department includes a dedicated unit which handles import and export documentary, standby letters of credit, guarantees, documentary collections and domestic guarantees.

Market Making acts as a market maker for a number of listed securities, as well as the ISK on the interbank market. The role of a market maker is to promote normal price formation and liquidity 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 spread.

Sustainability is responsible for all sustainability-related concerns of the Issuer, both regulatory and voluntary. The main activities include implementing sustainability regulations from the EU, maintaining the Sustainable

Finance Framework, communicating with external ESG Risk-Rating agencies, carbon accounting, monitoring the sustainability goals, sustainability reporting and other sustainability commitments.

Information Technology

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

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

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 of the Help desk unit, which provides service to internal users, the Information Technology Infrastructure Library process management unit and the physical document storage supervision.

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 Issuer's webpages.

Communication and Culture

Communication and Culture Community is comprised of four departments and one team: Human Resources ("HR"), Marketing, Economic Research, Operations and the Communication Team.

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

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

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

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

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

The Communication Team is responsible for internal and external communication.

As a division, Communication and Culture takes the lead on shaping and promoting the Issuer's corporate culture and message. The division's main role is to maintain a positive relationship between the customers and the employees of the Issuer, and also to take part in achieving the Issuer's business goals through a holistic and transparent approach to communication and disclosure. It plays a key role in implementing the Issuer's strategy, which emphasises a new approach to customer relations, including through sharing information on sustainability, research and analysis, and employee training.

Other divisions

The CEO's Office, Legal Services, Compliance, Strategy and Business Process Management ("SBPM"), all report directly to the CEO.

The CEO's Office works closely with the CEO to assist her with her duties. Its primary responsibilities are arranging meetings for the Issuer's senior management and Board of Directors and following-up on the implementation of decisions.

Legal Services handle legal aspects of the Issuer's operations. It, *inter alia*, provides the Issuer with legal advice, monitors and assesses the impact of regulatory development, manages litigation, represents the Issuer in courts, prepares cases reviewed by the Complaints Committee on Transactions with Financial Undertakings, reviews and confirms standardised contractual forms relating to the Issuer's operations, and prepares correspondence with regulators, in particular the FSA, the Icelandic Competition Authority and the Data Protection Authority. The Issuer's Data Protection Officer has an independent role within Legal Services according to a letter of appointment issued by the CEO.

Compliance is an independent management unit placed directly under the CEO in the Issuer's organisational chart, operating in accordance with the letter of appointment issued by the CEO and confirmed by the Board of Directors. Compliance is part of the Issuer's second level control and is responsible for monitoring laws and measures against money laundering and financing of terrorist activities and laws on securities trading. Compliance also monitors the efficiency of the Issuer's compliance with laws, regulations and internal rules, and is responsible for measures to prevent conflicts of interest and actions necessary to ensure that the Issuer operates in accordance with proper and sound business practices, with an aim of strengthening the credibility of and confidence in financial markets.

SBPM's primary role is to help the CEO set, maintain and reach strategic goals, both short and long-term. This also includes running various projects on behalf of the CEO. Secondly, this unit maintains a holistic overview of all core policies, procedures, and processes.

Internal Audit

The internal audit function is a part of the Issuer's organisational structure and constitutes one aspect of its internal oversight system. The role of the internal audit function is to provide risk-based and objective assurance, advice and insight, which is intended to enhance and protect the organisational value of the Issuer.

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

The internal audit activity is accountable both administratively and functionally to the Board of Directors. The Board of Directors employs the chief audit executive, who annually confirms to the board the organisational independence of the internal audit activity. According to an external quality assessment, conducted in January 2019, and a self-assessment based on The Internal Audit Ambition Model in the year 2023, the internal audit activity of the Issuer generally conforms to the Core Principles, the Definition of Internal Auditing, the Code of Ethics and the Standards promulgated by the Institute of Internal Auditors.

LOAN PORTFOLIO⁴⁹

The table below sets out details of the Group's loans and advances to financial institutions, as at 30 September 2023, 31 December 2022 and 31 December 2021, classified by type of loan⁵⁰. All amounts are in ISK million.

	<u>30.09.2023</u>	<u>31.12.2022</u>	<u>31.12.2021</u>
Bank accounts with financial institutions	22,338	21,759	15,261
Money market loans	58,948	5,836	29,552
Other loans	1,958	1,026	2,418
Allowance for impairment	-	-	-
Total	<u>83,244</u>	<u>28,621</u>	<u>47,231</u>

The table below sets out details of the Issuer's loans and advances to customers at amortised cost, as at 30 September 2023, 31 December 2022 and 31 December 2021. All amounts are in ISK million.

Loans and advances to customers at amortised cost

	30.09.2023			31.12.2022			31.12.2021		
	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount	Gross carrying amount	Allowance for impairment	Carrying amount
Public entities	11,924	(11)	11,913	10,525	(6)	10,519	3,898	(3)	3,895
Individuals	811,306	(1,599)	809,707	791,342	(1,327)	790,015	726,309	(1,359)	724,950
Mortgage lending	723,203	(683)	722,520	705,819	(563)	705,256	646,981	(466)	646,515
Other	88,103	(916)	87,187	85,523	(764)	84,759	79,328	(893)	78,435
Corporates	771,624	(8,663)	762,961	734,524	(8,662)	725,862	648,937	(12,461)	636,476
Total	<u>1,594,854</u>	<u>(10,273)</u>	<u>1,584,581</u>	<u>1,536,391</u>	<u>(9,995)</u>	<u>1,526,396</u>	<u>1,379,144</u>	<u>(13,823)</u>	<u>1,365,321</u>

The following tables show the Group's maximum credit risk exposure at 30 September 2023, 31 December 2022 and 31 December 2021. For on-balance sheet assets, the exposures are based on net carrying amounts as reported in the Consolidated Statement of Financial Position. Off-balance sheet amounts are the maximum amounts the Group might have to pay for guarantees, undrawn loan commitments, and undrawn overdraft and credit card facilities. All amounts are in ISK million.

⁴⁹ Further information on the loan portfolio can also be found in the 9M 2023 Interim Financial Statements and the 2022 Consolidated Financial Statements, which are incorporated by reference into this Base Prospectus.

⁵⁰ Further information can also be found in 9M 2023 Interim Financial Statements and the 2022 Financial Statements, which are incorporated by reference into this Base Prospectus.

The Issuer continues to use the ISAT 08 industrial classification of economic activities but has altered its own classification to include a special category for tourism, which was previously included under services. The category services, other than tourism, is subsumed under IT and telecommunications.

As at 30 September 2023	Corporates													Maximum exposure	Carrying amount
	Financial institutions	Public entities *	Individuals	Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC	Retail	Manufacturing and energy	Holding companies	Agriculture	Other		
Cash and balances with Central Bank	-	114,774	-	-	-	-	-	-	-	-	-	-	-	114,774	114,774
Bonds and debt instruments	129	108,273	-	-	-	-	-	1,917	-	34	14	-	-	110,367	131,605
Equities and equity instruments	76	-	-	60	25	-	4	2,711	5	210	6,724	-	-	9,815	15,785
Derivative instruments	1,323	-	6	31	7	2	1	-	17	347	122	-	213	2,069	2,069
Loans and advances to financial institutions	83,244	-	-	-	-	-	-	-	-	-	-	-	-	83,244	83,244
Loans and advances to customers	-	11,913	809,762	186,742	153,952	130,543	107,377	63,231	72,192	28,476	28,477	7,206	-	1,599,871	1,599,871
Other assets	29,836	-	3	3	1,685	-	2	2,425	14	7	-	-	1,072	35,047	35,055
Total on-balance sheet exposure	114,608	234,960	809,771	186,836	155,669	130,545	107,384	70,284	72,228	29,074	35,337	7,206	1,285	1,955,187	1,982,403
Off-balance sheet exposure	57	9,423	39,379	21,088	25,702	88,947	13,378	21,385	22,321	38,463	4,622	543	26	285,334	
Financial guarantees and underwriting commitments	-	-	553	6,867	2,332	6,239	1,863	4,311	3,986	781	922	10	-	27,864	
Undrawn loan commitments	-	125	160	11,498	22,230	79,057	9,620	6,709	10,394	33,516	3,293	-	-	176,602	
Undrawn overdraft/credit card facilities	57	9,298	38,666	2,723	1,140	3,651	1,895	10,365	7,941	4,166	407	533	26	80,868	
Maximum exposure to credit risk	114,665	244,383	849,150	207,924	181,371	219,492	120,762	91,669	94,549	67,537	39,959	7,749	1,311	2,240,521	
Percentage of maximum exposure to credit risk	5.1%	10.9%	37.9%	9.3%	8.1%	9.8%	5.4%	4.1%	4.2%	3.0%	1.8%	0.3%	0.1%	100%	

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

Corporates

As at 31 December 2022	Finan- cial institu- tions	Public entities *	Individ- uals	Fisher- ies	Real estate compa- nies	Constr- uction compa- nies	Travel industr- y	Servic- es, ITC	Retail	Manuf- actur- ing and energy	Holdin- g compa- nies	Agri- cultur- e	Other	Maximum exposure	Carrying amount
Cash and balances with Central Bank	-	42,216	-	-	-	-	-	-	-	-	-	-	-	42,216	42,216
Bonds and debt instruments	190	88,562	-	-	-	-	-	1,878	-	-	15	-	-	90,645	125,265
Equities and equity instruments	109	-	-	49	37	-	6	2,368	6	184	9,017	-	-	11,776	19,106
Derivative instruments	1,307	-	14	174	201	2	5	6	5	75	1,061	-	223	3,073	3,073
Loans and advances to financial institutions	28,621	-	-	-	-	-	-	-	-	-	-	-	-	28,621	28,621
Loans and advances to customers	-	10,519	790,237	192,036	139,509	102,394	110,843	60,334	64,585	38,971	28,168	6,764	-	1,544,360	1,544,360
Other assets	19,111	27	3	3	1,961	-	2	1,972	-	52	-	-	1,242	24,373	24,383
Total on-balance sheet exposure	49,338	141,324	790,254	192,262	141,708	102,396	110,856	66,558	64,596	39,282	38,261	6,764	1,465	1,745,064	1,787,024
Off-balance sheet exposure	1	9,098	37,389	24,151	17,744	73,678	8,458	18,192	24,996	23,645	1,388	905	26	239,671	
Financial guarantees and underwriting commitments	-	-	587	7,376	2,394	5,176	2,218	3,095	5,878	782	959	152	-	28,617	
Undrawn loan commitments	-	-	625	13,889	14,113	65,095	4,741	5,629	11,934	19,409	69	62	-	135,566	
Undrawn overdraft/credit card facilities	1	9,098	36,177	2,886	1,237	3,407	1,499	9,468	7,184	3,454	360	691	26	75,488	
Maximum exposure to credit risk	49,339	150,422	827,643	216,413	159,452	176,074	119,314	84,750	89,592	62,927	39,649	7,669	1,491	1,984,735	
Percentage of maximum exposure to credit risk	2.5%	7.6%	41.7%	10.9%	8.0%	8.9%	6.0%	4.3%	4.5%	3.2%	2.0%	0.4%	0.1%	100.0%	

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

Corporates

As at 31 December 2021	Financial institutions	Public entities *	Individuals	Fisheries	Real estate companies	Construction companies	Travel industry	Services, ITC **	Retail	Manufacturing and energy	Holdings companies	Agriculture	Other	Maximum exposure	Carrying amount	
Cash and balances with Central Bank	-	82,425	-	-	-	-	-	-	-	-	-	-	-	82,425	82,425	
Bonds and debt instruments	179	98,539	-	-	61	-	-	1,722	-	30	13	-	-	100,544	150,435	
Equities and equity instruments	135	-	-	51	57	-	9	2,346	12	170	19,068	-	-	21,848	33,347	
Derivative instruments	1,068	-	-	2	1	31	-	12	17	-	-	-	102	1,233	1,233	
Loans and advances to financial institutions	47,231	-	-	-	-	-	-	-	-	-	-	-	-	47,231	47,231	
Loans and advances to customers	-	3,895	725,543	177,439	120,326	89,867	97,635	56,872	49,535	30,117	30,077	6,157	-	1,387,463	1,387,463	
Unsettled securities trading															0	0
Other assets	19,695	29	2	3	1,984	-	2	4,618	-	15	1	-	1,288	27,637	27,664	
Total on-balance sheet exposure	68,308	184,888	725,545	177,495	122,429	89,898	97,646	65,570	49,564	30,332	49,159	6,157	1,390	1,668,381	1,729,798	
Off-balance sheet exposure	1	8,004	33,096	18,061	15,355	67,611	16,516	20,439	24,385	16,077	1,126	574	26	221,271		
Financial guarantees and underwriting commitments	-	-	562	6,406	1,475	4,700	2,145	3,149	3,207	4,110	965	70	-	26,789		
Undrawn loan commitments	-	2	-	9,413	12,817	60,277	13,061	8,431	14,965	8,346	-	196	-	127,508		
Undrawn overdraft/credit card facilities	1	8,002	32,534	2,242	1,063	2,634	1,310	8,859	6,213	3,621	161	308	26	66,974		
Maximum exposure to credit risk	68,309	192,892	758,641	195,556	137,784	157,509	114,162	86,009	73,949	46,409	50,285	6,731	1,416	1,889,652		
Percentage of maximum exposure to credit risk	3.6%	10.2%	40.1%	10.3%	7.3%	8.3%	6.0%	4.6%	3.9%	2.5%	2.7%	0.4%	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.

The tables below, for 30 September 2023, 31 December 2022 and 31 December 2021, show both the gross carrying amount of loans and advances and the related expected credit losses (ECLs) by industry sector and the three-stage criteria under IFRS 9. All amounts are in ISK million.

As at 30 September 2023	Stage 1			Stage 2		Stage 3		Allowance for impairment	Fair Value	Carrying amount
	Gross carrying amount	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
Financial institutions	83,244	83,244	-	-	-	-	-	-	-	83,244
Public entities	11,924	11,913	(11)	6	-	5	-	(11)	-	11,913
Individuals	811,361	769,975	(256)	37,994	(546)	3,337	(797)	(1,599)	55	809,762
Mortgages	723,203	692,063	(157)	29,097	(352)	2,043	(174)	(683)	-	722,520
Other	88,158	77,912	(99)	8,897	(194)	1,294	(623)	(916)	55	87,242
Corporates	786,859	711,763	(3,876)	42,092	(1,290)	17,769	(3,497)	(8,663)	15,235	778,196
Fisheries	188,088	178,487	(443)	616	(20)	3,483	(883)	(1,346)	5,502	186,742
Real estate companies	155,293	141,612	(804)	7,060	(156)	2,428	(381)	(1,341)	4,193	153,952
Construction companies	132,400	121,975	(1,410)	7,989	(177)	2,075	(270)	(1,857)	361	130,543
Travel industry	109,897	91,688	(480)	11,424	(651)	6,785	(1,389)	(2,520)	-	107,377
Services, IT and communications	63,668	58,280	(291)	4,645	(95)	394	(51)	(437)	349	63,231
Retail	72,715	68,926	(236)	3,028	(51)	450	(236)	(523)	311	72,192
Manufacturing and energy	28,865	21,391	(60)	5,437	(96)	2,037	(233)	(389)	-	28,476
Holding companies	28,709	22,792	(144)	1,290	(40)	108	(48)	(232)	4,519	28,477
Agriculture	7,224	6,612	(8)	603	(4)	9	(6)	(18)	-	7,206
Other	-	-	-	-	-	-	-	-	-	0
Total	1,693,388	1,576,895	(4,143)	80,092	(1,836)	21,111	(4,294)	(10,273)	15,290	1,683,115

As at 31 December 2022	Stage 1			Stage 2		Stage 3		Allowance for impairment	Fair Value	Carrying amount
	Gross carrying amount	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
Financial institutions	28,621	28,621	-	-	-	-	-	-	-	28,621
Public entities	10,525	10,519	(6)	-	-	6	-	(6)	-	10,519
Individuals	791,564	759,931	(265)	28,977	(426)	2,434	(636)	(1,327)	222	790,237
Mortgages	705,819	682,140	(152)	22,236	(280)	1,443	(131)	(563)	-	705,256
Other	85,745	77,791	(113)	6,741	(146)	991	(505)	(764)	222	84,981
Corporates	752,266	679,680	(3,268)	36,829	(1,132)	18,015	(4,262)	(8,662)	17,742	743,604
Fisheries	192,440	184,670	(386)	2,408	(17)	4	(1)	(404)	5,358	192,036
Real estate companies	140,498	128,946	(569)	5,917	(111)	1,843	(309)	(989)	3,792	139,509
Construction companies	103,947	94,541	(1,111)	6,251	(86)	2,819	(356)	(1,553)	336	102,394
Travel industry	114,293	88,528	(502)	17,499	(782)	8,266	(2,166)	(3,450)	-	110,843
Services, IT and communications	60,700	56,376	(257)	2,363	(84)	179	(25)	(366)	1,782	60,334
Retail	65,510	62,800	(219)	1,460	(27)	919	(679)	(925)	331	64,585
Manufacturing and energy	39,749	35,485	(88)	370	(7)	3,894	(683)	(778)	-	38,971
Holding companies	28,345	21,838	(128)	282	(11)	82	(38)	(177)	6,143	28,168
Agriculture	6,784	6,496	(8)	279	(7)	9	(5)	(20)	-	6,764
Other	-	-	-	-	-	-	-	-	-	0
Total	1,582,976	1,478,751	(3,539)	65,806	(1,558)	20,455	(4,898)	(9,995)	17,964	1,572,981

As at 31 December 2021	Stage 1			Stage 2		Stage 3		Allowance for impairment	Fair Value	Carrying amount
	Gross carrying amount	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL			
Financial institutions	47,231	47,231	-	-	-	-	-	-	-	47,231
Public entities	3,898	3,868	(3)	30	-	-	-	(3)	-	3,895
Individuals	726,902	696,781	(319)	26,790	(408)	2,738	(632)	(1,359)	593	725,543
Mortgages	646,981	626,118	(137)	19,125	(214)	1,738	(115)	(466)	-	646,515
Other	79,921	70,663	(182)	7,665	(194)	1,000	(517)	(893)	593	79,028
Corporates	670,486	539,869	(1,523)	79,801	(3,690)	29,267	(7,248)	(12,461)	21,549	658,025
Fisheries	177,642	170,822	(158)	3,465	(19)	47	(26)	(203)	3,308	177,439
Real estate companies	121,649	104,590	(221)	7,190	(331)	3,442	(771)	(1,323)	6,427	120,326
Construction companies	91,439	78,640	(520)	3,512	(41)	8,911	(1,011)	(1,572)	376	89,867
Travel industry	104,584	40,383	(303)	51,930	(3,155)	12,271	(3,491)	(6,949)	-	97,635
Services, IT and communications	57,515	46,714	(171)	6,834	(64)	1,038	(408)	(643)	2,929	56,872
Retail	50,716	47,354	(68)	982	(19)	1,235	(1,094)	(1,181)	1,145	49,535
Manufacturing and energy	30,616	26,150	(21)	2,301	(38)	2,165	(440)	(499)	-	30,117
Holding companies	30,154	19,291	(52)	3,488	(20)	11	(5)	(77)	7,364	30,077
Agriculture	6,171	5,925	(9)	99	(3)	147	(2)	(14)	-	6,157
Other	-	-	-	-	-	-	-	-	-	0
Total	1,448,517	1,287,749	(1,845)	106,621	(4,098)	32,005	(7,880)	(13,823)	22,142	1,434,694

Loans and advances by stage allocation (continued)

The tables below show the gross carrying amount of loans and advances to financial institutions and customers by past due status as at 30 September 2023, 31 December 2022 and 31 December 2021. All amounts are in ISK million.

As at 30 September 2023	Gross carrying amount						Allowance for impairment	Carrying amount
	Not past due	1-5	6-30	31-60	61-90	Over 90		
Financial institutions	83,244	-	-	-	-	-	-	83,244
Public entities	11,919	-	-	5	-	-	(11)	11,913
Individuals	801,270	2,876	3,780	422	1,027	1,986	(1,599)	809,762
Mortgages	717,993	-	3,055	276	809	1,070	(683)	722,520
Other	83,277	2,876	725	146	218	916	(916)	87,242
Corporates	772,631	3,264	3,969	2,862	1,509	2,624	(8,663)	778,196
Fisheries	187,842	127	107	-	12	-	(1,346)	186,742
Real estate companies	153,175	193	975	49	55	846	(1,341)	153,952
Construction companies	129,923	676	317	34	833	617	(1,857)	130,543
Travel industry	103,906	378	2,066	2,450	561	536	(2,520)	107,377

Services, IT and communications	61,905	871	301	289	21	281	(437)	63,231
Retail	71,638	646	123	33	5	270	(523)	72,192
Manufacturing and energy	28,506	315	37	7	-	-	(389)	28,476
Holding companies	28,578	1	34	-	22	74	(232)	28,477
Agriculture	7,158	57	9	-	-	-	(18)	7,206
Other	-	-	-	-	-	-	-	0
Total	1,669,064	6,140	7,749	3,289	2,536	4,610	(10,273)	1,683,115

Gross carrying amount

As at 31 December 2022	Days past due						Allowance for impairment	Carrying amount
	Not past due	1-5	6-30	31-60	61-90	Over 90		
Financial institutions	28,621	-	-	-	-	-	-	28,621
Public entities	10,519	-	6	-	-	-	(6)	10,519
Individuals	783,338	2,645	1,179	2,548	657	1,197	(1,327)	790,237
Mortgages	701,735	-	779	2,107	485	713	(563)	705,256
Other	81,603	2,645	400	441	172	484	(764)	84,981
Corporates	739,206	1,965	4,616	1,076	1,595	3,808	(8,662)	743,604
Fisheries	192,360	74	-	1	1	4	(404)	192,036
Real estate companies	138,604	83	856	297	285	373	(989)	139,509
Construction companies	102,496	218	966	108	1	158	(1,553)	102,394
Travel industry	107,656	157	2,325	518	1,209	2,428	(3,450)	110,843
Services, IT and communications	59,412	634	351	125	39	139	(366)	60,334
Retail	64,139	607	72	19	59	614	(925)	64,585
Manufacturing and energy	39,583	150	7	2	-	7	(778)	38,971
Holding companies	28,216	9	38	6	-	76	(177)	28,168
Agriculture	6,740	33	1	-	1	9	(20)	6,764
Other	-	-	-	-	-	-	-	0
Total	1,561,684	4,610	5,801	3,624	2,252	5,005	(9,995)	1,572,981

Gross carrying amount

As at 31 December 2021	Days past due						Allowance for impairment	Carrying amount
	Not past due	1-5	6-30	31-60	61-90	Over 90		
Financial institutions	47,231	-	-	-	-	-	-	47,231
Public entities	3,869	29	-	-	-	-	(3)	3,895
Individuals	720,122	2,108	1,060	1,726	719	1,167	(1,359)	725,543
Mortgages	643,594	-	716	1,420	585	666	(466)	646,515
Other	76,528	2,108	344	306	134	501	(893)	79,028
Corporates	659,706	1,920	1,017	454	648	6,741	(12,461)	658,025
Fisheries	177,415	190	24	2	-	11	(203)	177,439

Real estate companies	118,967	225	503	66	130	1,758	(1,323)	120,326
Construction companies	89,939	680	177	63	2	578	(1,572)	89,867
Travel industry	100,845	114	76	174	433	2,942	(6,949)	97,635
Services, IT and communications	56,752	258	187	15	26	277	(643)	56,872
Retail	49,100	381	19	98	55	1,063	(1,181)	49,535
Manufacturing and energy	30,422	37	20	25	-	112	(499)	30,117
Holding companies	30,136	6	10	-	2	-	(77)	30,077
Agriculture	6,130	29	1	11	-	-	(14)	6,157
Other	-	-	-	-	-	-	-	0
Total	1,430,928	4,057	2,077	2,180	1,367	7,908	(13,823)	1,434,694

Exposures to a client or a group of connected clients are classified as large exposures if their total exposures exceed 10 per cent. of the Group's Tier 1 capital. Large exposures are measured before (gross) and after (net) application of exemptions and credit risk mitigation. The legal maximum for a large exposure is 25 per cent. of Tier 1 capital, net of eligible credit risk mitigation.

The tables below show large exposures as at 30 September, 31 December 2022 and 31 December 2021. The Group had three large exposures as at 30 September 2023 compared to four large exposures at year-end 2022. The largest exposure before credit risk mitigation is the Icelandic government. Total ratio of large exposures, net of credit risk mitigation, was 8.7 per cent. at 30 September 2023. All amounts are in ISK million.

As at 30 September 2023	Ratio of Tier 1 capital			
	Gross (Gross)	Net (Net)		
Group 1	69,436	24.6%	203	0.1%
Group 2	47,677	16.9%	-	0.0%
Group 3	30,789	10.9%	24,284	8.6%
Total	147,902	52.3%	24,487	8.7%

As at 31 December 2022	Ratio of Tier 1 capital			
	Gross (Gross)	Net (Net)		
Group 1	62,542	23.0%	209	0.1%
Group 2	34,853	12.8%	29,037	10.7%
Group 3	31,385	11.6%	31,188	11.5%
Group 4	27,173	10.0%	27,173	10.0%
Total	155,953	57.4%	87,607	32.3%

As at 31 December 2021	Ratio of Tier 1 capital			
	Gross (Gross)	Net (Net)		
Group 1	72,608	25.6%	7,271	2.6%
Group 2	41,182	14.5%	-	0.0%

Group 3	32,814	11.6%	32,195	11.4%
Group 4	31,328	11.0%	29,285	10.3%
Group 5	31,282	11.0%	24,982	8.8%
Total	209,214	73.8%	93,733	33.1%

Further information on the aforementioned tables is disclosed in the notes in the 2022 Financial Statements, and in the 9M 2023 Interim Financial Statements, which are incorporated by reference to this Base Prospectus.

FUNDING

The Issuer's funding rests on three main pillars: Deposits from customers, market funding and equity. The Issuer's credit rating by S&P Global Ratings is BBB/A-2 with a positive outlook.

Deposits from customers

The largest part of the Issuer's funding is in the form of deposits from customers which amounted to ISK 968 billion at year-end 2022, mostly non-indexed and on demand. Deposits from customers increased by 68 billion during the year 2022. Inflation-linked deposits amounted to ISK 160 billion at year-end 2022, increasing by ISK 24 billion from the previous year.

Market funding

EMTN issuance

Bond issuances in foreign currencies is the most important pillar in the Issuer's market funding. The size of the Issuer's EMTN programme is EUR 2 billion and was increased in size from EUR 1.5 billion in 2017. The inaugural issuance under the programme was made in autumn 2015 with continued issuance on a regular basis to date. In 2021, the Issuer published a Sustainable Finance Framework with a second-party opinion from Sustainalytics.

In January 2022, the Issuer issued 1 and 2-year bonds in the total amount of SEK 1,700 million and 2-year bonds amounting to NOK 500 million.

In August 2022, the Issuer issued 2-year and 3-year bonds in the total amount of NOK 650 million. Bonds originally in the amount of EUR 300 million matured in March 2022; the Issuer had already bought back EUR 156 million thereof in 2021.

At year-end 2022, bond issuance in foreign currency amounted to ISK 254 billion, increasing by ISK 14 billion during the year.

Covered bonds

The size of the programme for covered bond issuance is EUR 2,500 million and was increased from ISK 250 billion in 2022. The programme was updated in 2022 to allow for covered bond issuance in foreign currency under the programme in addition to its listing on the Irish stock exchange, trading as Euronext Dublin.

Regular auctions of covered bonds were held in 2022 where previously issued series were tapped, in addition to the issuance of a new non-indexed series, LBANK CB 27. The inflation-linked series LBANK CBI 22 matured in 2022. Agreements with market makers in the secondary market for covered bonds were renewed in the year 2022.

At year-end 2022, outstanding covered bonds amounted to ISK 223 billion, increasing by ISK 5 billion during the year.

Commercial paper

No commercial paper auctions were held in 2022 under the ISK 50 billion debt issuance programme. No series matured in 2022 and there was no outstanding issuance of commercial paper at year-end 2022.

Subordinated bond issuance

Subordinated bond issuances under the Issuer's debt issuance programme amounted to ISK 5.5 billion at year-end 2022 and subordinated issuance under the Issuer's EMTN programme amounted to EUR 100 million at the same time. Both bond issues count as tier 2 capital and amounted to ISK 22 billion at year-end 2022, increasing by ISK 1 billion from the previous year.

Equity

The Issuer's equity amounted to ISK 279 billion at year-end 2022, decreasing by ISK 4 billion over the course of the year.

The Issuer paid ISK 14,409 million in dividends to shareholders in 2022 and a special dividend of ISK 6,141 million.

The Issuer's total capital ratio⁵¹ was 24.6 per cent. at year-end 2022.

Credit rating

On 17 November 2023, the international rating agency S&P Global Ratings revised the Issuer's long-term issuer credit rating at BBB/A-2, from a stable to positive outlook. The previous rating was from April 2020, when S&P lowered the long-term issuer credit rating of the Issuer to BBB/A-2, with a stable outlook. S&P affirmed the previous rating in October 2021 and July 2022.

Further information on the funding of the Issuer is disclosed in the notes in the 2022 Financial Statements and the 9M 2023 Interim Financial Statements, which are incorporated by reference to this Base Prospectus.

RISK MANAGEMENT FRAMEWORK

Risk is inherent in the Group's activities. It is managed through a process of on-going identification, measurement, management, and monitoring, subject to internal limits and controls. Risk identification involves finding the origins and structures of possible risk factors in the Group's operations and undertakings. Risk measurement entails measuring identified risk for management and monitoring purposes. 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, and that exposure to risk is managed to ensure that it remains within limits. Risk management policy is implemented through risk appetite, business strategy, and internal policies and limits that comply with the regulatory framework of the financial markets.

The Board of Directors of the Issuer has overall responsibility for the establishment and oversight of the Group's risk management framework, risk appetite and setting risk limits. 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 Chairman of the Executive Board, the Risk & Finance Committee, the Credit Committee and the Project Committee.

⁵¹ Definition: Total capital ratio is calculated total capital base / risk-exposure amount.

The Executive Board's main role is to prepare an ongoing 3-year business plan in line with the Issuer's strategic objectives and ensure that targets are met, to ensure compliance of the Issuer's operations with laws, regulations, business plans and policies at any given time. The Credit Committee's main role is to approve lending and ensure that the Issuer's loan portfolio and credit risk remain in compliance with its credit risk policy and risk appetite. The Committee makes individual credit decisions, credit limits for customers, credit quality and large exposures, among other things. The Risk & Finance Committee primarily reviews market and liquidity risk and is responsible for formulating risk limits for these factors for the Issuer. The Risk & Finance Committee also covers counterparty risk, reviews various rules and policies regarding risk, review the ICAAP methodology and scenarios and reviews the Issuer's market risk, liquidity risk and economic capital policies. The Operational Risk Committee makes decisions on operational risk issues and reviews the effective implementation of the operational risk policy. The Project Committee selects, prioritises and oversees key projects that support the Issuer's strategy.

Risk appetite defines the type and extent of risk that management is willing to take to meet the Issuer's business objectives. In pursuit of its goals, the Issuer only takes on risks that it understands, and can measure, evaluate and manage. The Issuer's risk appetite is reviewed and revised at least annually.

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

Credit Risk

Credit risk is primarily managed through the credit process and the Issuer's credit risk models which include probability of default ("**PD**"), loss given default ("**LGD**") and exposure at default ("**EAD**"). These models are used for various purposes, such as in provisioning, calculating economic capital ("**EC**") and management reporting.

Credit risk identification

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

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

Credit risk is the greatest single risk faced by the Issuer and arises principally from loans and advances to customers, but also from loans and advances to financial institutions, investments in bonds and debt instruments, investments in equity and equity instruments, commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and the aforementioned settlement risk along with other assets.

Credit risk assessment

Credit risk is measured in three main dimensions: PD, LGD and EAD. To measure PD, the Issuer has developed an internal rating system, including 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 values 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 exclusively reflects quantification of the risk of obligor default, or credit quality. The obligor rating scale has 10 rating grades for non-defaulted obligors from 1 to 10, with 10 indicating the highest credit quality, and the grade 0 for defaulted obligors. The rating assignment

is supported by rating models, where information such as industry classification, financial accounts and payment behaviour is considered.

The internal rating system is used to assign ratings and calculate risk-weighted exposure amounts for the majority of the Issuer's customers for economic capital. Additionally, external ratings, from Standard & Poor's, Moody's and Fitch, are used for foreign credit institutions and ratings from Creditinfo are used for new retail customers.

The rating assignment and approval is an integrated part of the credit approval process and assignment is updated at least annually, or when material information regarding the obligor or exposure becomes available. The Issuer's estimation and validation process includes quality controls to assess the performance of models, procedures and systems, and is designed to ensure the accuracy of the parameters through adjustments where necessary.

The rating models are validated annually, both quantitatively and qualitatively. The quantitative validation includes statistical tests of the models' discriminatory power, i.e., the models' ability to distinguish default risk, and absolute accuracy, i.e., the ability to predict default levels.

The PD parameters are validated annually by a quantitative and qualitative assessment, and re-estimated when the validation deems it necessary. PD estimates are based on long-term observed default frequency in available internal data and adjusted through an add-on. The adjustment for the length of internal data available is embedded in the margin of conservatism which also includes an add-on to compensate for statistical uncertainty in the estimation.

LGD is measured using an internal LGD model for the purpose of EC calculations and provisioning. The internal LGD model takes into account more types of collateral and is more sensitive to the collateralisation level than model defined in the Basel framework, and is calibrated to historical loss data.

EAD is an estimate of the amount outstanding (drawn amounts plus likely future drawdowns of yet undrawn lines) in case the borrower defaults. The Issuer uses the standard approach for estimating risk-weighted exposure amount ("**RWEA**") and EC but uses internal models for provisioning.

Credit risk management

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

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

Incremental credit authorisation levels are defined based on size of units, types of customers and the lending experience of credit officers. Credit decisions exceeding authorisation levels of business units are subject to approval by Credit Management. The Corporate Banking Credit Committee has authorisation levels exceeding that of individual business unit managers and meets regularly to make credit decisions. Credit Management has veto powers over the decisions of the Corporate Banking Credit Committee. Credit decisions exceeding the authorisation levels of the Corporate Banking Credit Committee are subject to approval by the Issuer's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors, which holds the highest credit authorisation within the Issuer.

Credit risk mitigation

Mitigating risks in the credit portfolio is a key element of the Issuer's credit policy as well as being an inherent part of the credit-decision process. Securing loans with collateral is the main method of mitigating credit risk whereas for 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 Issuer's credit policy. Credit extended by the Issuer may be secured on residential or commercial properties, land, listed and unlisted securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, etc. The Issuer 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 Issuer regularly assesses the market value of received collateral. The Issuer estimates the value as the market value less a haircut. A haircut in this context is a discount factor which represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs during the period the asset is held for sale, external fees, and loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

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

In order to further limit the credit risk arising from financial instruments, the Issuer enters into netting agreements, under which the Issuer is able to set off all contracts covered by the netting agreement against the debt in cases of default. The arrangements generally include all market transactions between the Issuer and the customer.

Generally, collateral is not held over loans and advances to financial institutions, nor is it usually held against bonds and debt instruments.

The Issuer includes all collateral to which a value is assigned in accordance with its internal procedures. Guarantees are included if they imply lower risk weights than the original exposure. In addition, collateral is volatility-adjusted (by means of a haircut) in order to take price volatility and the expected costs of repossession and sale of the pledge into account.

Counterparty credit risk

Counterparty credit risk is the risk arising from the possibility that the counterparty may default on amounts owned on derivative financial instruments and securities financing.

In order to mitigate this risk, the Issuer chooses the counterparties for derivatives and margin trading based on stringent requirements. The Issuer also enters into standard International Swaps and Derivatives Association master netting agreements and similar general netting agreements with financial counterparties. In the case of derivatives, amounts due to and from the Issuer are offset when the Issuer has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

In the case of derivatives, amounts due to and from the Issuer are offset when the Issuer has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Credit risk control and monitoring

The Issuer has set limits for large exposures as well as policies for exposure ratio for different portfolios to control the credit risk in the Issuer's credit portfolio and ensure risk diversification. The credit risk decision process is controlled with limits set in the Issuer's Credit rules approved by the Board of Directors. The rules set the limit for each credit decision party within the Issuer where the credit approval authority is based on the underlying credit risk measured by exposure size, credit rating and colour classification code.

The credit risk monitoring process is based on regular reporting, monitoring systems and other manual monitoring. There is increased monitoring for significant exposures and for customers with indications of financial difficulties. One of the integral parts of the credit risk monitoring process is the Early Warning System.

The Issuer monitors exposures to identify signs of weakness in customer earnings and liquidity, or other issues that could increase the Issuer's credit risk, as soon as possible. To monitor customers, the Issuer uses an Early Warning System, which is supplemental to ratings and classifies credit exposures 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 financial difficulties;
- 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 and the Issuer's business units are responsible for the colour classification of customers.

Impairment process

The Issuer uses the three-stage expected credit loss ("**ECL**") model under IFRS 9. Allowance is calculated as the 12-month ECL or the lifetime ECL. 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 ECL 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 ECL (Stage 2 and 3). When determining whether the credit risk on a financial instrument has increased significantly since initial recognition, the Issuer will consider reasonable and supportable information that is relevant and available without undue cost and effort, including both quantitative and qualitative information.

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

Staging and ECL estimation for individually significant loans is done manually on a quarterly basis. When assessing individually significant loans manually, the Issuer 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 Issuer's historical experience, expert credit assessment and forward-looking information. Only Stage 3 loans are manually estimated for ECL.

The Issuer 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
- Loans and advances to customers
- Other assets
- Off-balance sheet exposures:
 - Financial guarantees and underwriting commitments
 - Undrawn loan commitments and
 - Undrawn overdraft/credit card facilities.

When measuring ECL, the Issuer uses a forward-focused 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 origination.

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.

In general, all impairment charges are loan-specific based on the aforementioned ECL models. If needed, the Valuation Team can assess and issue additional general impairment charges.

Total expected credit loss ("**ECL**") was ISK 11.0 billion, at 30 September 2023, compared to ISK 10.6 billion at year-end 2022. The increase in ECL is primarily due to increased lending. Details on the development of ECL can be found in note 44 in the 9M 2023 Interim Financial Statements, which is incorporated by reference into this Base Prospectus.

Liquidity Risk

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

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

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

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

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

The Issuer's liquidity management process includes:

- projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities and monitoring balance sheet liquidity;
- monitoring and managing the maturity profile of liabilities and off-balance sheet commitments;
- monitoring the concentration of liquidity risk in order to avoid undue reliance on large 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 liquidity crisis.

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

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

The Issuer complies with the liquidity Rules set by the Central Bank No. 1520/2022 that took effect on 1 January 2023 and superseded the previous Rules, 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). Furthermore, the Issuer must maintain a LCR for euro at a minimum of 80 per cent, if euro-denominated liabilities constitute 10 per cent. or more of total liabilities and maintain a LCR for Icelandic krona at a minimum 50 per cent. Rules No. 750/2021 requires the Issuer to maintain a NSFR Total for a minimum of 100 per cent. The Issuer also complies with guidelines No. 2/2010 from the Icelandic FSA on best practice for managing liquidity in banking organisation. The guidelines further promote sound management and supervision of liquidity within the Issuer which is reflected in the Issuer's risk appetite and internal processes and policies. The Issuer submits regular reports on its liquidity position to the Central Bank and the Icelandic FSA.

The table below sets out the Issuer's LCR as at 30 September 2023, 31 December 2022 and 31 December 2021 respectively:

	LCR – Total	LCR – EUR	LCR - ISK	NSFR - Total
As at 30 September 2023	238%	1227%	161%	123%
	LCR – Total	LCR - FX	LCR - ISK	NSFR - Total
As at 31 December 2022	134%	351%	99%	117%
As at 31 December 2021	179%	556%	120%	121%

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

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

The aim of the market risk management process is to quickly detect and correct deficiencies in compliance with policies, processes and procedures. The Issuer monitors early indicators that can provide warning of an increased risk of future losses. Market risk indicators need to be concise, reported in a timely manner, give clear signals, highlight portfolio risk concentrations and reflect current risk positions. The risk reports show the Issuer's total risk in addition to summarising risk concentration in different business units and asset classes, as well as across other attributes such as currencies, interest rates and counterparties. Market risks arising from trading and non-trading activities are measured, monitored and reported on a daily, weekly and monthly basis, and the detailed limits set by the Risk & Finance Committee are monitored by Market Risk.

Interest rate risk

Interest rate risk is managed principally by monitoring interest rate gaps. Interest rate risk is managed centrally within the Issuer by the Treasury of the Issuer and is monitored by the Market Risk Department.

Sensitivity analysis for trading portfolios

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

Sensitivity analysis for non-trading portfolios

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

CPI indexation risk (all portfolios)

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

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

Currency risk (all portfolios)

The Issuer complies with the Rules No. 784/2018 on Foreign Exchange Balances, as set by the Central Bank. The rules stipulate that an institution's foreign exchange balance (whether long or short) must always be within 10 per cent. of the Issuer's capital base, in each currency and for all currencies combined. Furthermore, the Issuer's total foreign exchange balance (whether long or short) shall not exceed ISK 25 billion. The Issuer submits daily and monthly reports to the Central Bank with information on its foreign exchange balance.

Operational risk management

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

Capital Adequacy

The purpose of the Issuer's capital management framework is to support the Issuer's strategy and ensure that it has sufficient capital to cover its risks. The capital management framework of the Issuer is comprised of four interdependent activities: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring. The Issuer's capital requirements are defined in Icelandic law and regulations, on the one hand, and by the Icelandic FSA, 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 RWEA for credit risk, market risk and operational risk. In conformity with Pillar II-R requirements of the Basel framework, the Issuer annually assesses its own capital needs through the internal capital adequacy assessment process ("ICAAP"). The ICAAP results are subsequently reviewed by the Icelandic FSA in the Supervisory Review and Evaluation Process ("SREP"). The Issuer's minimum capital requirement, as determined by the Icelandic FSA, is the sum of Pillar I and Pillar II-R requirements.

In addition to the minimum capital requirement, the Issuer is required by law to maintain certain capital buffers determined by the Icelandic FSA, which may, depending on the situation, be based on recommendations from the FSC⁵². The FSC has defined the Issuer as a systematically important financial institution in Iceland.

As at 30 September 2023, the Issuer's most recent capital requirements, as determined by the Icelandic FSA, are as follows (as a percentage of RWEA):

	CET1	Tier 1	Total
Pillar I	4.5%	6.0%	8.0%
Pillar II R	1.6%	2.1%	2.8%

⁵² *The Icelandic Financial Stability Council*

Minimum requirement under Pillar I and Pillar II-R	6.1%	8.1%	10.8%
Systemic risk buffer	2.9%	2.9%	2.9%
Capital buffer for systematically important institutions	2.0%	2.0%	2.0%
Countercyclical capital buffer ⁵³	1.9%	1.9%	1.9%
Capital conservation buffer	2.5%	2.5%	2.5%
Combined buffer requirement	9.4%	9.4%	9.4%
Total Capital Requirement	15.5%	17.5%	20.2%

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

The Issuer's capital target as at 30 September 2023 is based on the current regulatory capital requirement of 15.5 per cent. CET1 (compared to 15.7 per cent. as at 31 December 2022) and 20.2 per cent total capital ratio (compared to 20.7 per cent. as at 31 December 2022). In addition, the Issuer defines a management buffer for the purpose of targeting and managing its capital position comfortably above the overall regulatory capital requirement. Determination of the management buffer is based on various current and forward-looking factors such as the economic and funding outlook, competitive issues, risk profile and business plan. The Issuer also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

As at 30 September 2023, the Issuer's total capital ratio was 23.7 per cent., compared to 24.7 per cent. as at 31 December 2022. As at 30 September 2023, the Group's total CET 1 ratio was 22.2 per cent., compared to 22.9 per cent. at year end 2022. Further information can be found in note 48 in the 2022 Financial Statements and note 35 in the 9M 2023 Interim Financial Statements, which are incorporated by reference into this Base Prospectus.

LITIGATION

The Issuer and its subsidiaries are from time to time party to litigation cases which arise in the ordinary course of business and the operational procedures of the Issuer or the Group, as the case may be. Some of these cases are material in the sense that management considers that they may have a significant impact on the amounts disclosed in the Group's financial statements and are not comparable to other, previously closed, cases.

In August 2021, a former owner of a payment card company brought a case against the Issuer and certain other financial institutions claiming tort liability in the amount of around ISK 923 million, plus interest, due to an alleged breach of competition rules in the determination of payment card interchange fees. This is the sixth case that has been brought before the courts for this purpose, but all previous cases have been dismissed. On 30 September 2022 the District Court of Reykjavík dismissed the case on grounds of insufficient substantiation. On 10 January 2023 the Appeal Court partly annulled the dismissal and ordered the District Court to hear the case in substance. On 26 January 2023, the District Court of Reykjavík decided, at the request of the plaintiff, to appoint assessors to assess certain issues regarding damages which the plaintiff maintains

⁵³ As of 29 September 2022 the decision of the Financial Stability Committee to raise the countercyclical capital buffer from 0 per cent. to 2 per cent. came into effect. The FSC has decided to raise the buffer further to 2.5%, taking effect in March 2024.

that the defendants have caused. The timing of a final judgment is uncertain and is whether it will have a financial impact on the Issuer. Should the plaintiff's claims be acknowledged in a final court ruling, it is to be expected that a potential payment obligation will be divided between the defendants.

In September 2018, the Icelandic Bankers' Pension Fund (the "**Fund**") commenced litigation against the Issuer, the Icelandic Central Bank, the Icelandic State and certain companies and associations. On 12 November 2021, the District Court of Reykjavík acquitted the Issuer and the other defendants of all claims of the Fund. On 24 March 2023, the Appeal Court confirmed the judgment of the District Court. On 21 April 2023, the Fund requested the permission of the Supreme Court to appeal the judgment of the Appeal Court. On 16 June 2023, the Supreme Court decided to reject an application by the Pension Fund to appeal the judgment of the Appeal Court.

In December 2021, two individuals commenced litigation against the Issuer claiming that an interest rate provision in two credit agreements, issued in 2006, should be deemed illegal and void since the provision allegedly does not stipulate under which circumstances the interest rate changes, as provided for in the Consumer Credit Act No. 121/1994, applicable at the time. The disputed interest rate provision was used in the Issuer's consumer credit agreements until 2013. The plaintiffs demand primarily that interest be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Issuer repays the plaintiffs around ISK 3.5 million plus interest. On 7 February 2023, the District Court accepted the plaintiffs' claims of last resort of repayment based on the initial contractual interest rate and taking into account limitation periods for claims, in the amount of around ISK 230,000 plus interest. The case has been appealed to the Appeal Court where the Issuer submits that all claims by the plaintiffs should be rejected. It is the Issuer's assessment that should the judgment of the District Court be confirmed in a final judgment, the maximum potential loss resulting from such an outcome will be ISK 159 million as regards the Issuer's loan portfolio with the same interest rate provision. The Issuer has recognised a provision of that amount.

In December 2022, an individual commenced litigation against the Issuer in a case which is similar to the above mentioned case. On 23 February 2023, the Issuer delivered its written statement claiming that all claims by the plaintiff should be rejected.

In December 2021, two individuals commenced litigation against the Issuer claiming that an interest rate provision in a mortgage credit agreement, issued in 2019, should be deemed illegal and void since the provision allegedly does not stipulate conditions and procedure for interest rate changes, as provided for in the Consumer Mortgage Act No. 118/2016. The disputed interest rate provision in this case has been used in the Issuer's consumer and mortgage credit agreements from 2013. The plaintiffs demand that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Issuer repays the plaintiffs around ISK 83,000 plus interest. In February 2022 the Issuer submitted its written statement claiming that all claims by the plaintiffs should be rejected. On 23 March 2023, a hearing was held before the EFTA Court on a request by the District Court of Reykjavík for an advisory opinion as to whether the interest rate provision is contrary to the Mortgage Credit Directive 2014/17/EU and the Consumer Credit Directive 2008/48/EC. It is expected that the opinion will be delivered on the fourth quarter of 2023. The case will then be brought again before the District Court. It is the Issuer's preliminary assessment of the potential impact of an adverse ruling on the Issuer's loan portfolio with the same interest rate provision that the Issuer's financial loss, taking different scenarios into account, could amount to around ISK 8 billion. The preliminary assessment does not include an assessment of the impact on the Issuer's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Issuer regards as unlikely, would significantly increase the Issuer's interest rate risk and could have a considerable negative financial impact on the Issuer in times of increased market interest rates.

In January 2017, the Issuer commenced proceedings before the District Court of Reykjavík against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf., now Teya Iceland (the "**Company**"), and the then CEO of the Company. The Issuer considers the defendants to have been in possession of information about the shareholding of the Company in Visa Europe Ltd. at the time when the Issuer sold its 31.2 per cent.

shareholding in that they failed to disclose to the Issuer. The Issuer demands acknowledgement of the defendants' liability for losses incurred by the Issuer on these grounds. By judgment of 27 April 2023, the District Court acquitted the defendants of the claims made by the Issuer. The Issuer has appealed the case to the Appeal Court.

COMPETITION

The Group is exposed to substantial and growing competition for the types of banking and other products and services it provides. Competition is affected by various factors, such as consumer demand, technological changes, new entrants, regulatory actions and the impact of consolidation. The competitive landscape in Iceland is comprised of four commercial banks, five savings banks, and four credit undertakings. The financial market also includes eight investment firms, nine authorised alternative investment funds and six management companies of undertakings for collective investment in transferable securities ("UCITS")⁵⁴. There is also the HCA, responsible for implementation of government housing policies with a reduced role as a lender yet still acting as an intermediary for social housing funding, all of which the Issuer competes with. (see "*Financial Markets in Iceland - Market participants*"). In addition, the Issuer faces increasing competition from other market participants who are launching new channels for lending and other banking products, particularly on the digital platform.

The Issuer is subject to considerable regulatory scrutiny that can put it at a disadvantage as a competitor, particularly as regards fintech firms, which are not subject to the same regulatory burden. On 1 May 2022, Iceland implemented the provisions of PSD2 in full, enabling both retail and corporate banking customers to use third-party providers to manage their finances. Under PSD2, banks are obligated to provide such third-party providers with access to their customers' accounts through open application program interface ("API") solutions. This allows third parties to build financial service on top of banks' data and infrastructure. It is likely that this will heighten competition and the first player has already arrived on the domestic market. An emerging source of competition for the Issuer comes from smaller specialised institutions, such as fintech companies and shadow banking, where digital solutions and lower service fees may have a greater impact on the market.

The Issuer's main competitors are the other large commercial banks in Iceland: Íslandsbanki, Arion Bank, (both classified as systematically important financial institutions), and Kvik Bank, which in 2021 merged with TM, one of the largest insurance companies in Iceland, and Lykill fjármögnun hf., an asset leasing entity. Merger activities among financial institutions could produce larger, better capitalised companies that are able to offer a wider array of products and services at more competitive prices. Competition and mergers between smaller financial institutions may intensify even further in the coming years. In the beginning of 2023, a new savings bank, Indó, began its operations. Indó is currently solely a deposit-taking institution but is planning to offer consumer loans as well. In February 2023, Íslandsbanki and Kvik Bank announced that they were entering merger talks that were subsequently abandoned in June. In October, Kvik Bank announced its plan to sell or register TM. Insurance company VÍS and Fossar Investment Bank also announced in February 2023 that they would begin negotiations for the purchase by VÍS of all shares in Fossar Investment Bank. This transaction was finalized in October and the combined company is planning for market penetration. This and other potential mergers could increase the Issuer's competition. Competition in the investment banking and wealth and asset management markets is similarly increasing, with many active market participants. 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 Icelandic pension funds and the HCA are also the Issuer's competitors. The pension funds have become more active competitors in recent years after they started increasing consumer mortgage lending activity. The pension funds also provide competition for deposits, as mandatory pension contributions from workers and employers are legally required to be held in pension funds rather than as bank deposits. These same pensions

⁵⁴ Source: Central Bank of Iceland -Financial Supervision: <https://en.fme.is/supervision/supervised-entities/>

funds are buyers of the Issuer's covered bonds, representing a significant source of the Issuer's funding in Icelandic króna (ISK).

International banks have in the past created competition in the Icelandic corporate market with loan offerings to larger companies. While these non-domestic market participants have not acted aggressively in the Icelandic market in recent years, they still offer competitive margins on senior secured loans to the largest seafood companies. The Issuer could face increased competition from international banks and financial, banking and payment services providers (including fintech companies and related initiatives) who wish to operate to some extent in Iceland. Such non-domestic banks and companies could have a competitive advantage in the market as they are not subject to the stringent regulatory that apply to the Issuer as a systemically important financial institution in Iceland and could have lower funding costs. These entities may have more resources available to them to provide wider-ranging services and at higher efficiency given Landsbankinn's relatively small size.

The Issuer will continue to offer a full range of specialised financial services to individuals, corporates and institutions. Product development to meet consumer demands and face increased competition from domestic competitors, as well as international banks potentially seeking to establish operations in Iceland, will also continue.

ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

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

Name	Function	Principal Outside Activities
Senior Management		
Ms. Lilja Björk Einarsdóttir	CEO	Board member of Icelandic Financial Services Association, Háskólasjóður Eimskipafélags Íslands and Viðskiptaráð (e. The Iceland Chamber of Commerce).
Mr. Arinbjörn Ólafsson	Managing Director of Information Technology ("IT")	Board member of NFCERT and, Aðgerðarannsóknafélag Íslands, Motus ehf. and Greiðslumiðlun Íslands ehf.
Mr. Árni Þór Þorbjörnsson	Managing Director of Corporate Banking	Board member of Motus ehf. and Greiðslumiðlun Íslands ehf.
Mr. Bergsteinn Ó. Einarsson	Managing Director of Risk Management, CRO	N/A
Mr. Helgi Teitur Helgason	Managing Director of Personal Banking	N/A
Ms. Eyrún Anna Einarsdóttir	Managing Director of Asset Management and Capital Markets	Board member of IcelandSif.
Mr. Hreiðar Bjarnason	Managing Director of Finance ("CFO") and deputy CEO	N/A

Name	Function	Principal Outside Activities
Ms. Sara Pálsdóttir	Managing Director of Communication and Culture	N/A
Board of Directors		
Ms. Helga Björk Eiríksdóttir	Chairman	General Manager and Board member of Hlémegin ehf. General Manager and Board Member of Förli ehf.
Ms. Berglind Svavarsdóttir	Board Member	Attorney and partner at Reykjavík Law Firm. Owner and board member of Lögfræðipjónusta BS slf.
Ms. Elín H. Jónsdóttir	Board Member	Director of the Faculty of Law at Bifröst University (<i>Ice. Háskólinn á Bifröst</i>).
Mr. Guðbrandur Sigurðsson	Board Member	CEO of Brynja leigufélag. Director of the board of Talnakönnun hf.
Ms. Guðrún Ó. Blöndal	Board Member	CEO of Nasdaq CSD from 2013-2018. Board Member of Eimskipafélag Íslands hf. and member of Remuneration Committee
Mr. Helgi Friðjón Arnarson	Board Member	Board member of Maurholt ehf. Member of the Audit Committee of Nova Kúbburinn hf.
Mr. Thorvaldur Jacobsen	Board Member	Executive Vice President of System Operations and IT at Landsnet. Alternate Board member of Sunnuvegur 13 ehf.
Ms. Sigríður Olgeirsdóttir	Alternate	Board member of Íslandshótel hf. Fosshótel hf. and Hagar hf. Chairman of Nova Klúbburinn hf.

Name	Function	Principal Outside Activities
Mr. Sigurður Jón Björnsson	Alternate	CFO at the Housing Financing Fund "HCA" from 2011-2017.

The business address of each of the Senior Management and Directors above is Reykjastræti 6, 101 Reykjavík, Iceland.

There are no potential conflicts of interests between any duties of the Senior Management and Directors above and their private interests and/or other duties, other than a potential conflict arising out of the following:

- Board member Ms. Guðrún Ó Blöndal is a board member of listed company Eimskipafélag Íslands hf. She will have to recede from the board of directors meeting if any issues relating to the aforementioned company is on the agenda.

GENERAL INFORMATION

Authorisation

The update of the Programme and the issue of Covered Bonds have been duly authorised by a resolution of the Board of Directors of the Issuer dated 19 October 2022.

Listing of Covered Bonds

Application has been made to Euronext Dublin for Covered Bonds 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, Covered Bonds 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 website of the Issuer at www.landsbankinn.is/fjarfestar or www.landsbankinn.is/ir:

- (a) the articles of association and certificate of incorporation (with an English translation thereof) of the Issuer;
- (b) the Agency Agreement, the Deed of Covenant and the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Coupons and the Talons;
- (c) a copy of this Base Prospectus;
- (d) the Sustainable Finance Framework;
- (e) the applicable Second party opinion from Sustainalytics at any given time;
- (f) 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 Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg and the Nasdaq CSD SE, Iceland Branch. (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 Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms. The appropriate securities code for each Tranche of CSD Covered Bonds will be specified in the applicable Final Terms. In the case of CSD Covered Bonds, the relevant CSD is the entity in charge of keeping the records. If the Covered Bonds 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. The address of NCSD is Icelandic Securities Depository, Laugavegur 182, 105 Reykjavík. The address of Verðbréfamiðstöð Íslands is Fiskislóð 31, 101 Reykjavík.

Conditions for determining price

The price and nominal amount of Covered Bonds to be issued under the Programme will be determined by the Issuer 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 position or financial performance of the Group since 30 September 2023, and there has been no material adverse change in the prospects of the Issuer since 31 December 2022.

Litigation

Except as disclosed in the section entitled "*Description of the Issuer – Litigation*" starting on page 220 of this Base Prospectus, neither the Issuer 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 Issuer 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 Issuer or the Group.

Auditors

The National Audit Office, Skúlagata 57, 105 Reykjavík, Iceland, has been the Issuer's statutory auditor for the financial years 2015 - 2022. The National Audit Office is authorised to outsource part of its assignments and outsourced the audit of the Issuer to PricewaterhouseCoopers ehf., ("**PwC**") registered office at Skógarhlíð 12, 105 Reykjavík, Iceland. Arna Guðrún Tryggvadóttir and Atli Þór Jóhannsson are appointed the auditors on behalf of PwC. They are members of the Institute of State Authorized Public Accountants in Iceland.

In accordance with Art. 90 of the Act on Financial Undertakings, an auditor of a financial undertaking shall be elected for a five-year term and the same auditor or audit firm shall not be re-elected until five years have passed from the term previously concluded. Grant Thornton endurskoðun ehf., registered office at Suðurlandsbraut 20, 108 Reykjavík Iceland ("**Grant Thornton**"), had audited the Issuer for five years at the end of the financial year 2019.

Dealers Transacting with the Issuer

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 Issuer 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 Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds 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 Euronext Dublin's website at <https://live.euronext.com/>.

Listing Agent

Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Covered Bonds and is not itself seeking admission of the Covered Bonds to the Official List or to trading on the Regulated Market for the purposes of the Prospectus Regulation.

Websites

The website of the Issuer is: <https://www.landsbankinn.is>. In this Base Prospectus, reference to websites or uniform resource locators ("**URLs**") are inactive textual references. The information on any such website or URL shall not form part of, or be deemed to be incorporated into, this Base Prospectus except where that information has been specifically incorporated by reference into this Base Prospectus.

Certain abbreviations and definitions

Act on Financial Undertakings	Act No. 161/2002 on Financial Undertakings (as amended).
Central Bank	The Central Bank of Iceland.
CEO	Chief Executive Officer.
CET1	Common Equity Tier 1.
CFO	Chief Financial Officer.
CRA Regulation	Regulation (EC) No. 1060/2009 on Credit Rating Agencies (as amended).
CRD IV	EU Capital Requirements Directive No. 2013/36/EU (as amended).
CRR	EU regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (amending Regulation (EU) No 648/2012).
EAD	Exposures at Default.
ECL	Expected Credit Loss.
EEA Agreement	The Agreement on the European Economic Area (EEA) which entered into force in 1 January 1994 and was incorporated into Icelandic legislation with Act No. 2/1993 on European Economic Area (Ice. Lög um Evrópska efnahagssvæðið).
EFTA	European Free Trade Association; the International free trade organisation of Iceland, Norway, Switzerland and Lichtenstein.
EMTN	Euro Medium Term Note.
ESMA	The European Securities and Markets Authority.
FATCA	The U.S. Foreign Account Tax Compliance Act.
FSA or Icelandic FSA	Financial Supervisory Authority of the Central Bank of Iceland.
FSC	Financial Stability Counsel of Iceland.
FX	Foreign exchange.
GDP	Gross domestic product.
Group	Landsbankinn hf., Reg. No. 471008-0280, having its registered office at Reykjastræti 6, 101 Reykjavík, Iceland including its subsidiaries.
HCA	Housing and Construction Authority.

HR	Human resources.
ICAAP	Internal Capital Adequacy Assessment Process.
Ice.	Icelandic.
Iceland	Republic of Iceland.
Icelandic Covered Bond Act	Act No. 11/2008 on Covered Bonds (as amended).
ICSD	Euroclear, Clearstream Luxembourg and NCSD as defined in Condition 1 in Terms and Conditions in this Base Prospectus
ICT	Information and Communication Technology.
IGA	Jurisdictions (including Iceland) that have entered into or have agreed in substance to intergovernmental agreements with the United States to improve International Tax Compliance and to implement FATCA.
Independent Inspector	Independent inspector as provided for in Chapter VIII of the Icelandic Covered Bond Act.
IFRS	International Financial Reporting Standards.
ISFI	The Icelandic State Financial Investments.
ISDA	International Swaps and Derivatives Association.
IT	Information Technology.
ITA	Act No. 90/2003 on Income Tax Act (as amended).
KPMG	KPMG ehf., Reg. No.590975-0449, Borgartúni 27, 105 Reykjavík, Iceland.
LCR	Liquidity Coverage Ratio.
LGD	Loss Given Default.
LTV	Loan-to-value.
MiFID	Markets in Financial Instruments Directive No.2004/39/EC.
MiFID II	Markets in Financial Instruments Directive No. 2014/65/EC, published in the Icelandic EEA Government Gazette (<i>ice. Stjórnartíðindi</i>).
MiFIR	Regulation on Markets in Financial Instruments No. 600/2004.
MREL	Minimum Requirement for own funds and Eligible Liabilities
NSFR	Net Stable Funding Ratio.
OECD	Organisation for Economic Co-operation and Development.
PD	Probability of Default.
Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017.
PSD2	Revised Payment Service Directive No. 2015/2366.
PwC	PricewaterhouseCoopers ehf., Reg. No. 690681-0139, Skógarhlíð 12, 105 Reykjavík.
REA	Risk Exposure Amount.
Rules on Foreign Exchange	The Central Bank's Rules on Foreign Exchange, No. 200/2017 (as amended).

SME	Small and Medium sized Enterprise.
Special Tax on Financial Institutions	Act No. 155/2010 on Special Tax on Financial Institutions (as amended).
UCITS	Undertakings for Collective Investments in Transferable Securities.
Q	Quarter.

ISSUER

Landsbankinn hf.
Reykjastræti 6
101 Reykjavík
Iceland

FISCAL AGENT AND PAYING AGENT

Citibank, N.A. London Branch
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

REGISTRAR

Citibank Europe PLC
1 North Wall Quay
Dublin 1
Ireland

LEGAL ADVISERS

To the Issuer as to English law

White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

To the Dealers as to English law

Allen & Overy LLP
One Bishops Square
London E1 6AD
United Kingdom

To the Dealers as to Icelandic law

LOGOS Legal Services

Efstaleiti 5
103 Reykjavík
Iceland

AUDITORS

To the Issuer

PricewaterhouseCoopers ehf.
Skógarhlíð 12
105 Reykjavík
Iceland

ARRANGER AND DEALERS

Barclays Bank Ireland PLC
One Molesworth Street
Dublin 2
D02 RF29
Ireland

Landsbankinn hf.
Reykjastræti 6
101 Reykjavík
Iceland

LISTING AGENT

Walkers Listing Services Limited
5th Floor, The Exchange
George's Dock, I.F.S.C.
Dublin 1
D01 W3P9
Ireland