



## LANDSBANKINN HF.

*(incorporated with limited liability in Iceland)*

**€2,000,000,000**

### **Euro Medium Term Note Programme**

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

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement (as defined in "*Subscription and Sale*")), subject to increase as described herein. The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Bank (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this prospectus (the "**Base Prospectus**") to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

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

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under 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 Bank or the quality of the Notes that are subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**") or which are to be offered to the public in any Member State of the European Economic Area (the "**EEA**").

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

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

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

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

**UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET** – The Final Terms in respect of any Notes and any drawdown prospectus may include a legend entitled "*UK MiFIR Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the Financial Conduct Authority ("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 Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (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 Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**PROHIBITION OF SALES TO UNITED KINGDOM RETAIL INVESTORS** - The Notes 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**"); 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) 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 Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

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

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

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

**NOTICE TO INVESTORS IN CANADA** – The Notes 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 Notes 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.

As at the date of this Base Prospectus, the long term (senior) debt rating of the Bank is BBB (stable outlook) (such rating provided by S&P Global Ratings Europe Limited ("**Standard & Poor's**")). Standard & Poor's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**EU CRA Regulation**"). As such Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the EU CRA Regulation. Standard & Poor's is not established in the United Kingdom but the ratings issued by Standard & Poor's have been endorsed by S&P Global Ratings UK Limited in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**") and have not been withdrawn. As such, the rating issued by S&P may be used for regulatory purposes in the United Kingdom in accordance with the UK CRA Regulation. Notes issued under the Programme may be rated or unrated by the rating agency referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Bank by Standard & Poor's or to Notes 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.

**Arranger**

**Deutsche Bank**

**Dealers**

**BofA Securities**

**Citigroup**

**Goldman Sachs Bank Europe SE**

**Morgan Stanley**

**Barclays**

**Deutsche Bank**

**J.P. Morgan**

**Nomura**

**UBS Investment Bank**

The date of this Base Prospectus is 23 May 2022

## **IMPORTANT INFORMATION**

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

This Base Prospectus is valid within 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 Bank accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Bank, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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

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

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

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

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

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

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Bank and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the EEA (including Iceland), the UK, Italy, Switzerland, Japan, Hong Kong, Canada and Singapore, see "*Subscription and Sale*".

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Regulation to publish a prospectus. As a result, any offer of Notes 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 Notes. Accordingly, any person making or intending to make an offer of Notes in the relevant Member State may only do so in circumstances in which no obligation arises for the Bank or any Dealer to publish a prospectus pursuant to 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 Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank or any Dealer to publish or supplement a prospectus for such offer.

**Singapore SFA Product Classification:** In connection with Section 309B of the Securities and Futures Act 2001 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 Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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

Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

## PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

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

The language of the Base Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2020 (the "**2020 Financial Statements**"), together with the audit report thereon;  
<https://www.landsbankinn.com/uploads/documents/arsskyrsluguppgjor/Consolidated-Financial-Report-2020-EN.pdf>
- (ii) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2021 (the "**2021 Financial Statements**"), together with the audit report thereon;  
<https://www.landsbankinn.is/uploads/documents/arsskyrsluguppgjor/Consolidated-Financial-Report-2021-EN.pdf>
- (iii) the condensed consolidated interim financial statements of the Bank for the three months ended 31 March 2022 (the "**2022 Q1 Interim Financial Statements**");  
<https://www.landsbankinn.is/uploads/documents/arsskyrsluguppgjor/Consolidated-Financial-Report-Q1-2022-EN.pdf>
- (iv) the Terms and Conditions of the Notes contained in the Base Prospectus dated 8 September 2015, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme (the "**2015 Terms and Conditions**");  
<https://www.landsbankinn.com/uploads/documents/bankinn/emtn/Landsbankinn-Base-Prospectus-2015-09-08.pdf>
- (v) the Terms and Conditions of the Notes contained in the Base Prospectus dated 30 August 2016, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme (the "**2016 Terms and Conditions**");  
<https://www.landsbankinn.com/uploads/documents/bankinn/emtn/Landsbankinn-Base-Prospectus-2016-08-30.pdf>
- (vi) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2017, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme (the "**2017 Terms and Conditions**");  
<https://corporate.landsbankinn.com/Uploads/Documents/Bankinn/EMTN/2017-04-06-Landsbankinn-Base-Prospectus.pdf>
- (vii) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2018, pages 50 to 79 (inclusive) prepared by the Bank in connection with the Programme (the "**2018 Terms and Conditions**"), as supplemented by the Terms and Conditions of the Notes included in the Supplemental Prospectus dated 30 May 2018;  
<https://www.landsbankinn.com/Uploads/Documents/Bankinn/EMTN/2018-04-06-Landsbankin-Base-Prospectus.pdf>
- (viii) the Terms and Conditions of the Notes contained in the Base Prospectus dated 27 March 2019, pages 56 to 93 (inclusive) prepared by the Bank in connection with the Programme (the "**2019 Terms and Conditions**"); and



<https://www.landsbankinn.com/Uploads/Documents/Bankinn/EMTN/2019-03-27-Landsbankin-Base-Prospectus.pdf>

- (ix) the Terms and Conditions of the Notes contained in the Base Prospectus dated 22 May 2020, pages 59 to 97 (inclusive) prepared by the Bank in connection with the Programme (the "**2020 Terms and Conditions**"), as supplemented by the Supplemental Prospectuses dated 4 September 2020, 6 November 2020, 10 February 2021 and 12 February 2021;

<https://www.landsbankinn.com/Uploads/Documents/Bankinn/EMTN/2020-03-22-Landsbankin-Base-Prospectus.pdf>

- (x) the Terms and Conditions of the Notes contained in the Base Prospectus dated 27 April 2021, pages 66 to 114 (inclusive) prepared by the Bank in connection with the Programme (the "**2021 Terms and Conditions**"), as supplemented by the Supplemental Prospectus dated 6 October 2021;

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

## **SUPPLEMENTARY PROSPECTUS**

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

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

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## OVERVIEW OF THE PROGRAMME

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

This Overview constitutes a general description of the Programme for the purposes of the Prospectus Regulation.

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

<b>Issuer:</b>	Landsbankinn hf.
<b>Legal Entity Identifier ("LEI")</b>	549300TLZPT6JELDWM92
<b>Risk Factors:</b>	There are certain factors that may affect the Bank's ability to fulfil its obligations under Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " and include the exposure of the Bank to credit risk, market risk, operational risk and liquidity risk. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " and include certain risks relating to the structure of particular Series of Notes and certain market risks.
<b>Description:</b>	€2,000,000,000 Euro Medium Term Note Programme
<b>Arranger:</b>	Deutsche Bank Aktiengesellschaft
<b>Dealers:</b>	Barclays Bank Ireland PLC BofA Securities Europe SA Citigroup Global Markets Europe AG Deutsche Bank Aktiengesellschaft Goldman Sachs Bank Europe SE J.P. Morgan SE Morgan Stanley Europe SE Nomura Financial Products Europe GmbH UBS Europe SE  and any other Dealers appointed in accordance with the Programme Agreement.
<b>Certain Restrictions:</b>	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus.  <b>Notes having a maturity of less than one year</b>  Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the UK, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000

unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent - see "*Subscription and Sale*".

<b>Fiscal Agent:</b>	Citibank, N.A. London Branch
<b>Listing Agent:</b>	Arthur Cox Listing Services Limited
<b>Programme Size:</b>	Up to €2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Distribution:</b>	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each a " <b>Series</b> ") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a " <b>Tranche</b> ") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the " <b>Final Terms</b> ").
<b>Currencies:</b>	Notes may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer.
<b>Maturities:</b>	The Notes will have such maturities as may be agreed between the Bank and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
<b>Issue Price:</b>	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
<b>Form of Notes:</b>	The Notes will be issued in bearer form as described in " <i>Form of the Notes</i> ".
<b>Fixed Rate Notes:</b>	Fixed interest will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
<b>Floating Rate Notes:</b>	Floating Rate Notes will bear interest at a rate determined: <ul style="list-style-type: none"><li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and</li></ul>

updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

- (b) on the basis of the reference rate set out in the applicable Final Terms.

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

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

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Bank and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Bank and the relevant Dealer.

**Change of Interest Basis:**

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

**Zero Coupon Notes:**

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

**Reset Notes:**

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

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

Interest on Reset Notes in respect of each Interest Period as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

**Redemption:**

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than following a Tax Event (in the case of any Notes), following an Event of Default (in the case of Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable), upon the occurrence of a Capital Event (in the case of Subordinated Notes, in respect of which Condition 5.3 is specified as being applicable in the applicable Final Terms) or upon the occurrence of an MREL Disqualification Event (in the case of Senior Preferred Notes and Senior Non-Preferred Notes, in respect of which Condition 5.3A is specified as being applicable in the applicable Final Terms), as the case may be) or

that such Notes will be redeemable at the option of the Bank upon giving notice to the Noteholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the relevant Dealer. The Notes will only be redeemed at an amount other than 100 per cent. of their nominal amount in the case of certain Zero Coupon Notes.

No early redemption of the Senior Preferred Notes where Unrestricted Events of Default is specified as being not applicable, the Senior Non-Preferred Notes or the Subordinated Notes may take place without the prior written consent of the Relevant Regulator (if and to the extent such consent is required). See Condition 5.11.

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

**Optional redemption:**

The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

**Clean-up Redemption Option:**

If a Clean-up Redemption Option is specified as applicable in the relevant Final Terms, and if 80 per cent. or any higher percentage specified in the relevant Final Terms (the "**Clean-up Percentage**") of the initial aggregate nominal amount of Notes (which for the avoidance of doubt includes, any additional Notes issued subsequently and forming a single series with the first Tranche of a particular Series of Notes) have been redeemed or purchased by, or on behalf of, the Bank or any of its subsidiaries and, in each case, cancelled, the Bank may, at its option, on giving not less than fifteen (15) nor more than thirty (30) calendar days' irrevocable notice to the holders of such Note in accordance with Condition 12 (or such other notice period as may be specified in the relevant Final Terms) redeem the outstanding Notes, in whole but not in part, at the Optional Redemption Amount(s) specified in the applicable Final Terms (together with any interest accrued thereon but unpaid to the date set for redemption) on any Optional Clean-up Redemption Date as specified in the relevant Final Terms. The Clean-up Redemption Option shall not apply in respect of Subordinated Notes.

**Benchmark Discontinuation**

In the case of Reset Notes or Floating Rate Notes, if the Bank determines that a Benchmark Event has occurred, the Bank may, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate (which shall include consultation with an Independent Adviser) determine that (i) the relevant benchmark or screen rate may be replaced by a Successor Rate or (ii) if there is no Successor Rate but the Bank determines there is an Alternative Rate, such Alternative Rate.

An Adjustment Spread may also be applied to the Successor Rate or the Alternative Rate (as the case may be), together with any Benchmark Amendments (which shall be determined by the Bank, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which shall include consultation with an Independent Adviser). This is further described in Condition 3.5.

**Denomination of Notes:**

The Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency - see "*Certain Restrictions - Notes having a maturity of less than one year*" above - and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

**Taxation:**

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

**Negative Pledge:**

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

**Cross Default:**

Only the terms of Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable will contain a cross default provision as further described in Condition 8.1.

**Status of the Notes:**

The Notes may be issued on a senior preferred ("**Senior Preferred Notes**"), a senior non-preferred ("**Senior Non-Preferred Notes**") or a subordinated ("**Subordinated Notes**") basis, as described in Conditions 2.1, 2.2 and 2.3, respectively, and as specified in the applicable Final Terms.

**Status of the Senior Preferred Notes:**

The Senior Preferred Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Bank from time to time outstanding and senior to any Senior Non-Preferred Liabilities of the Bank, from time to time outstanding.

In relation to obligations required to be preferred by law, current Icelandic law provides that, in the event that the Bank enters into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, No. 161/2002, the claims of the holders of the Senior Preferred Notes will be subordinated to the claims of all of the Bank's depositors.

**Status of the Senior Non-Preferred Notes:**

The Senior Non-Preferred Notes will constitute direct, unconditional and unsecured obligations of the Bank and will at



all times rank *pari passu* without any preference among themselves.

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

- (i) *pari passu* without preference among themselves;
- (ii) *pari passu* with all other Senior Non-Preferred Liabilities of the Bank;
- (iii) senior to holders of all classes of share capital of the Bank and any subordinated obligations or other securities of the Bank which rank, or are expressed to rank, junior to the Senior Non-Preferred Liabilities of the Bank (including, without limitation, any Subordinated Notes); and
- (iv) junior to present or future claims of (a) depositors of the Bank and (b) other unsubordinated creditors of the Bank.

**Status of the Subordinated Notes:**

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

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

- (i) *pari passu* without preference among themselves;
- (ii) *pari passu* with present or future claims in respect of Parity Securities;
- (iii) in priority to any present or future claims in respect of Junior Securities; and
- (iv) junior to any present or future claims of Senior Creditors.

**Subordinated Notes –  
Substitution or Variation:**

Where the applicable Final Terms specify that Condition 5.10 applies, if at any time a Capital Event (where Condition 5.3 is specified as being applicable in the applicable Final Terms) or a Tax Event occurs, or in order to ensure the effectiveness or enforceability of Condition 17, the Bank may, subject to the provisions of Condition 5.11 (if, and to the extent so required), either substitute all, but not some only, of the Subordinated Notes for, or vary their terms so that they remain, or, as appropriate, become, Subordinated Qualifying Securities (as defined in Condition 5.10), as further provided in Condition 5.10.

**Senior Preferred Notes and Senior  
Non-Preferred Notes –  
Substitution or Variation:**

Where the applicable Final Terms specify that Condition 5.10A applies, if at any time a MREL Disqualification Event (where Condition 5.3A is specified as being applicable in the applicable Final Terms) or a Tax Event occurs, or in order to ensure the effectiveness or enforceability of Condition 17, the Bank may, subject to the provisions of Condition 5.11 (if, and to the extent so required), either substitute all, but not some only, of the Senior Preferred Notes and Senior Non-Preferred Notes for, or vary their terms so that they remain, or, as appropriate, become, in the

case of Senior Preferred Notes, Senior Preferred Qualifying Securities or, in the case of Senior Non-Preferred Notes, Senior Non-Preferred Qualifying Securities (as defined in Condition 5.10A), as the case may be, as further provided in Condition 5.10A.

**Rating:**

As at the date of this Base Prospectus, the long term (senior) debt rating of the Bank is BBB (stable outlook) (such rating provided by S&P Global Ratings Europe Limited ("**Standard & Poor's**")). Standard & Poor's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**EU CRA Regulation**"). As such Standard & Poor's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>), in accordance with the EU CRA Regulation. Standard & Poor's is not established in the United Kingdom but the ratings issued by Standard & Poor's have been endorsed by S&P Global Ratings UK Limited in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**") and have not been withdrawn. As such, the rating issued by S&P may be used for regulatory purposes in the United Kingdom in accordance with the UK CRA Regulation. Notes issued under the Programme may be rated or unrated by the rating agency referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Bank by Standard & Poor's or to Notes 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.

**Listing:**

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

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

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

**Governing Law:**

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law except for the provisions of Condition 2 which shall be governed by, and construed in accordance with, Icelandic law.

**Selling Restrictions:**

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

**United States Selling Restrictions:**

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

**Use of proceeds:**

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

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

## **RISK FACTORS**

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

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

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

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

The Bank 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 Bank is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. Failure to control these risks could result in material adverse effects on the Bank's business, financial condition and results of operations.

#### **Economic and financial market risk**

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

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

The Bank's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing depend on customer confidence, employment trends, state of the economy and market interest rates at each time. The current environment is characterised by a low interest rate environment which results in interest-earning assets generating a lower yield upon borrowing and refinancing and securities held also generating a lower level of interest income compared to an environment characterised by high interest levels.

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

The Bank's retail and corporate banking business may be affected during recessionary conditions, as there may be less demand for loan products or certain customers may face financial problems and the Bank may experience higher loan defaults. The impact of the economy and business climate on the credit quality of borrowers and

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

The Bank 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 Bank's main competitors are Arion Bank hf. ("**Arion Bank**") Íslandsbanki hf. ("**Íslandsbanki**"), Kvika bank 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 Bank - Competition*"). The Bank has a high market share, which it intends to maintain. The Bank makes every effort to ensure that its product range, service and prices are competitive, while not disregarding its financial objectives, and must constantly monitor its competitors and their offerings. However, there is always a risk that the Bank could lose its competitive edge and that new products could fail to meet the demands of the market or compete with competitors' products. All of the above could undermine the Bank's income generation and may have a material adverse effect on the Bank's business, financial condition and results of operations.

In addition, Iceland's economy remains vulnerable to other political and economic external factors 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 Bank is vulnerable to a range of economic risks that face the Icelandic banking system***

The Bank'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 2.4 per cent. Gross domestic product ("**GDP**") then fell by 7.1 per cent in 2020 due to the COVID-19 pandemic which drastically reduced the number of foreign tourist arrivals. Preliminary estimates from Statistics Iceland suggest that GDP increased by 4.3 per cent. in 2021, driven by a 7.8 per cent. increase in private consumption, a 1.8 per cent. increase in government consumption, a 13.6 per cent. increase in fixed capital formation and a 12.3 per cent. increase in exports of goods and services. Imports of goods and services increased by 20.3 per cent<sup>1</sup>.

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 estimated to be 3.9 per cent. in 2020 and 5.0 per cent in 2021 and the share of export revenues was 11 per cent. in 2020 and 17 per cent in 2021.<sup>2</sup>

The Central Bank publishes a Financial Stability Report bi-annually. In the March 2022 Financial Stability Report, the Financial Stability Committee ("**FSN**") concluded that the state of financial stability in Iceland is

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<sup>1</sup> Source: Statistics Iceland.

<sup>2</sup> Source: Statistics Iceland.

favourable.<sup>3</sup> The systemically important banks are described as highly resilient and their capital and liquidity are well above regulatory minima.<sup>4</sup> The FSN highlighted five risk factors in its report:

- The economic outlook has deteriorated since Russia invaded Ukraine in February 2022. Global commodity prices have risen and inflation is expected to increase further. Iceland's terms of trade will probably deteriorate and pressure on the domestic price level is likely to affect consumption. Weaker economic growth among trading partners could have a dampening effect on Iceland's exports, particularly tourism;
- Since the end of 2020, investors and companies have speculated on the appreciation of the króna via forward foreign exchange contracts. If the exchange rate develops unfavourably as a result of external conditions, growth in derivatives positions on one side of the market, like those currently in place, could put downward pressure on the króna;
- Real estate prices have continued to rise in recent months and the market is characterised by severe mismatches between supply and demand. Imbalances between property prices and their determinants have grown more pronounced. All of this indicates that risk in the housing market has mounted in the recent term, and the likelihood of stagnation or a correction in the market has increased;
- Credit spreads in the banks' foreign funding markets have risen rapidly in recent weeks, as they have in credit markets around the world; and
- Cyberattacks are a growing problem, and financial market infrastructure is not excluded from the risk they entail.

The economic and financial environment, together with the operating and financial conditions of borrowers, may affect the Bank's levels of non-performing loans, determination of loan values and the level of write-offs – see further in the section entitled “*Description of the Bank – 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 or strikes due to unsuccessful collective bargaining negotiations, it could adversely affect the ability of the Bank's customers to repay their loans which in turn could have a material adverse effect on the Bank's business, financial conditions, results of operations, cash flows and prospects, and its ability to make payments in respect of the Notes.

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

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from maturity mismatch between financial liabilities and financial assets. Liquidity risk is a significant risk factor for the Bank and the Bank places emphasis on monitoring and managing liquidity risk. Deposits from customers are the Bank's single largest funding source. As of 31 December 2021, deposits from customers formed 50.21 per cent. of total assets compared to 50.76 per cent. at year end 2020.

The Bank was an active issuer in the domestic bond market in 2021 through its covered bonds issuances in the domestic market. In addition, the Bank accesses the international capital market by issuing bonds in foreign

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<sup>3</sup> Source: Financial Stability 2022/1, published by the Central Bank on 16 March 2022.

<sup>4</sup> Source: Financial Stability 2022/1, published by the Central Bank on 16 March 2022.

currencies through its Euro Medium Term Note Programme. See further in “*Description of the Bank - Funding*”. The ability of the Bank 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 Bank. The aforementioned factors could limit the Bank’s ability to raise funding in the capital markets (see further section entitled “*The Bank is exposed to refinancing risk. The inability of the Bank to refinance its outstanding debt could have a negative impact on the Bank’s business*”). 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 Bank’s business, prospects, financial position and/or results of operations and therefore its ability to make payments in respect of the Notes.

The Bank’s liquidity management policy is built on international standards on liquidity risk measurements developed by the Basel Committee on Banking Supervision (the “**Basel Committee**”), for example the Liquidity Coverage Ratio (“**LCR**”) and the Net Stable Funding Ratio (“**NSFR**”) and it also applies measurements that best suit the operating environment of the Bank. The Bank’s total LCR at year-end 2021 was 179 per cent. (year-end 2020: 154 per cent.) and 566 per cent. in foreign currencies (year-end 2020: 424 per cent.) and 120 per cent. in ISK (year-end 2020: 105 per cent.), well above regulatory limits and the Bank’s risk appetite. Effective as of 1 January 2021, the minimum LCR in ISK was 40 per cent and will be 50 per cent as of 1 January 2023. The Bank’s net stable funding ratio in foreign currencies was 142 per cent. as of 31 December 2021 (year-end 2020: 132 per cent.) and total NSFR was 121 per cent. at year-end 2020 (year-end 2020: 116 per cent.). See further in “*Description of the Bank - Risk Management Framework*” and the 2022 Q1 Interim Financial Statements and 2021 Financial Statements, which are incorporated by reference into this Base Prospectus.

Although the Bank has in place a liquidity management policy, the Bank 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 Bank’s business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

***The Bank is exposed to a range of market risks, the most significant being, interest rate, foreign exchange indexation 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.

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 low interest rates has resulted in interest-earning assets such as residential mortgage loans, or other loans and securities held, generating lower yields upon origination or refinancing, as well as lower levels of interest income respectively, when compared to historical levels. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Bank’s investment and trading portfolios.

- *A major portion of the Bank’s assets and liabilities are interest-bearing.* The Bank’s interest rate risk arises from the impact of interest rate changes on the Bank’s assets and liabilities, since a major portion of the Bank’s assets and liabilities are interest-bearing in one manner or another. Limited access to capital markets could have a negative effect on the Bank’s revenues as it may be unable to correct interest rate imbalances between assets and liabilities, based on the timing of interest rate reset or maturity. For example, risks can arise if there are fixed and variable interest rate items in the same maturity bracket; this may lead to open interest rate positions on the assets or liabilities side. This could then affect the Bank’s profitability. The Bank may also be limited in its ability to adjust interest rates applied to customers due to competitive pressures.
- *Increased volatility in the foreign exchange markets.* The Bank’s foreign exchange risk arises from exposure to unanticipated changes in the exchange rate between currencies. Increased volatility in the foreign

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

- *Increased volatility in the equity markets.* The Bank's equity risk comes from both proprietary and securities trading. Elevated uncertainty in the financial markets could lead to increased volatility in the equity markets. This could lead to a devaluation of equities and investment funds held by the Bank and have an adverse effect on the Bank's business, financial condition and results of operations.
- *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 Bank offers CPI linked mortgage loans and consumer loans and receives funding in the form of CPI linked borrowing and deposits. Therefore, the Bank 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 Bank. The Bank's total CPI imbalance at year-end 2021 amounted to ISK 4.9 billion (year-end 2020: 68 billion),<sup>5</sup> or 1.72 per cent<sup>6</sup> of equity.

The Bank's economic capital due to market risk decreased in 2021, first and foremost due to far less volatility in equity markets, lower exposure in the Bank's trading for most of the year and lower net FX balance. See further the 2021 Annual Financial Statements which are incorporated by reference into this Base Prospectus. Although the Bank has in place a range of risk management procedures designed to mitigate the aforementioned risks, see further in "*Description of the Bank - Risk Management Framework*", there is no guarantee that the procedures will be effective in all circumstances, in which case the Bank could experience material losses. Any losses due to market risk exposure could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

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

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

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

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

Adverse changes in the credit quality of the Bank's customers and counterparties or a general deterioration in Icelandic or global economic conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of the Bank's assets and require an increase in the Bank's provision for credit exposures and other provisions. Specific issues and events where credit risk could adversely affect revenues in 2021 and subsequent years include but are not limited to:

- *Concentration of loan portfolio in certain sectors could adversely affect the Bank.* The Bank's loan portfolio is relatively concentrated in key sectors. These are households, fisheries, real estate companies, construction

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<sup>5</sup> See further the significant changes in note 77 of the 2021 Financial Statements and note 51 of the Q1 2022 Interim Financial Statements, which are incorporated by reference into this Base Prospectus.

<sup>6</sup> Total CPI linked balance /total equity.



and the travel industry. See further in “*Description of the Bank - Loan Portfolio*”. Downturns in these sectors that would influence customers’ ability to meet their obligations may have an adverse effect on the Bank’s business, financial condition and results of operations.

- *Deterioration of economic conditions could increase the required loan impairment for the Bank.* The Bank’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 Bank - Loan Portfolio*”. This, in addition to depressed asset valuations could have an impact on the adequacy of the Bank’s loss reserves and future impairment charges.

The creditworthiness of the Bank’s counterparties may deteriorate. The Bank 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 Bank 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 Bank could be exposed to more credit risk than it finds acceptable. See further in “*Description of the Bank - Risk Management Framework*”. For instance, the credit quality of the Bank’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 Bank’s credit risk management policies it can result in riskier loans being extended than permitted within the Bank’s risk appetite.

As at year-end 2021, the Bank’s credit risk was within the Bank’s risk appetite. Some uncertainties remain while the economy recovers from the COVID-19 pandemic, and parts of the portfolio remain in moratoria. See further the impact of COVID-19 on the Bank’s loan portfolio in note 4 of the 2021 Financial Statements, which are incorporated by reference into this Base Prospectus. If any customer, or an industry sector to which the Bank is exposed, defaults or experiences a significant deterioration in business or prospects, as the case may be, the Bank 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 Notes.

***The COVID-19 pandemic could have a material adverse effect on the Bank’s business, results of operations and financial position***

The COVID-19 pandemic created a global public-health crisis that has resulted in widespread volatility and deteriorations in household, business, economic, and market conditions. These events resulted in measures taken by authorities, designed to contain the outbreak, including widespread business closures, travel restrictions, quarantines, and cancellations of gatherings and events, which had disruptive effect on the Icelandic and global economy, as well as increased volatility and declines in financial markets.

The Bank’s business involves providing various financial services. In response to the COVID-19 pandemic countermeasures were taken by the Bank to avoid negative impact on financial services provided by the Bank and various payment relief measures were applied to customers in need, such as payment moratoria. Despite challenges caused by the COVID-19 pandemic, and some uncertainty about loans with payment moratoria, the impact on the Bank’s operations and service to customers has not been material and Expected Credit Loss (“ECL”) in 2021<sup>7</sup> was less than originally anticipated. However, if the impact of the COVID-19 pandemic is severe or prolonged, or further diseases emerge that give rise to similar effects, such adverse impact may result in greater volatility, reduced liquidity, a widening of credit spreads, a lack of price transparency in credit markets and higher levels of non-performing loans. In turn, this may adversely impact the Bank in a number of ways,

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<sup>7</sup> The 2021 Financial Statements reflect the unprecedented impact caused by the COVID-19 pandemic and related economic uncertainties. In assessment of Expected Credit Loss (“ECL”) the impact of the COVID-19 pandemic on the Issuer’s credit portfolio is uncertain and it must be considered likely that lower income and/or increased indebtedness may negatively affect credit ratings of the Issuer’s customers and contribute to loan impairment. As at 31 December 2021 the impact of COVID-19 on the Issuer’s loan portfolio can be found in note 4 in the 2021 Financial Statements.

including as a result of (i) decline in net interest income and non-interest income due to reduced activity or volatility and declining prices in financial, real estate and/or commodities markets, (ii) higher credit losses and increase in the allowances for expected credit losses as a result of the Bank's customers' failure to meet existing payment or other obligations to the Bank, (iii) a reduction in demand for the Bank's products and services, including loans, deposits and asset management services, (iv) a failure to meet the minimum regulatory capital and liquidity ratios and other supervisory requirements, (v) possible downgrades to the Bank's credit ratings; and (vi) disruptions to significant portions of the Bank's operations as a result of illness, quarantines, self-isolation arrangements, governmental actions and/or other restrictions that may be imposed by measures intended to contain any further outbreaks of the COVID-19 pandemic, variants of the virus or other diseases which may emerge in Iceland that can give rise to similar effects. The factors described above could, together or individually, have an adverse effect on the business, results of operations, financial position and liquidity of the Bank.

## **Business related risks**

### ***Operational risks are inherent in the Bank's business activities and are typical of comparable businesses***

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

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

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

The Bank has implemented controls designed to detect, monitor and mitigate operational risks – see further in the section entitled “*Description of the Bank – 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 Bank (such as the compliance and internal audit functions) could be ignored, misunderstood or misapplied and mitigation may fail to be effective. Failures in internal controls could subject the Bank to regulatory scrutiny. Such events could harm the Bank's reputation and have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

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

Compliance risk is the risk of legal or regulatory sanctions, financial loss or damage to the Bank's reputation as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice, which could have an adverse effect on the Bank's prospects and ability to make payments in respect of the Notes. The Bank's Compliance Officer monitors that the Bank's rules on securities trading and insider dealing are followed, and that the Bank's operations comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and Terrorist Financing, No. 140/2018 (“**Act on Actions to Combat Money Laundering and Terrorist Financing**”), and other relevant legislation and regulations.

The Bank is subject to rules and regulations regarding anti-bribery, anti-money laundering, anti-terrorist financing and economic sanctions. In general, the risk that banks will be subjected to or used for bribery or money laundering has increased worldwide. Monitoring compliance with anti-money laundering and anti-

terrorism financing rules can put a significant financial burden on banks and other financial institutions and pose significant technical problems.

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

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

As demand for new lending and other financial products increases, the Bank expects to face increased competition from other large Icelandic banks, pension funds and smaller specialised institutions (see "*Description of the Bank - Competition*"). In addition, if there is sufficient credit demand, the Bank may potentially face competition from foreign banks seeking to establish operations in Iceland, in particular with respect to the customers of the Corporate and Investment Banking division. The Financial Stability Counsel of Iceland ("FSC") places the Bank and other systemically important financial institutions under considerable regulatory scrutiny. This can hinder the Bank's competitiveness. Due to the small economy of Iceland and the Bank'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 Bank, allowing foreign competitors to offer banking products at a lower price. The Bank may have to comply with regulatory requirements that may not apply to such foreign competitors, creating an unequal competitive environment. For example, in addition to the basic corporate income tax rate of 20 per cent. in Iceland, the Bank 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 Bank's business*").

In addition, it is likely that competition will intensify even further with the emerging competition from financial technology ("**FinTech**") start-ups (especially digital technology that is often referred to as FinTech) after the implementation in 2021 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. The PSD2 requires the commercial banks to open up their application program interface (the "**APIs**"), so that third-party payment service providers can directly access and use their client's account data. In essence, PSD2 separates the distribution of banking services from their production, by allowing new entrants to provide almost any kind of banking products and services under lighter regulation. 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 therefore have a negative effect on the Bank's business.

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

The Bank will continue to offer the full range of specialised financial products to individuals, corporate entities and institutions and to work on product development to meet increased competition and keep up with the rapid development in digital technology. If the Bank is unable to provide attractive financial products and services at more competitive prices, or to implement solutions to keep up with development in digital technology, it may

lose market share which could have a material adverse effect on the Bank's business, prospects, financial position, and its ability to make payments in respect of the Notes.

As at the date of this Base Prospectus, the Bank 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 Bank 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 Bank for the long term. 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 was sold. Following the transaction, the Treasury of Iceland now owns 42.5 per cent. of shares in Íslandsbanki<sup>8</sup>. For further information, see the section entitled "*The Icelandic State Treasury is the largest shareholder of the Bank*" and "*Description of the Bank - Shareholder, Share Capital and Dividend policy*". This may affect the Bank and its business. Any changes in ownership of the Bank, Arion bank and Íslandsbanki (the "**Three Banks**") can affect the competitive environment and the Bank'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 Bank***

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 around 75 per cent. of the total assets of all Icelandic credit institutions (excluding the Central Bank),<sup>9</sup> as at the end of 2021, according to the Central Bank of Iceland. The Icelandic banking system is small and the Three Banks have had limited opportunities for growth.

The Bank has so far primarily engaged in domestic lending in Icelandic krona, but the Bank 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 Bank'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 Bank's ability to increase its corporate lending is limited and will continue to be limited unless the Bank is able to find additional sources of funding in Icelandic krona (see "*Description of the Bank - 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. The reputation of the Icelandic banking sector has at times been negative due to the financial crisis in 2008 and the subsequent recession in Iceland. This negative reputation can be reflected in political and legislative decisions which have had a material adverse effect on the Bank. Various ideas have been discussed on how to improve the banking sector in Iceland, one being to initiate a sale process 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 Bank's main competitors may affect the Bank 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 Bank 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 Bank's business.

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

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<sup>8</sup> Source: <https://cdn.islandsbanki.is/image/upload/v1/documents/2022-03-23-Harpa-result-announcement.pdf>.

<sup>9</sup> Source: Central Bank of Iceland, Landsbankinn, Arion Bank and Íslandsbanki annual reports.

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

Banks and their activities are increasingly dependent on Information and communication technology (“ICT”) systems, including a significant shift away from physical bank branches and towards greater reliance on internet websites and the development and use of new applications on smartphones. The Bank’s ICT systems comprise a significant operational risk, both with regard to their functioning and accessibility. The Bank’s ICT systems are varied and, in many instances, depend upon co-operating partners and they are vulnerable to a number of problems, such as software or hardware malfunctions, interruptions in network availability, hacking, human error, physical damage to vital ICT centres and computer viruses. Various kinds of external attacks, viruses, denial of service attacks or other types of attacks on the Bank’s computer systems could disrupt the Bank’s operations. The Bank has in place specific disaster recovery and business continuity plans, including back-up sites. Furthermore, the Bank is certified in accordance with ISO 27001, the international standards on information security. This standard helps the Bank 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 Bank is responsible for safeguarding information such as personal customer, merchant data and transaction data. ICT systems need regular upgrades to meet the needs of changing business and regulatory requirements and to keep up with developments in the market and to be able to rely on information and communication technology more broadly. The Bank believes it has in place sufficient policies and procedures to comply with relevant data protection and privacy laws by its employees and any third-party service providers. The Bank has also taken necessary steps to implement and maintain appropriate security measures to protect confidential information. However, the Bank may not be able to implement necessary upgrades on a timely basis and upgrades may fail to function as planned. In addition to costs that may be incurred as a result of any failure of its ICT systems or technical issues associated with, as well as the general cost of, upgrading its ICT systems, the Bank could face fines from regulators if its ICT systems fail to enable it to comply with applicable banking or reporting regulations, including data protection regulations.

The Bank maintains back-up systems for its operations and one of the back-up systems is located outside its premises. However, under limited circumstances, for example, in the event of a major catastrophe resulting in the failure of its ICT systems, the Bank could lose certain recently entered data with regards to its operation 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 Bank, by the authorities, customers, merchants or other third parties. Unauthorised disclosure of confidential information could occur in a number of circumstances, including as a result of software or hardware malfunctions, interruption in network availability, hacking, human error, physical damage to vital ICT centres and computer viruses, as well as physical security breaches due to unauthorised personnel gaining physical access to confidential information.

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

Although the Bank maintains customary insurance policies for its operations, such insurance policies may not be adequate to compensate the Bank for all losses that may occur as a result of any aforementioned damage, interruption, failure or lack of capacity. A sustained failure of the Bank’s ICT systems centrally or across its branches would have a significant impact on its operations, reputation and the confidence of its customers in the reliability and safety of its banking systems and could result in costly litigations. Any of the aforementioned

factors could have a material adverse effect on the Bank's business, prospects, financial position, reputation and/or results of operations, and its ability to make payments in respect of the Notes.

### ***Cyberattacks***

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

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

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

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

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

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

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

The Bank's 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 Bank'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

during the year 2021 was 890 compared to 921 at year end 2020. Salaries and related expenses year over year was ISK 14.759 million in 2021 compared with ISK 14.767 million the previous year.

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

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 Bank competes for talented personnel with both financial and non-financial services companies. Furthermore, the Bank 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 Bank's achievement of its business objectives significantly and could have a material adverse effect on the Bank's business and its ability to make payments in respect of the Notes.

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

The image and reputation of the Bank are some of the Bank's most valuable assets. The risk of damage to the Bank'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 Bank's reputation is badly affected. Damage to its image or reputation (such as a perception that the Bank has failed to address various issues) could prompt the Bank's customers to direct their business elsewhere which could result in loss of revenues – see further in the section entitled "*Description of the Bank – Competition*". This could have a negative impact on the Bank's business and its ability to make payments in respect of the Notes. Such reputational issues include, but are not limited to:

- the fact the Icelandic State Treasury is the largest shareholder of the Bank (see. "*The Icelandic State Treasury is the largest shareholder of the Bank. This may affect the Bank and its business*");
- poor customer services or ICT failures or interruptions that impact customer service and accounts (see "*The Bank is exposed to the risk of breach of security, unauthorised disclosure of confidential information and personal data, or functionality of its information system that could have materially adverse effect on the Bank'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 Bank 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 Bank's services (see. "*The Bank is exposed to a range of market risks, the most significant being, interest rate, foreign exchange indexation and equity risks*" and "*Operational risks are inherent in the Bank's business activities and are typical of comparable businesses*");
- failure to demonstrate that the Bank 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 Bank's business, if the Bank becomes subject to increasingly complex requirements*", *Litigation*" and "*Operational risks are inherent in the Bank's business activities and are typical of comparable businesses*").

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

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

The financial statements of the Bank 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 Bank's management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Identification of certain accounting policies to the 2021 financial statements have been identified as critical because they require estimates and judgements in applying accounting policies, see note 3 to the 2021 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 Bank may be impacted by changes in accounting policies or accounting standards and the interpretation of such policies and standards. From time to time the international Accounting Standards Board (the "IASB") changes the financial accounting and reporting standards that govern the preparation of the Bank 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 Bank's judgement, estimates and assumptions, therefore the Bank 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 Bank and its ability to make payments in respect of the Notes.

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

The Bank has taken a conscious decision to insure itself against specific risks. The Bank holds all mandatory insurance coverage, including fire insurance and mandatory vehicle insurance, plus comprehensive vehicle insurance. The Bank also holds insurance policies provided for collective bargaining agreements with the Confederation of Icelandic Bank and Finance Employees, such as life and accident insurance, and insurance stipulated by other wage contracts as applicable. In addition, the Bank has taken out liability insurance against third-party claims, insurance on moveable property and professional liability insurance for its auditors and directors' and officers' liability insurance for the Bank's directors and senior management. The Bank also carries insurance against comprehensive crime and professional indemnity coverage. Comprehensive crime insurance provides cover for fraud by employees and third parties. It covers financial 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 Bank 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 Bank, there is no guarantee that the Bank will be fully compensated should the Bank need to lodge claims. If the Bank did submit claims under its policies, the premiums it pays could be expected to increase in the future. The Bank's insurance policies are subject to the terms and conditions of the applicable policies. If the Bank's insurance coverage does not adequately cover all losses, the Bank may suffer a financial loss, which could negatively impact its business.



***Environmental disasters, natural catastrophes, pandemics and acts of war could have a negative impact on the Bank'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 Bank operates. Although natural catastrophes and environmental disasters are unforeseen factors that could threaten the Bank's ability to maintain its operations, attempts are made to limit this risk by ensuring the security of critical equipment, its location and distribution between risk areas. The Operational Risk Department is responsible for business continuity management and for maintaining the Bank's disaster recovery plans. The Bank also has in place specific disaster recovery and business continuity plans. See further section entitled "*Description of the Bank - Risk Management Framework*". Although the Bank 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 Bank's insurance may not cover all losses. Any losses experienced by the Bank due to environmental disaster, natural catastrophes, pandemics or act of wars could have a material adverse effect on the Bank's business, prospects, financial position and/or result of operations, and its ability to make payments in respect of the Notes.

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

As at the date of this Base Prospectus, the 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 Bank which are in excess of 70 per cent. of the Bank's total share capital, subject to any proposals that may be put forward by the ISFI. Any such sale or disposal, and any conditions attaching to it, could affect the Bank's business, financial condition and results of operations. See further in "*Description of the Bank - Shareholders, share capital and dividend policy*."

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

**Legal risk relating to the Bank**

***Legal and regulatory risks***

The Bank, as a systemically important financial institution in Iceland, is regulated by the 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 Bank is subject to a number of laws, regulations, administrative actions and policies governing the provision of financial services in Iceland. The Bank 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 Bank to damages claims, regulatory fines or other penalties. Although the Bank works closely with regulators and continually monitors its legal position, future changes in regulations, fiscal or other policies can be unpredictable and are beyond the Bank's control. Any changes to current legislation might affect the Bank's operations and its results of operations and its ability to make payments in respect of the Notes.

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 circumstance*”. 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 Bank 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 Bank 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 2021, economic capital for legal and regulatory risk amounted to ISK 2 million compared to ISK 2.329 million in 2020. These cases may include possible criminal or administrative proceeding 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 Bank – Litigation*”.

***Changes to capital and related requirements could adversely affect the Bank’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 Bank- 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. Completion of the implementation is expected in 2022. 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**”). The Issuer complies with the MREL requirement.

Any failure by the Bank to maintain any increased regulatory capital requirements or to comply with any other requirements introduced by regulators could result in intervention by regulators or the imposition of sanctions, which may have a material adverse effect on the Bank’s financial condition and results of operations and may also have other effects on the Bank’s financial performance and on the pricing of the Notes, both with or without the intervention by regulators or the imposition of sanctions. 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 Notes and/or the liquidity and/or value of the Notes, and therefore may affect the incentives of investors to hold onto the Notes. Therefore, prospective investors in the Notes should consult their own advisers as to the consequences of the implementation of the relevant legal measures in Iceland.

***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. The taking of any action under the BRRD as implemented in Iceland could materially affect the value of any Notes***

On 2 July 2014, the 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 to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contains four resolution tools and powers which may be used alone or in combination where an institution is considered as failing or likely to fail: (i) sale of business which enables resolution authorities to

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

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

In accordance with the implementation of the BRRD in Iceland, the Notes may be subject to the exercise of the general bail-in tool by the Relevant Resolution Authority (as defined in Condition 17 ("*Acknowledgement of Statutory Loss Absorption Powers*") under "Terms and Conditions of the Notes") and the Notes include a contractual consent to the application of any Bail-in and Statutory Loss Absorption Powers (as defined in Condition 18 under "Terms and Conditions of the Notes").

In addition to the general bail-in tool, the BRRD allows for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments or other instruments of ownership such as the Subordinated Notes at the point of non-viability and before any other resolution action is taken ("**non-viability loss absorption**"). Any instruments issued to holders of the 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 (as currently implemented) shall follow the hierarchy of claims in normal insolvency proceedings in Iceland. The BRRD has been implemented in Iceland with Act 54/2018 amending the Act on Financial Undertakings No. 161/2002, by Act 70/2020 on the Recovery and Resolution of Credit Institutions and Investment Firms, and more recently, by the Hierarchy of Claims Act 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. Under the Hierarchy of Claims Act, debt instruments that meet the following criteria will be considered as "senior non-preferred bonds" (including Senior Non-Preferred Notes issued hereunder) and will rank lower than ordinary unsecured claims (including Senior Preferred Notes issued hereunder) in a winding up of the Bank: (i) the original contractual maturity of the debt instrument is of at least one year, (ii) the debt instruments contain no embedded derivatives and are not derivatives themselves, and (iii) the relevant contractual documentation, and, where applicable, the prospectus related to the issuance, explicitly refer to the lower ranking under the same paragraph. Moreover, all types of bank deposits will rank higher than ordinary unsecured claims. Under the Hierarchy of Claims Act: (i) any existing unsecured and unsubordinated Notes of the Bank will rank *pari passu* with any Senior Preferred Notes of the Bank; and (ii) existing unsubordinated Notes of the Bank and Senior Preferred Notes of the Bank will rank senior to any Senior Non-Preferred Notes of the Bank.

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

Under the BRRD, resolution authorities must set a MREL<sup>10</sup> 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.

Holders of Notes 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 the case of Subordinated Notes, see "*Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Bank*"). Such application of the general bail-in tool could also involve modifications to or the disapplication of provisions in the conditions of the Notes, including alteration of the principal amount or any interest payable on the Notes, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. The exercise or perceived increase in likelihood of exercise of any power under the BRRD could therefore materially adversely affect the rights of holders of Notes issued or to be issued by the Bank (the "**Noteholders**"), the price or value of their investment in any Notes and/or the ability of the Bank to satisfy its obligations under any Notes.

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 banks' ability to withstand potential shocks and strengthen the banking union from 28 December 2020. It is currently unclear how and when BRRD II will be implemented in Iceland and when this will affect the Bank.

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

The Bank's results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, (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, 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 Bank, 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 Bank 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 Bank, to a foreign creditor, including holders of notes, who are not Icelandic are taxable in Iceland and can be subject to withholding tax at the rate of 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 NCSD, Euroclear and Clearstream Luxembourg, within a member state of the OECD, the EEA, a founding member state of EFTA or the Faroe Islands. Bonds issued by the Bank are subject to the aforementioned exemption.

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<sup>10</sup> Minimum Requirement for own funds and Eligible Liabilities (MREL).

According to the Act on Tax on Financial Activities, No. 165/2011, certain types of financial institutions, including the Bank, 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 Bank 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 Bank increases the cost burden on the Bank 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 Bank- Competition*”.

The Bank 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 Bank’s cost of funding and operating costs generally, reduce the ability of the Bank to compete effectively with other lenders and/or decrease the Bank’s lending volumes and margins any of which could have a material adverse effect on the Bank’s business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes. Any such increase could have a material adverse effect on the financial condition of the Bank and its ability to make payments in respect of the Notes.

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

***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 Notes. 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 Notes obtained in the courts of England against the Bank, will, in principle, neither be recognised nor enforceable in Iceland. However, if a Noteholder 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 Noteholders of the Bank’s obligations under the Notes.

***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 Bank’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. Central Bank Rules No. 765/2021, on derivatives transactions in which the Icelandic krona is specified in a contract against foreign currency, authorised all derivatives transaction, 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 Bank which could have a material adverse effect on the Bank’s business and result of operations and its ability to make payments in respect of the Notes.

## **Factors which are material for the purpose of assessing the market risks associated with the Notes**

### **Risks related to the structure of a particular issue of Notes**

A range of notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features, distinguishing between factors which may occur in relation to any Notes:

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

An optional redemption feature of Notes including in the case of a Tax Event, (in respect of Subordinated Notes only, in respect of which Condition 5.3 is specified as being applicable in the applicable Final Terms) a Capital Event or (in respect of Senior Preferred Notes and Senior Non-Preferred Notes only, in respect of which Condition 5.3A is specified as being applicable in the applicable Final Terms) an MREL Disqualification Event is likely to limit their market value. During any period when the Bank may elect to redeem Notes or when the Bank is perceived by the market to have a redemption right available to it, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***The market continues to develop in relation to risk-free rates (including overnight rates) which are possible reference rates for the Notes***

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. 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 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 Notes that reference such risk-free rates issued under this Programme. The Issuer may in the future also issue Notes referencing SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, or €STR that differ materially in terms of interest determination when compared with any previous SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, or €STR referenced Notes 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 Notes 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 Notes 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 notes 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 Notes, 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 Notes could change during the life of such Notes.

Notes 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 Notes 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 Notes, the trading price of such Notes linked to such risk-free rates may be lower than those of Notes referencing indices that are more widely used. Investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes 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 Notes which reference SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, or €STR.

***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 Notes. 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 Notes 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 Notes 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 Notes which reference such risk-free rates to reliably estimate the amount of interest which will be payable on such Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. Further, in contrast to Notes linked to interbank offered rates, if Notes referencing backwards-looking SONIA, SOFR, or €STR become due and payable under Condition 8 (*Enforcement Events and Remedies*) or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest payable in respect of such Notes shall be determined by reference to a shortened period ending immediately prior to the date on which the Notes become due and payable or are scheduled for redemption.

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

The Bank of England, the Federal Reserve Bank of New York or the European Central Bank (or their successors) as administrators of SONIA (and SONIA Compounded Index), SOFR (and SOFR Compounded Index), or €STR, 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, or €STR. In addition, an administrator may alter, discontinue or suspend calculation or dissemination of SONIA, SONIA Compounded Index, SOFR, SOFR Compounded Index, or €STR, in which case a fallback method of determining the interest rate on the Notes will apply in accordance with the Conditions (see "*Floating Rate Notes and Reset Notes referencing or linked to benchmarks*"). An administrator has no obligation to consider the interests of Noteholders when calculating, adjusting, converting, revising or discontinuing any such risk-free rate.

***Where there are provisions which provide that the interest rate on any Notes may convert from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned***

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where such conversion can occur, this will affect the secondary market and the market value of the Notes. Where conversion is made from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where conversion from a floating rate to a fixed rate occurs in such circumstances, the fixed rate may be lower than then prevailing market rates.

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

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

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



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

***There can be no assurance that use of proceeds of Notes 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 Notes may provide that the Notes are intended to be Sustainable Notes (which may include, *inter alia*, sustainable, green, social and/or blue Notes ("**Sustainable Finance Instrument**")). The Bank 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 Bank'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 Bank 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 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 Sustainable Finance Framework.

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 Bank) which may be made available in connection with the issue of any Sustainable Notes 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 Bank 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 Bank 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 Bank. Any such event or failure will not constitute an Event of Default under the Sustainable Finance Instrument and will not give rise to any claim of the Noteholder against the Bank. 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 will assess, verify, or monitor the proposed use of proceeds of Notes issued under the Programme. Furthermore, any such event or failure by the Bank will under no circumstance affect the qualification of such Sustainable Finance Instrument which are also Subordinated Notes, Senior Non-Preferred Notes or Senior Preferred Notes (as the case may be) as Subordinated Notes or as MREL eligible liabilities (as applicable) or have an impact on the status and ranking of the Subordinated Notes, the Senior Preferred Notes or the Senior Non-Preferred Notes. Notes issued as Sustainable Notes will also be subject to the Capital Requirements Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and bail-in and resolution measures provided by the BRRD in the same way as any other Notes issued under the Programme. As to such measures see the risk factor entitled *"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. The taking of any action under the BRRD as implemented in Iceland could materially affect the value of any Notes"*.

Sustainable Finance Instruments intended to form part of the own funds and eligible liabilities of the Bank will not be issued with any features which undermine their ability to absorb losses in compliance with the prevailing prudential and resolution rules, and neither the Sustainable Finance Instruments nor the proceeds of issue thereof will be afforded any special treatment or enhanced protections as a result of them being Sustainable Finance Instruments.

Any such event or failure to invest an amount equal to the net proceeds of any issue of Notes 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 Bank 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 Notes 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 Notes and also potentially the value of any other Notes which are intended to finance projects in the manner described in the Sustainable

Finance Frameworks and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Holders of Notes issued as Sustainable Finance Instrument (including Subordinated Notes and Notes qualifying as MREL) will not be treated in any way differently than holders of Notes (including Subordinated Notes and Notes qualifying as MREL) which are not issued as Sustainable Finance Instruments, for example in relation to Subordinated Notes and MREL eligible liabilities, to the effect that such Sustainable Finance Instruments are equally available to absorb losses incurred not only on Eligible Activities and Assets but also on all types of assets on the balance sheet of the Bank, in the event of the Bank's insolvency, at the point of non-viability or in resolution (as applicable). For the avoidance of doubt, payments of principal and interest (as the case may be) on such Sustainable Finance Instruments shall not depend on the performance of the Eligible Activities and Assets or ESG targets of the Issuer.

Further, it should also be noted that lack of sufficient Eligible Activities and Assets has no consequence on such Sustainable Finance Instruments' permanence and loss absorbency requirements. The tenor of the amounts advanced by the Group to customers for the purposes of financing or refinancing Eligible Activities and Assets may not match the maturity date of the Sustainable Finance Instruments issued to fund such advances. The subsequent redemption of relevant loans advanced by the Group, or the project(s) or use(s) the subject of, or related to, any Eligible Activities and Assets before the maturity date of any Sustainable Finance Instruments issued to fund such advances shall not lead to the early redemption of such Sustainable Finance Instruments or any other Notes nor create any obligation or incentive of the relevant Issuer to redeem the Sustainable Finance Instruments at any time or be a factor in the relevant Issuer's determination as to whether or not to exercise any early redemption rights it may have from time to time.

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 related to Subordinated Notes, Senior Preferred Notes and Senior Non-Preferred Notes**

#### ***The claims of holders of Senior Preferred Notes and Senior Non-Preferred Notes will be subordinated to claims of the Bank's depositors in the event of a winding-up***

In Iceland, Article 102 of the Act on Financial Undertakings provides that, should a financial institution holding bank deposits, such as the Bank, enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, then the claims of holders of senior unsecured unsubordinated debt would be subordinated to the claims of all of the Issuer's depositors. Moreover, the Hierarchy of Claims Act was recently enacted into law by the Icelandic Parliament on 4 May 2021. The Hierarchy of Claims Act amends the Act on Financial Undertakings and introduces a new Article 85(a) to the Act on Recovery and Resolution which provides in part that, in a winding-up: (a) claims of certain types of the Bank's depositors will have priority over other kinds of bank deposits (i.e. the inner ranking within deposits will change), but (b) all types of bank deposits will, as a group, rank higher than the claims of the Bank's senior unsecured unsubordinated debt obligations. Hence, under current Icelandic law, the claims of holders of senior unsecured debt (which would include Senior Preferred Notes as well as Senior Non-Preferred Notes) are subordinated to the claims of all of the Bank's depositors in a winding-up of the Bank. If a winding-up of the Bank were to occur, there may not be sufficient assets in the resulting estate to pay the claims of such Noteholders after the claims of depositors have been paid.

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

On a liquidation, dissolution or winding-up of, or analogous proceedings over the Bank by way of exercise of public authority (referred to herein as a "**winding-up of the Bank**"), all claims in respect of the Subordinated Notes will rank *pari passu* without any preference among themselves, at least *pari passu* with present or future claims in respect of Parity Securities (as defined in Condition 2.4), in priority to any present or future claims in respect of Junior Securities (as defined in Condition 2.4) and junior to any present or future claims in respect of Senior Creditors (as defined in Condition 2.4). If, on a winding-up of the Bank, the assets of the Bank are

insufficient to enable the Bank to repay the claims of the Senior Creditors in full, the Noteholders will lose their entire investment in the Subordinated Notes. If there are sufficient assets to enable the Bank to pay the claims of Senior Creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Subordinated Notes and all other claims of Parity Securities, Noteholders will lose some (which may be substantially all) of their investment in the Subordinated Notes.

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

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

***The Senior Non-Preferred Notes are a new class of securities and the Issuer's obligations under Senior Non-Preferred Notes rank junior to the Issuer's unsubordinated creditors***

The Hierarchy of Claims Act introduces a new class of "senior non-preferred notes" that meet specified criteria, which class will, upon a credit institution's bankruptcy, rank junior to its senior unsubordinated debt obligations and rank senior to its subordinated notes as well as regulatory capital and common shares. As further set out in Condition 2.2 (Status of Senior Non-Preferred Notes), the Bank intends that its Senior Non-Preferred Notes will constitute part of this new, lower-ranking (un-preferred) 'senior' unsecured class, that will rank below its Senior Preferred Notes but ahead of the Subordinated Notes.

The Bank's obligations under the Senior Non-Preferred Notes are direct, unconditional and unsecured obligations of the Issuer.

In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Bank, the rights of the Noteholders to payments on or in respect of the Senior Non-Preferred Notes will rank *pari passu* without any preference among themselves, *pari passu* with all other Senior Non-Preferred Liabilities of the Bank (as defined in Condition 2.4), senior to holders of all classes of share capital of the Bank and any subordinated obligations or other securities of the Bank which rank, or are expressed to rank, junior to the Senior Non-Preferred Liabilities of the Bank (including, without limitation, any Subordinated Notes) and will rank junior to present or future claims of (a) depositors of the Bank and (b) other unsubordinated creditors of the Bank. If, on a winding-up of the Bank, the assets of the Bank are insufficient to enable the Bank to repay the claims of the unsubordinated creditors in full, the Noteholders will lose their entire investment in the Senior Non-Preferred Notes. If there are sufficient assets to enable the Bank to pay the claims of unsubordinated creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Senior Non-Preferred Notes or all other claims that rank *pari passu* with the Senior Non-Preferred Notes, holders of Senior Non-Preferred Notes will lose some (which may be substantially all) of their investment in the Senior Non-Preferred Notes.

Whilst Senior Non-Preferred Notes and Senior Preferred Notes both share the 'senior' designation under the programme, in an insolvency of the Bank the Senior Non-Preferred Notes will rank junior to the Senior Preferred Notes (which, in turn, rank junior to obligations of the Bank which are by law given priority over the Senior Preferred Notes, such as bank deposits) and other unsecured and unsubordinated liabilities.

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

Although Senior Non-Preferred Notes may pay a higher rate of interest than comparable Notes which benefit from a preferential ranking, there is a significant risk that an investor in such Senior Non-Preferred Notes will lose all or some of his or her investment should a winding-up of the Bank occur.

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

In addition to the application of the general bail-in tool to Subordinated Notes (see "*The 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. The taking of any action under the BRRD as implemented in Iceland could materially affect the value of any Notes*"), the BRRD contemplates that Subordinated Notes that qualify as Tier 2 Capital may be subject to non-viability loss absorption. As a result, resolution authorities may require the permanent write-down of capital instruments such as Subordinated Notes (which write-down may be in full) or the conversion of them into equity capital at the point of non-viability and before any other resolution action is taken.

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

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which the relevant authority determines that the institution (or the group, as the case may be) meets the conditions for resolution or will no longer be viable unless the relevant capital instruments (such as the Subordinated Notes that qualify as Tier 2 Capital) are written-down or converted into equity or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution (or the group, as the case may be) would no longer be viable.

The application of the general bail-in tool or any non-viability loss absorption measure pursuant to any applicable statutory loss absorption regime (including the BRRD) may result in Noteholders losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of Subordinated Notes that qualify as Tier 2 Capital issued under the Programme and/or the ability of the Bank to satisfy its obligations under such Subordinated Notes.

***There are limited enforcement events in relation to Subordinated Notes, Senior Non-Preferred Notes and certain Senior Preferred Notes***

Each Series of Senior Non-Preferred Notes, Subordinated Notes and Senior Preferred Notes (where Unrestricted Events of Default is specified as being not applicable in the applicable Final Terms) will contain limited enforcement events relating to:

- (i) non-payment by the Bank of any amounts due under the relevant Series of Notes. In such circumstances, as described in more detail in Condition 8.2, a Noteholder may institute proceedings in Iceland in order to recover the amounts due from the Bank to such Noteholder; and
- (ii) the liquidation or bankruptcy of the Bank. In such circumstances, as described in more detail in Condition 8.2, the relevant Series of Notes will become due and payable at their outstanding principal amount, together with accrued interest thereon.

A holder of such Notes may not itself file for the liquidation or bankruptcy of the Bank. As such, the remedies available to holders of Senior Non-Preferred Notes, Subordinated Notes and Senior Preferred Notes (where Unrestricted Events of Default is specified as being not applicable in the applicable Final Terms) are limited, which may make it more difficult for such Noteholders to take enforcement action against the Bank.

The above enforcement events will apply to Notes issued under the Programme with the intention of being applied in the manner described in the Sustainable Finance Framework in the same way as to Notes that are issued without the intention of being applied to such projects.

***Call options are subject to the prior consent of the Relevant Regulator (if such consent is required)***

The Notes may also contain provisions allowing the Bank to call them. In the case of Subordinated Notes, such call option may only be available after a minimum period of, for example, five years after the issuance date of the Subordinated Notes. To exercise such a call option, the Bank must obtain prior written consent of the Relevant Regulator (as defined in the Terms and Conditions of the Notes), if and to the extent then required by the Relevant Regulator, as provided in Condition 5.11.

Holders of the Notes have no rights to call for the redemption of the Notes and should not invest in such Notes in the expectation that such a call will be exercised by the Bank. Where applicable, the Relevant Regulator must agree to permit such a call, based upon its evaluation of the regulatory capital position of the Bank and certain other facts at the relevant time. There can be no assurance that the Relevant Regulator will permit such a call. Holders of the Notes should be aware that they may be required to bear the financial risks of an investment in the Notes for a period of time in excess of the minimum period. See also "*If the Bank has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return*" above.

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

Where the applicable Final Terms specify that Condition 5.10 (in the case of Subordinated Notes) or Condition 5.10A (in the case of Senior Preferred Notes and Senior Non-Preferred Notes) applies, if at any time a Capital Event (in the case of Subordinated Notes, in respect of which Condition 5.3 is specified as being applicable in the applicable Final Terms), an MREL Disqualification Event (in the case of Senior Preferred Notes and Senior Non-Preferred Notes, in respect of which Condition 5.3A is specified as being applicable in the applicable Final Terms) or a Tax Event (in any case) occurs, or in order to ensure the effectiveness and enforceability of Condition 17, the Bank may, subject to obtaining the prior written consent of the Relevant Regulator (if such consent is required), but without the requirement for the consent or approval of the Noteholders, either substitute all, but not some only, of the relevant Notes for, or vary the terms of the relevant Notes, as the case may be, so that they remain or, as appropriate, become, in the case of Subordinated Notes, Subordinated Qualifying Securities (as defined in Condition 5.10), in the case of Senior Non-Preferred Notes, Senior Non-Preferred Qualifying Securities (as defined in Condition 5.10A) or, in the case of Senior Preferred Notes, Senior Preferred Qualifying Securities (as defined in Condition 5.10A), as the case may be, as further provided in Condition 5.10 and Condition 5.10A (as applicable). The terms and conditions of such substituted or varied Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, may contain one or more provisions that are substantially different from the terms and conditions of the original Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, provided that the relevant Senior Preferred Notes, the relevant Senior Non-Preferred Notes or the relevant Subordinated Notes remain or, as appropriate, become, in the case of Senior Preferred Notes, Senior Preferred Qualifying Securities, in the case of Senior Non-Preferred Notes, Senior Non-Preferred Qualifying Securities or, in the case of Subordinated Notes, Qualifying Securities, as the case may be, in accordance with the Terms and Conditions of the Notes. While the Bank cannot make changes to the terms of the Notes that, in its reasonable opinion, are materially less favourable to the holders of the relevant Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, as a class, no assurance can be given as to whether any of these changes will negatively affect any Noteholder. In addition, the tax and stamp duty consequences of holding or disposing of such substituted or varied Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, could be different for some categories of Noteholders from the tax and stamp duty consequences for them of holding or disposing of the Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, prior to such substitution or variation.

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

At any time upon the occurrence of a Tax Event pursuant to Condition 5.2, a Capital Event pursuant to Condition 5.3 (in the case of Subordinated Notes, to the extent specified as applicable in the applicable Final Terms), an MREL Disqualification Event pursuant to Condition 5.3A (in the case of Senior Preferred Notes and Senior Non-Preferred Notes, to the extent specified as applicable in the applicable Final Terms), on an Optional Redemption Date pursuant to Condition 5.4 or on an Optional Clean-up Redemption Date pursuant to Condition 5.6, the Notes may be redeemed (if applicable) at the option of the Bank at their principal amount, as more particularly described in the Terms and Conditions of the Notes. Such an optional redemption feature is likely to limit the market value of the Notes. During any period when the Bank may elect to redeem the relevant Notes, or during any period when Noteholders perceive that the Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. In particular, with respect to the Clean-up Redemption Option by the Bank pursuant to Condition 5.6, there is no obligation under such Condition 5.6 nor under any of the Terms and Conditions of the Notes for the Bank to inform Noteholders if and when the threshold of 80 per cent. of the initial aggregate principal amount of a particular Series of Notes has been redeemed or purchased by, or on behalf of, the Bank or any of its subsidiaries is reached, or is about to be reached, and the Bank's right to redeem will exist notwithstanding that immediately prior to the serving of a notice in respect of the exercise of the Clean-up Redemption Option the Notes may have been trading significantly above par, thus potentially resulting in a loss of capital invested.

The Issuer may elect to exercise its option to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

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

The obligation of the Issuer to pay additional amounts in respect of any withholding or deduction of taxes imposed under the laws of Iceland under the Conditions apply only to payments of interest and not to payments of principal due under the Notes. As such, the Issuer is not required to pay any additional amounts under Condition 6 of the Terms and Conditions of the Notes to the extent any withholding or deduction applies to payments of principal under the Notes. Accordingly, if any such withholding or deduction were to apply to any payments of principal under the Notes, the holders of such Notes may receive less than the full amount due thereunder. There is some risk under Icelandic law that withholding or deduction in respect of principal could apply on account of any currency gains deemed to have arisen when such principal is measured in ISK.

## **Risks related to Notes generally**

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

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

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

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

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

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

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

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

***Tax exemptions from withholding may not be available if definitive Notes are required to be issued***

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

***Reliance on Euroclear and Clearstream, Luxembourg procedures***

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

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

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

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

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



securities that do have the benefit of security, which may impact on the market price of its securities, such as the Notes, that are unsecured.

### ***Floating Rate Notes and Reset Notes referencing or linked to benchmarks***

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate ("**LIBOR**") and the Euro Interbank Offered Rate ("**EURIBOR**"), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Notes referencing or linked to such Benchmark. In respect of the risks related to alternative benchmarks such as SOFR, SONIA and €STR, please see *"The market continues to develop in relation to risk-free rates (including overnight rates) which are possible reference rates for the Notes", "Risk-free rates differ from interbank offered rates in a number of material respects" and "Any of the administrators of SONIA, SOFR or €STR may make changes that could change the value of SONIA, SOFR or €STR or discontinue SONIA, SOFR, or €STR respectively"* above.

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

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

In a speech on 27 July 2017, Andrew Bailey, the then Chief Executive of the FCA, questioned the sustainability of LIBOR in its current form, and advocated a transition away from reliance on LIBOR to alternative reference rates. He noted that currently there is wide support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA's intention that it will not be necessary to sustain LIBOR through its influence or legal powers by persuading or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2022 cannot be guaranteed.

On 5 March 2021, the FCA announced that:

- (i) the publication of 24 LIBOR settings (as detailed in the FCA announcement) will cease immediately after 31 December 2021;
- (ii) the publication of the overnight and 12-month U.S. dollar LIBOR settings will cease immediately after 30 June 2023;
- (iii) immediately after 31 December 2021, the 1-month, 3-month and 6-month sterling LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consult on requiring the ICE Benchmark Administration Limited (the "**IBA**") to continue to publish these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end 2021);

- (iv) immediately after 31 December 2021, the 1-month, 3-month and 6-month Japanese yen LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consult on requiring the IBA to continue to publish these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period until end 2022 after which time publication of these settings will cease permanently); and
- (v) immediately after 30 June 2023, the 1-month, 3-month and 6-month U.S. dollar LIBOR settings will no longer be representative of the underlying market and economic reality that they are intended to measure and representativeness will not be restored (and the FCA will consider the case for using its proposed powers to require IBA to continue publishing these settings on a synthetic basis, which will no longer be representative of the underlying market and economic reality they are intended to measure, for a further period after end June 2023).

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

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

The "*Terms and Conditions of the Notes*" provide for certain fallback arrangements in the event that a published Benchmark, including an inter-bank offered rate such as LIBOR, EURIBOR or other relevant reference rates (including, without limitation, mid-swap rates, SOFR, SONIA 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 Bank (acting in good faith and in consultation with an Independent Adviser). In certain circumstances, the ultimate fallback for the purposes of calculation of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was applied in respect of a previous Interest Period or, in the case of Reset Notes, the application of the relevant Rate of Interest for a preceding Reset Period. The Issuer will not, however, be required to replace any benchmark or make consequential amendments to the Terms and Conditions of any Notes in circumstances where it considers that doing so could reasonably be expected to prejudice the qualification of any of its Subordinated Notes as Tier 2 Capital.

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

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

## **Risks related to the market generally**

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

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

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or 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 Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

***If an investor holds Notes which are not denominated in the investor's preferred currency (which may itself be different to the currency of the country they are resident in), the investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes***

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

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

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

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

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

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

One or more independent credit rating agencies may assign credit ratings to the Bank or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the EU 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 EU 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 EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the EU 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.

Investors regulated in the UK are subject to similar restrictions under the EU 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. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Notes changes for the purposes of the EU 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 Notes may have a different regulatory treatment, which may impact the value of the Notes 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.

## FORM OF THE NOTES

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

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

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

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

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

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

The applicable Final Terms will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, interest coupons and talons attached upon either (a) only upon the occurrence of an Exchange Event or (b) at any time at the request of the Bank. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 8) has occurred and is continuing, (ii) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business

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

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

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

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, interest coupons and/or talons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, interest coupons and/or talons.

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

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

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 8. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Bank on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the "**Deed of Covenant**") dated 6 April 2018 and executed by the Bank.

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

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

- (a) approval of a resolution proposed by the Bank given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance

with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Agency Agreement) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which a higher quorum is required), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons whether or not they participated in such Electronic Consent; and

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

## APPLICABLE FINAL TERMS

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

[Date]

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

**[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 Notes has led to the conclusion that: (i) the target market for the Notes 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 Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to 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 Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]**

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

**PROHIBITION OF SALES TO UK RETAIL INVESTORS - The Notes 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) 2017/1129 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 Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes 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 2001 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 Notes [are] / [are not] prescribed capital markets products (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.)<sup>11</sup>

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

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

**LANDSBANKINN HF.**

**LEI: 549300TLZPT6JELDWM92**

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

**under the €2,000,000,000**

**Euro Medium Term Note Programme**

## **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 23 May 2022 [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 Notes described herein for the purposes of Article 8 of the Prospectus Regulation and must be read in conjunction with the Base Prospectus.]<sup>12</sup> Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at [●].

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

<sup>12</sup> Delete where the Notes are not 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 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 [2021/2020/2019/2018/2017/2016/2015] Terms and Conditions which are incorporated by reference in the Base Prospectus dated 23 May 2022 [and the supplement[s] to it dated [date] [and [date]]]. [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 8 of the Prospectus Regulation and must be read in conjunction with the Base Prospectus dated 23 May 2022 [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 [2021/2020/2019/2018/2017/2016/2015] Terms and Conditions incorporated by reference in the Base Prospectus]<sup>13</sup>. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at [●].

- 1 (a) Series Number: [ ]
- (b) Tranche Number: [ ]
- (c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [provide issue amount/ISIN/maturity date/issue date of earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 18 below, which is expected to occur on or about [date]] [Not Applicable]
- 2 Specified Currency or Currencies: [ ]
- 3 Aggregate Nominal Amount:
  - (a) Series: [ ]
  - (b) Tranche: [ ]
- 4 Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
- 5 (a) Specified Denominations: [ ]
 

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

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

- (b) Calculation Amount: [ ]
 

*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
- 6 (a) Issue Date: [ ]
- (b) Interest Commencement Date: [specify/Issue Date/Not Applicable]

<sup>13</sup> Delete where the Notes are not 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.

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

- 7 Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to [specify month and year]]
- 8 Interest Basis: [[ ] per cent. Fixed Rate]  
[[[ ] month [EURIBOR/SONIA/SOFR/  
€STR/NIBOR/STIBOR/REIBOR/CIBOR]] +/- [ ] per cent.  
Floating Rate]  
[Reset Notes]  
[Zero coupon]  
(see paragraph [13]/[14]/[15]/[16] below)
- 9 Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount  
*(N.B. The Notes will only be redeemed at an amount other than 100 per cent. of their nominal amount in the case of certain Zero Coupon Notes)*
- 10 Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [13/14] applies][Not Applicable]
- 11 Put/Call Options: [Issuer Call]  
[Clean-up Redemption Option]<sup>14</sup>  
[Not Applicable]  
[(see paragraph 17/19 below)]
- 12 (a) Status of the Notes: [Senior Preferred/Senior Non-Preferred/Subordinated]  
*(If Subordinated Notes include:)*  
(i) Redemption upon occurrence of Capital Event: [Applicable – Condition 5.3 applies/Not Applicable]  
(ii) Substitution or variation: [Applicable – Condition 5.10 applies/Not Applicable]  
*(If Senior Preferred Notes or Senior Non-Preferred Notes include:)*  
(i) Redemption upon occurrence of a MREL Disqualification Event: [Applicable – Condition 5.3A applies/Not Applicable]  
(ii) Substitution or variation: [Applicable – Condition 5.10A applies/Not Applicable]  
*(If Senior Preferred Notes include:)*  
(i) Unrestricted Events of Default: [Applicable – Condition 8.1 applies/Not Applicable – Condition 8.2 applies]

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- 13 Fixed Rate Note Provisions [Applicable/Not Applicable]

<sup>14</sup> Subject to applicable regulations at the time, the Clean-up Redemption Option shall not apply in respect of Subordinated Notes.

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

- (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date  
*(Amend appropriately in the case of irregular coupons)*
- (c) Fixed Coupon Amount(s): [ ] per Calculation Amount
- (d) Broken Amount(s): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (f) Determination Date(s): [[ ] in each year][Not Applicable]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)*

#### 14 Floating Rate Note Provisions

[Applicable/Not Applicable]

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

- (a) Specified Period(s)/Specified Interest Payment Dates: [ ] [ ], subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Effective Interest Payment Date: [The date falling [•] Business Days following each Interest Payment Date, provided that the Effective Interest Payment Date with respect to the last Interest Period will be the Maturity Date or, if the Issuer elects to redeem the Notes before the Maturity Date, the date fixed for redemption (include for Payment Delay only)]<sup>15</sup>/[Not Applicable]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable] *[For Payment Delay, always specify a Business Day Convention]*
- (d) Additional Business Centre(s): [ ]
- (e) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (f) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent): [ ]
- (g) Screen Rate Determination:
  - Index Determination: [Applicable/Not Applicable]

<sup>15</sup> Effective Interest Payment Dates should be at least 5 Business Days after the Interest Payment Dates, unless otherwise agreed with the Fiscal Agent.

*Insert only if Index Determination is not applicable*

- Reference Rate: [currency][ ] month  
[EURIBOR/SONIA/SOFR/€STR/NIBOR/  
STIBOR/REIBOR/CIBOR].
- Reference Bank(s): [ ]
- Interest Determination Date(s): [●]/[The date falling [●] Business Days prior to the first day of each Interest Period]/ [First day of each Interest Period]/[The [first, second, third etc.] Business Day immediately preceding the Interest Payment Date for each Interest Period (or immediately preceding such earlier date, if any, on which the Notes are due and payable).][provide details]/[The Interest Payment Date at the end of each Interest Period; provided that the Interest Determination Date with respect to the last Interest Period prior to the Maturity Date or the date fixed for redemption will be the Rate Cut-off Date - *Include this wording for Payment Delay only*]]<sup>16</sup>  
  
*(Second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR. Second Oslo, Stockholm, Reykjavik or Copenhagen (as the case may be) business day prior to the start of each Interest Period if NIBOR, STIBOR, REIBOR or CIBOR)*
- Relevant Screen Page: [ ]/[Bloomberg Page SONIO/N Index]/[New York Federal Reserve's Website]/[ECB'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]<sup>17</sup>
- Relevant Financial Centre: [ ]
- Calculation Method: [Weighted Average/Compounded Daily/Not Applicable]
- Observation Method: [Lag/Lock-out/Observation Shift/Payment Delay/Not Applicable]
- Observation Look-back Period: [●]/[Not Applicable]<sup>18</sup>
- 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*]<sup>19</sup>/[Not Applicable]

<sup>16</sup> To be at least 5 Business Days before the relevant Interest Payment Date where the Reference Rate is SONIA, SOFR or €STR, without the prior agreement of the Fiscal Agent.

<sup>17</sup> Select "Not Applicable" for SONIA, SOFR or €STR.

<sup>18</sup> 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".

<sup>19</sup> 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.

*Insert only if Index Determination is applicable*

- SONIA Compounded Index: [Applicable/Not Applicable]
  - SOFR 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]<sup>20</sup>
  - Relevant Number: [●]/[As per the Conditions]
  - Numerator: [●]/[As per the Conditions]
- (h) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (In the case of a EURIBOR based option, the first day of the Interest Period)*
- (i) 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*)]
- (j) Margin(s): [ +/- ] [ ] per cent. per annum
- (k) Minimum Rate of Interest: [ ] per cent. per annum
- (l) Maximum Rate of Interest: [ ] per cent. per annum
- (m) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
[Actual/365 (Fixed)]  
[Actual/365 (Sterling)]  
[Actual/360]  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond Basis]  
[30E/360 (ISDA)]  
*(See Condition 3 for alternatives)*
- 15 Reset Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (a) Initial Rate of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date
  - (b) Initial Mid-Swap Rate: [ ] per cent./[Not Applicable]
  - (c) First Reset Margin: [ +/- ] [ ] per cent. per annum

<sup>20</sup> 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.

- (d) Subsequent Reset Margin: [[+/-] [ ] per cent. per annum]/[Not Applicable]
- (e) Interest Payment Date(s): [ ] in each year up to and including the Maturity Date
- (f) Fixed Coupon Amount up to (but excluding) the First Reset Date:  
*(Applicable to Notes in definitive form)* [[ ] per Calculation Amount]/[Not Applicable]
- (g) Broken Amount(s) up to (but excluding) the First Reset Date:  
*(Applicable to Notes in definitive form)* [ ] per Calculation Amount payable on the Interest Payment Date falling on [ ]/[Not Applicable]
- (h) Reset Reference Rate: [Mid-Swaps/Reference Bond]
- (i) First Reset Date: [ ]
- (j) Second Reset Date: [ ]/[Not Applicable]
- (k) Subsequent Reset Date(s): [[ ] [and [ ]]/[Not Applicable]
- (l) Relevant Screen Page: [ ]
- (m) Mid-Swap Rate: [Single Mid-Swap Rate/Mean Mid-Swap Rate]
- (n) Mid-Swap Rate Conversion: [Applicable/Not Applicable]
- (o) Original Mid-Swap Rate Basis: [Annual/Semi-annual/Quarterly/Monthly]
- (p) Mid-Swap Floating Leg Benchmark Rate: [EURIBOR/SONIA/SOFR/€STR/NIBOR/STIBOR/REIBOR/CIBOR]
- (q) Mid-Swap Floating Leg Maturity: [ ]
- (r) Reference Bond Reset Rate Time: [ ]
- (s) Reference Bond Price in respect of the first Reset Determination Date: [ ]
- (t) Reset Determination Date(s): [ ]  
*(Specify in relation to each Reset Date)*
- (u) Relevant Time: [ ]
- (v) Day Count Fraction: [30/360]/[Actual/Actual (ICMA)]
- (w) Determination Date(s): [[ ] in each year]/[Not Applicable]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.)*
- (x) Relevant Financial Centre [Not Applicable/Applicable *(list relevant financial centres)*]  
*(Note that this paragraph relates to the determination of a Reset Reference Rate that is not EURIBOR by the Reset Reference Banks)*

- 16 Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [ ] per cent. per annum  
*(N.B. Refer to condition 5.5(b) of the Terms and Conditions of the Base Prospectus)*
- (b) Reference Price: [ ]
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
 [Actual/360]  
 [Actual/365]

#### PROVISIONS RELATING TO REDEMPTION

- 17 Issuer Call: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [[ ] per Calculation Amount]
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [ ]
- (ii) Maximum Redemption Amount: [ ]
- (d) Notice periods: Minimum period: [ ] days  
 Maximum period: [ ] days  
*(N.B. When setting notice periods, the Bank is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Bank and the Fiscal Agent)*
- 18 Final Redemption Amount: [ ] per Calculation Amount  
*(N.B. Except in the case of Zero-Coupon Notes where a Redemption/Payment Basis other than 100 per cent. of the nominal amount has been specified, the Final Redemption Amount shall be equal to 100 per cent. of the Calculation Amount per Calculation Amount)*
- 19 Early Redemption Amount payable on redemption for taxation reasons, upon the occurrence of a Capital Event or on an event of default: [ ] per Calculation Amount  
*(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be)*



- 20 Clean-up Redemption Option [Applicable][Not applicable]<sup>21</sup>
- (a) Clean-up Percentage: [80 per cent. / [●] per cent.]
- (b) Notice Period: [As per Conditions / [●]]
- (c) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (d) Optional Clean-up Redemption Date(s): [●]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

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

## THIRD PARTY INFORMATION

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

<sup>21</sup> The Clean-up Redemption Option shall not apply in respect of Subordinated Notes.

Signed on behalf of **LANDSBANKINN HF.:**

By:

*Duly authorised*

By:

*Duly authorised*

## PART B – OTHER INFORMATION

### 1 LISTING AND ADMISSION TO TRADING

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

### 2 RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

*[insert details] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].*

*[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 "**EU CRA Regulation**").]

[Each of *[insert legal name of relevant credit rating agency entity providing rating]* is established in the UK and is registered under Regulation (EC) No. 1060/2009 (as amended) as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").]

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

*[Insert legal name of relevant credit rating agency entity providing rating]* is not established in the UK but the rating it has given to the Notes is endorsed by *[insert legal name of credit rating agency]*, which is established in the UK and registered under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").]

*[Insert legal name of relevant credit rating agency entity providing rating]* is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the "**EU CRA Regulation**").

*[Insert legal name of relevant credit rating agency entity providing rating]* is not established in the UK but is certified under Regulation (EC) No 1060/2009 as it forms part of

domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").] [*Insert legal name of relevant credit rating agency entity providing rating*] is not established in the EU and is not certified under Regulation (EC) No 1060/2009 (the "**EU CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency under Regulation (EC) No 1060/2009 (the "**EU CRA Regulation**").

[*Insert legal name of relevant credit rating agency entity providing rating*] is not established in the UK and is not certified under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency under Regulation (EC) No 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**").]

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

### **3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

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

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

### **4 YIELD (Fixed Rate Notes and Reset Notes only)**

Indication of yield:

[ ] per cent. per annum.

The yield is calculated at the Issue Date on the basis of the Issue Price [and based on the period up to (but excluding) the First Reset Date]. It is not an indication of future yield.

### **5 HISTORIC INTEREST RATES (Floating Rate Notes only)**

Details of historic [EURIBOR/SONIA/SOFR/€STR/NIBOR/STIBOR/REIBOR/CIBOR] rates can be obtained from [Reuters].

### **6 OPERATIONAL INFORMATION**

(i) ISIN: [ ]

(ii) Common Code: [ ]

(iii) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and [Not Applicable/give name(s) and number(s)]

the relevant identification number(s):

- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (vi) [Intended to be held in a manner which would allow Eurosystem eligibility:] [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/
- [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 7 DISTRIBUTION

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

## 8 REASON FOR THE OFFER AND ESTIMATED NET PROCEEDS

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

[Sustainable Finance Instrument: The Bank intends to apply an amount equal to the net proceeds from this offer of Notes 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

Bank's applicable Sustainable Finance Framework. See "Use of Proceeds" in the Base Prospectus and the Bank's Sustainable Finance Framework, available at the Bank's website.]

[*specify other*]

(ii) Estimated net proceeds: [●]

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Bank and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

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

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

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

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement dated 27 August 2014 as amended by an amended and restated agency agreement dated 6 April 2017 (such Agency Agreement as amended and restated on 30 May 2018 and as further amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") and made between the Bank and Citibank, N.A. London Branch as fiscal agent (the "**Fiscal Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the "**Conditions**"). References to the "**applicable Final Terms**" are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129 of the European Parliament and of the Council.

Interest bearing definitive Notes have interest coupons ("**Coupons**") and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean the holders of the Notes and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to "**Couponholders**" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

The Noteholders and the Couponholders have the benefit of a Deed of Covenant (such Deed of Covenant as amended and/or supplemented and/or restated from time to time, the "**Deed of Covenant**") dated 6 April 2018 and made by the Bank. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

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

Copies of the applicable Final Terms can be obtained during normal business hours, free of charge, at the registered office of the Bank and at the specified office of each of the Paying Agents, save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation, the applicable Final Terms can only be obtained by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Bank or, as the case may be, the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

## **1 FORM, DENOMINATION AND TITLE**

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

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

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

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Bank and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Bank and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Bank and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.



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

## **2 STATUS OF THE NOTES**

### **2.1 Status of the Senior Preferred Notes**

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

- (a) The Notes and any relative Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* without any preference among themselves.
- (b) In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Bank, the rights of the Noteholders to payments on or in respect of the Notes shall rank:
  - (i) (subject to such mandatory exceptions as are from time to time applicable under Icelandic law) at least *pari passu* with all other unsecured obligations (other than subordinated obligations, if any) of the Bank from time to time outstanding;
  - (ii) senior to any Senior Non-Preferred Liabilities of the Bank; and
  - (iii) junior to present or future claims of depositors of the Bank.

### **2.2 Status of the Senior Non-Preferred Notes**

This Condition 2.2 applies only to Senior Non-Preferred Notes and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

- (a) The Notes and any relative Coupons are direct, unconditional and unsecured obligations of the Bank and rank *pari passu* without any preference among themselves. The Notes are subordinated as described in Condition 2.2(b).
- (b) In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Bank, the rights of the Noteholders to payments on or in respect of the Notes shall rank:
  - (i) *pari passu* without preference among themselves;
  - (ii) *pari passu* with all other Senior Non-Preferred Liabilities of the Bank;
  - (iii) senior to holders of all classes of share capital of the Bank and any subordinated obligations or other securities of the Bank which rank, or are expressed to rank, junior to the Senior Non-Preferred Liabilities of the Bank (including, without limitation, any Subordinated Notes); and
  - (iv) junior to present or future claims of (a) depositors of the Bank and (b) other unsubordinated creditors of the Bank.

### **2.3 Status of the Subordinated Notes**

This Condition 2.3 applies only to Subordinated Notes and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

- (a) The Notes and any relative Coupons are subordinated and unsecured obligations of the Bank and rank *pari passu* without any preference among themselves. The Notes are subordinated as described in Condition 2.3(b).
- (b) In the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Bank, the rights of the Noteholders to payments on or in respect of the Notes shall rank:

- (i) *pari passu without preference among themselves;*
- (ii) *pari passu with present or future claims in respect of Parity Securities;*
- (iii) *in priority to any present or future claims in respect of Junior Securities; and*
- (iv) *junior to any present or future claims of Senior Creditors.*

## 2.4 Definitions

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

**"Applicable MREL Regulations"** means, at any time, the laws, regulations, requirements, guidelines and policies then in effect in Iceland and applicable to the Bank and/or the Group giving effect to any MREL Requirement or any successor regulations then applicable to the Bank and/or the Group, as the case may be, including, without limitation to the generality of the foregoing, CRD and the BRRD (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank and/or the Group, as the case may be);

**"BRRD"** means Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as the same may be amended or replaced from time to time;

**"CRD"** means the legislative package consisting of the CRD Directive and CRR and any CRD Implementing Measures;

**"CRD Directive"** means Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as the same may be amended or replaced from time to time;

**"CRD Implementing Measures"** means any regulatory capital rules or regulations, or other requirements, which are applicable to the Bank and/or the Group, as the case may be, and which prescribe (alone or in conjunction with any other rules or regulations) the requirements to be fulfilled by financial instruments for their inclusion in the regulatory capital of the Bank and/or the Group, as the case may be, (on a non-consolidated or consolidated basis) to the extent required by the CRD Directive or the CRR, including for the avoidance of doubt any regulatory technical standards released by the European Banking Authority (or any successor or replacement thereof);

**"CRR"** means Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as the same may be amended or replaced from time to time);

**"FSA"** means the Financial Supervisory Authority of the Central Bank of Iceland or such other agency of Iceland which assumes or performs the functions which are performed by such authority;

**"Hierarchy of Claims Act"** means Act No. 38/2021, which amended Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms, and was passed by the Icelandic Parliament on 4 May 2021 and subsequently enacted into law;

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

**"MREL Requirement"** means the minimum requirement for own funds and eligible liabilities which is or, as the case may be, will be applicable to the Bank and/or the Group, as the case may be;

**"Parity Securities"** means any present or future instruments issued by the Bank which were eligible to be recognised as Tier 2 Capital at the time of issue by the Relevant Regulator, any guarantee, indemnity or other contractual support arrangement entered into by the Bank in respect of securities (regardless of name or designation) issued by a Subsidiary of the Bank which were eligible to be

recognised as Tier 2 Capital and any instruments issued, and subordinated guarantees, indemnities or other contractual support arrangements entered into by the Bank which rank, or are expressed to rank, *pari passu* therewith, but, in each case, excluding Junior Securities;

**"Relevant Regulator"** means (to the extent applicable to the relevant Notes at the relevant time) (i) (in respect of the Subordinated Notes) the FSA and (ii) (in respect of the Senior Preferred Notes and the Senior Non-Preferred Notes) the Relevant Resolution Authority and/or such other authority tasked with matters relating to the qualification of securities of the Bank and/or the Group, as the case may be, under the Applicable MREL Regulations;

**"Senior Creditors"** means (a) the depositors of the Bank; (b) other unsubordinated creditors of the Bank; and (c) subordinated creditors of the Bank in respect of any present or future obligation of the Bank which by its terms is, or is expressed to be, subordinated in the event of liquidation, dissolution, winding-up of, or analogous proceedings over the Bank, by way of exercise of public authority, to the claims of depositors and all other unsubordinated creditors of the Bank, but which rank or are expressed to rank senior to Parity Securities and Junior Securities (including, without limitation, creditors in respect of Senior Non-Preferred Liabilities of the Bank);

**"Senior Non-Preferred Liabilities"** means liabilities having Senior Non-Preferred Ranking;

**"Senior Non-Preferred Notes"** means Notes where the Status of the Notes is specified in the applicable Final Terms as "Senior Non-Preferred";

**"Senior Non-Preferred Ranking"** means the ranking for senior non-preferred notes or senior non-preferred debt instruments as described in Article 85 (a) of Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms, as amended by the Hierarchy of Claims Act, that expressly provides that upon the insolvency of a financial institution regulated under Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms that such senior non-preferred notes or senior non-preferred debt instruments will rank below other unsubordinated and unsecured liabilities with higher priority ranking of the financial institution; and in addition, with respect to Senior Non-Preferred Liabilities that constitute Senior Non-Preferred Notes, the ranking set forth in Condition 2.2;

**"Senior Preferred Notes"** means Notes where the Status of the Notes is specified in the applicable Final Terms as "Senior Preferred";

**"Subordinated Notes"** means Notes where the Status of the Notes is specified in the applicable Final Terms as "Subordinated"; and

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

## 2.5 Set-Off

This Condition 2.5 applies only to Senior Preferred Notes where Unrestricted Events of Default is specified as being not applicable, Senior Non-Preferred Notes and Subordinated Notes and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

Subject to applicable law, no claims in respect of any Note held by a Noteholder may be set-off, or be the subject of a counterclaim, by the relevant Noteholder against or in respect of any of its obligations to the Bank or any other person and each Noteholder waives, and shall be treated for all purposes as if it had waived, any right that it might otherwise have to set-off, or to raise by way of counterclaim, any of its claims in respect of any Note, against or in respect of any of its obligations to the Bank or any other person. If, notwithstanding the preceding sentence, any Noteholder receives or recovers any sum or the benefit of any sum in respect of such Note by virtue of such set-off or counterclaim, it shall hold the same on trust for the Bank and shall pay

the amount thereof to the Bank or, in the event of the liquidation or insolvency (in Icelandic: *slit eða gjaldþrot*) of the Bank, to the liquidator of the Bank, to be held on trust for the Senior Creditors.

### 3 INTEREST

#### 3.1 Interest on Fixed Rate Notes

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

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

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

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

- (a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note; or
- (b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

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

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 3.1:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
  - (v) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (vi) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the

number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

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

(c) In the Conditions:

**"Determination Period"** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**"sub-unit"** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

### 3.2 Interest on Floating Rate Notes

#### (a) Interest Payment Dates

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

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

Such interest will be payable in respect of each Interest Period. In the Conditions, **"Interest Period"** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 3.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each

subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open.

(b) **Rate of Interest**

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

(i) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent under an interest rate swap transaction if the Fiscal Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **"Floating Rate"**, **"Calculation Agent"**, **"Floating Rate Option"**, **"Designated Maturity"** and **"Reset Date"** have the meanings given to those terms in the ISDA Definitions.

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

- (ii) Screen Rate Determination for Floating Rate Notes (other than Floating Rate Notes which reference SONIA, SOFR or €STR)

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 or €STR, 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 Fiscal Agent shall request each of the Reference Banks to provide the Fiscal Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Fiscal Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Fiscal Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the

rates, as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (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 Fiscal Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Fiscal Agent it is quoting to leading banks in the 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 Fiscal Agent in consultation with the Issuer.

- (iii) Screen Rate Determination for Floating Rate Notes which reference SONIA, SOFR or €STR
  - a. 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 or €STR:



- (A) where the Calculation Method in respect of the relevant Series of Notes is specified in the relevant Final Terms as being "**Compounded Daily**", the Rate of Interest applicable to the Notes for each Interest Period will (subject to Condition 3.5 (*Interest - Benchmark discontinuation*) and Condition 3.2(c) (*Interest on Floating Rate Notes – 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 Notes is specified in the relevant Final Terms as being "**Weighted Average**", the Rate of Interest applicable to the Notes for each Interest Period will (subject to Condition 3.5 (*Interest - Benchmark discontinuation*) and Condition 3.2(c) (*Interest on Floating Rate Notes – 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.
- b. Where "**SONIA**" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 3.5 (*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 3.5 (*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 Notes, for so

long as the SONIA rate is not available or has not been published by the authorised distributors.

- c. Where "**SOFR**" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 3.5 (*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).
- d. where "**€STR**" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 3.5 (*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).
- e. 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 3.5 (*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 Notes, the initial Rate of Interest which would have been applicable to such Series of Notes for the first Interest Period had the Notes 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 Notes, the Rate of Interest which applied to the immediately preceding Interest Period.
- f. If the relevant Series of Notes becomes due and payable in accordance with Condition 8 (*Events of Default and Enforcement Events*), the last Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the relevant Final Terms, be deemed to be the date on which such Notes became due and payable and the Rate of Interest on such Notes shall, for so long as any such Note remains outstanding, be that determined on such date.
- g. For the purposes of this Condition 3.2(b)(iii) (*Interest on Floating Rate Notes - Rate of Interest - Screen Rate Determination for Floating Rate Notes which reference SONIA, SOFR or €STR*):

If "**Payment Delay**" is specified in the relevant Final Terms as being applicable, all references in these Conditions to interest on the Notes being payable on an Interest Payment Date shall be read as reference to interest on the Notes 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; and (iii) where **"€STR"** is specified as the Reference Rate, a day on which the TARGET2 System is open;

**"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<sub>o</sub>"** 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;

**"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<sub>i</sub>"**, 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 Notes 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 **"SONIA"** is specified as the Reference Rate and **"Lock-out"** is specified as the Observation Method:

- (i) 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
  - (ii) 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);
- (E) where in the relevant Final Terms "**SOFR**" is specified as the Reference Rate and "**Lock-out**" is specified as the Observation Method:
  - (i) 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
  - (ii) 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);
- (F) where in the relevant Final Terms "**€STR**" is specified as the Reference Rate and "**Lock-out**" is specified as the Observation Method:
  - (i) 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
  - (ii) 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);
- (G) 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;
- (H) 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
- (I) 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;

**"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;

**" $r_{i-pBD}$ "** 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.

- (iv) **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 Notes 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 3.2(b)(iii) (*Interest on Floating Rate Notes – Rate of Interest – Screen Rate Determination for Floating Rate Notes which reference SONIA, SOFR or €STR*) 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 3.5 (*Interest – Benchmark Discontinuation*) shall apply *mutatis mutandis* in respect of this Condition 3.2(b)(iv) or if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of SOFR, the provisions of Condition 3.6 (*Interest – Effect of Benchmark Transition Event*) shall apply *mutatis mutandis* in respect of this Condition 3.2(b)(iv), as applicable.

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

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

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



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

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

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

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

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

**"Day Count Fraction"** means, in respect of the calculation of an amount of interest in accordance with this Condition 3.2:

- (a) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (d) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (e) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

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

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

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

(e) **Linear Interpolation**

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

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

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

The Fiscal Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Bank and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 12. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3.2 by the Fiscal Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Fiscal Agent, the other Paying Agents and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Bank, the Noteholders or the Couponholders shall attach to the Fiscal Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### 3.3 Interest on Reset Notes

(a) **Rate of Interest**

Each Reset Note bears interest:

- (i) from (and including) the Interest Commencement Date to (but excluding) the First Reset Date (the "**Initial Period**"), at the Initial Rate of Interest;
- (ii) for the First Reset Period, at the First Reset Rate of Interest; and
- (iii) for each Subsequent Reset Period thereafter (if any) to (but excluding) the Maturity Date, at the relevant Subsequent Reset Rate of Interest.

Interest will be payable, in each case, in arrear on the Interest Payment Date(s) in each year specified in the applicable Final Terms up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of each Interest Period falling in the Initial Period will amount to the Fixed Coupon Amount. Payments of interest on the first Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount(s) so specified.

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

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

- (i) in the case of Reset Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (ii) in the case of Reset Notes in definitive form, the Calculation Amount;

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

(b) **Fallbacks**

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

- (i) the Fiscal Agent shall request each of the Reset Reference Banks to provide the Fiscal Agent, with its Mid-Market Swap Rate Quotation as at approximately the Relevant Time on the Reset Determination Date in question;
- (ii) if at least four of the Reset Reference Banks provide the Fiscal Agent with the Mid-Market Swap Rate Quotations, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the arithmetic mean (rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards)) of the relevant quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and

the lowest quotation (or, in the event of equality, one of the lowest) and (B) the Relevant Reset Margin, all as determined by the Fiscal Agent;

- (iii) if only two or three relevant quotations are provided, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the arithmetic mean (rounded as aforesaid) of the relevant quotations provided and (B) the Relevant Reset Margin, all as determined by the Fiscal Agent;
- (iv) if only one relevant quotation is provided, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) for the relevant Reset Period will be equal to the sum of (A) the relevant quotation provided and (B) the Relevant Reset Margin, all as determined by the Fiscal Agent;
- (v) if none of the Reset Reference Banks provides the Fiscal Agent with a Mid-Market Swap Rate Quotation as provided in the foregoing provisions of this Condition 3.3, the First Reset Rate of Interest or the Subsequent Reset Rate of Interest (as applicable) will be either:
  - (A) the rate determined on the previous Reset Determination Date (if any); or
  - (B) if there is no such previous Reset Determination Date, the Mid-Swap Rate which last appeared on the Relevant Screen Page, in each case, substituting where a different margin is to be applied to a relevant Interest Period from that which applied

as specified in the applicable Final Terms.

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

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

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

In respect of a Reset Period, the Fiscal Agent will cause the relevant Rate of Interest in respect of such Reset Period and each Reset Notes Interest Amount for each Interest Period falling in such Reset Period to be notified to the Issuer and any stock exchange or other relevant authority on which the relevant Reset Notes are for the time being listed or by which they have been admitted to listing and notice thereof to be published in accordance with Condition 12 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined in Condition 3.2(f)) thereafter. Each Reset Notes Interest Amount so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Reset Notes are for the time being listed or by which they have been admitted to listing and to the Noteholders in accordance with Condition 12.

For the purposes of the Conditions:

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

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

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

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

**"First Reset Rate of Interest"** means, in respect of the First Reset Period and subject to Condition 3.3(b), 3.3(c) and 3.5, the rate of interest determined by the Fiscal Agent on the relevant Reset Determination Date as the sum of the relevant Mid-Swap Rate and the First Reset Margin or the sum, converted (if not already on the same basis) from a basis equivalent to the Reference Bond Yield to a basis equivalent to the frequency with which scheduled interest payments are payable on the Notes during the relevant Reset Period (such calculation to be determined by the Issuer in conjunction with an investment bank of international repute selected by it), of (A) the Reference Bond Yield (assuming a price for such Reference Bond (expressed as a percentage of its nominal amount) equal to the relevant Reference Bond Price)) and (B) the First Reset Margin;

**"Independent Adviser"** means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense under Condition 3.5;

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

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

**"Mid-Market Swap Rate"** means for any Reset Period the arithmetic mean of the bid and offered rates for the fixed leg payable with a frequency equivalent to the Original Mid-Swap Rate Basis (calculated on the day count basis customary for fixed rate payments in the Specified Currency as determined by the Fiscal Agent) of a fixed-for-floating interest rate swap transaction in the Specified Currency which transaction (i) has a term equal to the relevant Reset Period and commencing on the relevant Reset Date, (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market and (iii) has a floating leg based on the Mid-Swap Floating Leg Benchmark Rate for the Mid-Swap Floating Leg Maturity (as specified in the applicable Final Terms) (calculated on the day count basis customary for floating rate payments in the Specified Currency as determined by the Fiscal Agent). If a Mid-Swap Floating Leg Benchmark Rate cannot be obtained because of the occurrence of a Benchmark Event (as defined in Condition 3.5), such rate shall be calculated in accordance with the terms of Condition 3.5;

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

**"Mid-Swap Floating Leg Benchmark Rate"** means the reference rate specified as such in the relevant Final Terms;

**"Mid-Swap Rate"** means, in relation to a Reset Determination Date and subject to Conditions 3.3(b) and 3.5, either:

- (i) if "Single Mid-Swap Rate" is specified in the applicable Final Terms, the rate for swaps in the Specified Currency:
  - (A) with a term equal to the relevant Reset Period; and
  - (B) commencing on the relevant Reset Date, which appears on the Relevant Screen Page; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3.4 Accrual of interest

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

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



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

### **3.5 Benchmark discontinuation**

Notwithstanding any other provision of Conditions 3.2 and 3.3, where the Original Reference Rate or Mid-Swap Floating Leg Benchmark Rate, as the case may be, applicable to the Notes is not SOFR, if a Benchmark Event occurs in relation to an Original Reference Rate by reference to which any amount payable under the Notes remains to be determined, then the following provisions of this Condition 3.5 shall apply.

#### **(a) Independent Adviser**

The Issuer shall use its reasonable endeavours to appoint and consult with an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 3.5(b) and, in either case, an Adjustment Spread if any (in accordance with Condition 3.5 (c)) and any Benchmark Amendments (in accordance with Condition 3.3(d)).

An Independent Adviser appointed pursuant to this Condition 3.5 shall act in good faith as an expert and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Fiscal Agent, the Paying Agents or the Noteholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 3.5.

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

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

- (i) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 3.5(c)) subsequently be used in place of the Original Reference Rate to determine any relevant amount(s) payable under the Notes (subject to the further operation of this Condition 3.5); or
- (ii) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 3.5(c)) subsequently be used in place of the Original Reference Rate to determine the any relevant amount(s) payable under the Notes (subject to the further operation of this Condition 3.5).

#### **(c) Adjustment Spread**

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

#### **(d) Benchmark Amendments**

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 3.5 and the Issuer, following consultation with the Independent Adviser and acting in good faith, determines (A) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (B) the terms of the

Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 3.5(e), without any requirement for the consent or approval of Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such variation in accordance with this Condition 3.5(d), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

**(e) Notices, etc.**

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 3.5 will be notified promptly by the Issuer to the Fiscal Agent, the Paying Agents and, in accordance with Condition 12, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

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

- (i) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate and, (c) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 3.5;
- (ii) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread; and
- (iii) certifying that (i) the Issuer has duly consulted with an Independent Adviser with respect to each of the matters above or, if that is not the case, (ii) explaining, in reasonable detail, why the Issuer not done so.

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

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

Without prejudice to the obligations of the Issuer under Conditions 3.5(a), Condition 3.5(b), 3.5(c) and 3.5(d), the Original Reference Rate and the fallback provisions provided for in Conditions 3.2(b)(i) and 3.2(b)(ii) will continue to apply unless and until the Fiscal Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with Condition 3.5(c) and (d). Further, notwithstanding any other provision of this Condition 3.5, no successor, replacement or alternative benchmark or screen rate will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made if and to the extent that:

- (i) in the determination of the Issuer, the same could reasonably be expected to prejudice the qualification of the relevant Series of Notes as Tier 2 Capital of the Bank and/or the Group; or
- (ii) the Relevant Resolution Authority treats the next Interest Payment Date as the effective maturity of the Senior Preferred Notes and Senior Non-Preferred Notes

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 3.5 has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Notes.

**"Benchmark Amendments"** has the meaning given to it in Condition 3.5(d).

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

- (i) the Original Reference Rate ceasing to exist or be published; or
- (ii) the later of (a) the making of a public statement by the administrator of the Original Reference Rate that it will, by a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and (b) the date falling six months prior to the date specified in (ii)(a); or
- (iii) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been permanently or indefinitely discontinued; or
- (iv) the later of (a) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will, by a specified date, be permanently or indefinitely discontinued and (b) the date falling six months prior to the date specified in (iv)(a); or
- (v) a public statement by the supervisor of the administrator of the Original Reference Rate that means the Original Reference Rate will be prohibited from being used (or that its use will be subject to restrictions or adverse consequences), in each case within the following six months; or

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

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 Notes of that Series. To the extent that a Successor Rate is determined to be used in respect of a Series, such Successor Rate shall be an "Original Reference Rate" for that Series during the period in which it is used.

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

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

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

### 3.6 Effect of Benchmark Transition Event

Where the Original Reference Rate or Mid-Swap Floating Leg Benchmark Rate applicable to the Notes is SOFR, in addition and notwithstanding the provisions above in Condition 3.2 (*Interest on Floating Rate Notes*), Condition 3.3 (*Interest on Reset Notes*) and Conditions 3.5 (*Benchmark discontinuation*), as applicable, this Condition 3.6 (*Effect of Benchmark Transition Event*) shall apply.

- (i) **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 Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

- (ii) **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.
- (iii) **Decisions and Determinations:** Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 3.6 (*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 Notes, 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 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 3.6 (*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 case of Senior Preferred Notes or Senior Non-Preferred Notes) the qualification of the Notes as MREL Eligible Liabilities or result in the Relevant Regulator treating the next Interest Payment Date as the effective maturity of the Notes, rather than the relevant Maturity Date or (in the case of Subordinated Notes) the qualification of the Notes as Tier 2 Capital.

In the event that the Rate of Interest for the relevant Interest Period or Reset Period, as applicable, cannot be determined in accordance with the foregoing provisions by the Issuer or its designee, the Rate of Interest for such Interest Period or Reset Period, as applicable, shall be (i) that determined as at the immediately preceding Interest Determination Date or Reset Determination Date, as applicable, (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 or Reset Period, as applicable, 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 Reset Period, as applicable), or (ii) if there is no such preceding Interest Determination Date and the relevant Interest Period is the first Interest Period for the Notes, the initial Rate of Interest which would have been applicable to such Series of Notes for the first Interest Period had the Notes 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 Notes, the Rate of Interest which applied to the immediately preceding Interest Period, or (iv) if there is no such preceding Reset Determination Date, the Initial Rate of Interest.

For the purposes of this Condition 3.6 (*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 clause (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 Notes 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;

**"MREL Eligible Liabilities"** means "eligible liabilities" (or any equivalent or successor term) which are available to meet any MREL Requirement (however called or defined by the Applicable MREL Regulations) of the Bank and/or the Group, as the case may be, under the Applicable MREL Regulations;

**"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.

## **4 PAYMENTS**

### **4.1 Method of payment**

Subject as provided below:

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

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

### **4.2 Presentation of definitive Notes and Coupons**

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 4.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all

unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Reset Note or Long Maturity Note in definitive form becomes due and repayable, unmaturing Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

#### **4.3 Payments in respect of Global Notes**

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

#### **4.4 General provisions applicable to payments**

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

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

- (a) the Bank has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (c) such payment is then permitted under United States law without involving, in the opinion of the Bank, adverse tax consequences to the Bank.

#### **4.5 Payment Day**

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Notes in definitive form only, the relevant place of presentation;
  - (ii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

#### **4.6 Interpretation of principal and interest**

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

- (a) any additional amounts which may be payable with respect to principal under Condition 6;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 5.5); and
- (f) any premium and any other amounts (other than interest) which may be payable by the Bank under or in respect of the Notes.

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

### **5 REDEMPTION AND PURCHASE**

#### **5.1 Redemption at maturity**

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

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

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

## **5.2 Redemption for tax reasons**

Subject to Conditions 5.5 and (in the case of Senior Preferred Notes where Unrestricted Events of Default is specified as being not applicable, Senior Non-Preferred Notes or Subordinated Notes only) 5.11, the Notes may be redeemed at the option of the Bank in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 and not more than 60 days' notice to the Fiscal Agent and in accordance with Condition 12, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes
  - (i) the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 6; or
  - (ii) in the case of Subordinated Notes only, the Bank would not be entitled to claim a tax deduction in computing its taxation liabilities in any Tax Jurisdiction (as defined in Condition 6) in respect of such payment of interest to be made on the Notes on the occasion of the next payment due under the Subordinated Notes (or the amount of such deduction would be materially reduced),

in each case, as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 6) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and

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

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

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

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

## **5.3 Redemption upon a Capital Event – Subordinated Notes**

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

Subject to the provisions of Condition 5.11, the Notes may, save as provided below, be redeemed at the option of the Bank, in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on

any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent and, in accordance with Condition 12, the Noteholders, if a Capital Event occurs.

Prior to the publication of any notice of redemption pursuant to this Condition, the Bank shall deliver to the Fiscal Agent, a certificate signed by two directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred.

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

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

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

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

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

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

### **5.3A Redemption upon a MREL Disqualification Event – Senior Preferred Notes and Senior Non-Preferred Notes**

This Condition 5.3A applies only to Senior Preferred Notes where Unrestricted Events of Default is specified as being not applicable and Senior Non-Preferred Notes in relation to which this Condition 5.3A is specified as being applicable in the applicable Final Terms, and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

Subject to the provisions of Condition 5.11, the Notes may, save as provided below, be redeemed at the option of the Bank, in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent and, in accordance with Condition 12, the Noteholders, if a MREL Disqualification Event occurs.

Prior to the publication of any notice of redemption pursuant to this Condition, the Bank shall deliver to the Fiscal Agent, a certificate signed by two directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred.

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

In the Conditions, "**MREL Disqualification Event**" means the determination by the Bank that, as a result of a change in any Applicable MREL Regulations becoming effective on or after the Issue Date of the last Tranche of the Notes, the Notes will be fully excluded or partially excluded from the "eligible liabilities" (or any equivalent or successor term) available to meet any MREL Requirement (however called or defined by then Applicable MREL Regulations) if the Bank and/or the Group is then or, as the case may be, will be subject to such MREL Requirement; provided that a MREL Disqualification Event shall not occur where such exclusion is or will be caused by (i) the remaining maturity of the Notes being less than any period prescribed by any applicable eligibility criteria under the Applicable MREL Regulations, (ii) the Notes being bought back by or on behalf of the Bank or (iii) any applicable limits on the amount of "eligible liabilities" (or any equivalent or successor term) permitted or allowed to meet any MREL Requirement(s) being exceeded.

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

Subject, in the case of Senior Preferred Notes where Unrestricted Events of Default is specified as being not applicable, Senior Non-Preferred Notes or Subordinated Notes, to the provisions of Condition 5.11, if Issuer Call is specified as being applicable in the applicable Final Terms, the Bank may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption.

#### 5.5 Early Redemption Amounts

For the purpose of Condition 5.2, Condition 5.3, Condition 5.3A and Condition 8, each Note will be redeemed at an amount (the "**Early Redemption Amount**") calculated as follows:

- (a) in the case of a Note (other than a Zero Coupon Note), at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified therein, at the Final Redemption Amount;
- (b) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

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

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

- <sup>y</sup> is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

## **5.6 Clean-Up Redemption Option**

- (a) Subject to the provisions of Condition 5.11, if a Clean-up Redemption Option is specified as applicable in the relevant Final Terms, and if 80 per cent. or any higher percentage specified in the relevant Final Terms (the "**Clean-up Percentage**") of the initial aggregate nominal amount of Notes (which for the avoidance of doubt includes, any additional Notes issued subsequently and forming a single series with the first Tranche of a particular Series of Notes) have been redeemed or purchased by, or on behalf of, the Bank or any of its subsidiaries and, in each case, cancelled, the Bank may, at its option, on giving not less than fifteen (15) nor more than thirty (30) calendar days' irrevocable notice to the holders of such Note in accordance with Condition 12 (or such other notice period as may be specified in the relevant Final Terms) redeem the outstanding Notes, in whole but not in part, at the Optional Redemption Amount(s), specified in the applicable Final Terms (together with any interest accrued thereon but unpaid to the date set for redemption) on any Optional Clean-up Redemption Date as specified in the relevant Final Terms.

## **5.7 Purchases**

Subject to the provisions of Condition 5.11, the Bank or any Subsidiary of the Bank may purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Bank, surrendered to any Paying Agent for cancellation.

## **5.8 Cancellation**

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

## **5.9 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 5.1, 5.2, 5.3 or 5.3A above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 5.5(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

#### **5.10 Substitution or Variation – Subordinated Notes**

This Condition 5.10 applies only to Subordinated Notes and "Notes" and "Noteholders" in this Condition shall be construed accordingly.

If Condition 5.10 is specified as being applicable in the applicable Final Terms, and at any time a Capital Event (to the extent Condition 5.3 is specified as applicable in the applicable Final Terms) or a Tax Event occurs, or in order to ensure the effectiveness and enforceability of Condition 17, subject to the provisions of Condition 5.11, the Bank may, having given not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent, in accordance with Condition 12, the Noteholders, either substitute all, but not some only, of the Notes for, or vary the terms of the Notes so that they remain, or, as appropriate, become, Qualifying Securities, provided that such substitution or variation does not itself give rise to any right of the Bank to redeem the substituted or varied securities that are inconsistent with the redemption provisions of the Notes.

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

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

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

- (a) have terms (other than in respect of the effectiveness and enforceability of Condition 17) not materially less favourable to the Noteholders as a class than the terms of the Notes (as reasonably determined by the Bank) and, subject thereto, they shall (i) have a ranking at least equal to that of the Notes prior to the relevant substitution or variation, as the case may be; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes prior to the relevant substitution or variation, as the case may be; (iii) have the same redemption rights as the Notes prior to the relevant substitution or variation, as the case may be; (iv) comply with the then current requirements of the FSA in relation to Tier 2 Capital; (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date, and (vi) where Notes which have been substituted or varied had a published and solicited rating from a Rating Agency immediately prior to such substitution or variation, each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published and solicited rating to the relevant Qualifying Securities; and
- (b) are listed on a recognised stock exchange, if the Notes were listed immediately prior to such substitution or variation, as selected by the Bank; and

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



### 5.10A Substitution or Variation – Senior Preferred Notes and Senior Non-Preferred Notes

This Condition 5.10A applies only to Senior Preferred Notes where Unrestricted Events of Default is specified as being not applicable and Senior Non-Preferred Notes and "Notes" and "Noteholders" in this Condition shall be construed accordingly.

If Condition 5.10A is specified as being applicable in the applicable Final Terms and at any time a MREL Disqualification Event (to the extent Condition 5.3A is specified as applicable in the applicable Final Terms) or a Tax Event occurs, or in order to ensure the effectiveness and enforceability of Condition 17, subject to the provisions of Condition 5.11, the Bank may, having given not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) to the Fiscal Agent and, in accordance with Condition 12, the Noteholders, either substitute all, but not some only, of the Notes for, or vary the terms of the Notes so that they remain, or, as appropriate, become, in the case of Senior Preferred Notes, Senior Preferred Qualifying Securities (as defined below), or, in the case of Senior Non-Preferred Notes, Senior Non-Preferred Qualifying Securities (as defined below), as the case may be.

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

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

**"Senior Non-Preferred Qualifying Securities"** means securities issued directly or indirectly by the Bank that:

- (a) have terms (other than in respect of the effectiveness and enforceability of Condition 17) not materially less favourable to the Noteholders as a class than the terms of the Notes (as reasonably determined by the Bank) and, subject thereto, they shall (i) have a ranking at least equal to that of the Notes prior to the relevant substitution or variation, as the case may be; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes prior to the relevant substitution or variation, as the case may be; (iii) have the same redemption rights as the Notes prior to the relevant substitution or variation, as the case may be; (iv) comply with the then current requirements in relation to "eligible liabilities" (or any equivalent successor term) provided for in the Applicable MREL Regulations; (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date, and (vi) where Notes which have been substituted or varied had a published and solicited rating from a Rating Agency immediately prior to such substitution or variation, each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published and solicited rating to the relevant Senior Non-Preferred Qualifying Securities; and
- (b) are listed on a recognised stock exchange, if the Notes were listed immediately prior to such substitution or variation, as selected by the Bank; and

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

- (a) have terms (other than in respect of the effectiveness and enforceability of Condition 17) not materially less favourable to the Noteholders as a class than the terms of the Notes (as reasonably determined by the Bank) and, subject thereto, they shall (i) have a ranking at least equal to that of the Notes prior to the relevant substitution or variation, as the case may be; (ii) have the same

interest rate and the same Interest Payment Dates as those from time to time applying to the Notes prior to the relevant substitution or variation, as the case may be; (iii) have the same redemption rights as the Notes prior to the relevant substitution or variation, as the case may be; (iv) comply with the then current requirements in relation to "eligible liabilities" (or any equivalent or successor term) provided for in the Applicable MREL Regulations; (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date, and (vi) where Notes which have been substituted or varied had a published and solicited rating from a Rating Agency immediately prior to such substitution or variation, each such Rating Agency has ascribed, or announced its intention to ascribe, an equal or higher published and solicited rating to the relevant Senior Preferred Qualifying Securities; and

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

#### **5.11 Consent of the Relevant Regulator**

In the case of Subordinated Notes, no early redemption in any circumstances, purchase under Condition 5.7 or substitution or variation under Condition 5.10, shall take place without the prior written consent of the Relevant Regulator (if, and to the extent then required under Applicable Banking Regulations or Applicable MREL Regulations, by the Relevant Regulator). For the avoidance of doubt, redemption of Subordinated Notes under Condition 5.1 shall not require the consent of the Relevant Regulator.

In the case of Senior Preferred Notes (where Unrestricted Events of Default is specified as being not applicable) and Senior Non-Preferred Notes, no early redemption in any circumstances, purchase under Condition 5.7 or substitution or variation under Condition 5.10A, shall take place without the prior written consent of the Relevant Regulator (if and to the extent then allowed under the Applicable MREL Regulations). For the avoidance of doubt, redemption of Senior Preferred Notes and Senior Non-Preferred Notes under Condition 5.1 shall not require the consent of the Relevant Regulator.

### **6 TAXATION**

All payments of principal and interest in respect of the Notes and Coupons by or on behalf of the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Bank will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

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

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

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

As used herein:

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

Notwithstanding the foregoing, the payment of any additional amounts by the Issuer will be limited to payments of interest only.

## **7 PRESCRIPTION**

The Notes and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 6) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 4.2 or any Talon which would be void pursuant to Condition 4.2.

## **8 EVENTS OF DEFAULT AND ENFORCEMENT EVENTS**

### **8.1 Events of Default relating to Senior Preferred Notes, where applicable**

This Condition 8.1 shall apply only to Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms and references to "Notes" and "Noteholders" in this Condition 8.1 shall be construed accordingly. If any one or more of the following events (each an **"Event of Default"**) shall occur and be continuing:

- (a) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and 10 days in the case of interest; or
- (b) if the Bank fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Bank of notice requiring the same to be remedied; or
- (c) if (i) any Financial Indebtedness (as defined below) of the Bank or any of its Principal Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Bank or any of its Principal Subsidiaries fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any originally applicable grace period; (iii) any security given by the Bank or any of its Principal Subsidiaries for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Bank or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Financial Indebtedness of any other person, provided that the aggregate nominal amount of any such Financial Indebtedness of the Bank or such Principal Subsidiary in the case of (i), (ii) and/or (iii) above, and/or amount of Financial Indebtedness in relation to which

such guarantee and/or indemnity of the Bank or such Principal Subsidiary has been given in the case of (iv) above, is at least €25,000,000 (or its equivalent in any other currency);

- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Bank or any of its Principal Subsidiaries, save for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the Principal Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent); or
- (e) if the Bank or any of its Principal Subsidiaries ceases or threatens to cease to carry on (in the case of the Bank) the whole or a substantial part of its business or (in the case of a Principal Subsidiary) the whole or substantially the whole of its business, (save in each case for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the Principal Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent) or the Bank or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (A) proceedings are initiated against the Bank or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Bank or any of its Principal Subsidiaries or, as the case may be, in relation to all or substantially all of the undertaking or assets of any of them, or an encumbrance takes possession of all or substantially all of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- (g) if the Bank or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

then any holder of a Note may, by written notice to the Bank at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of the Conditions:

**"Financial Indebtedness"** means any indebtedness for or in respect of:

- (a) borrowed money;

- (b) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by a member of the Group which is cash collateralised);
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;
- (e) receivables sold or discounted (otherwise than on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial or economic effect of a borrowing and which, for the avoidance of doubt, includes any transaction that is required to be classified and accounted for as borrowings, for financial reporting purposes in accordance with IFRS;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account); or
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

"IFRS" means International Financial Reporting Standards; and

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

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated gross revenues, or, as the case may be, consolidated total assets, of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, non-consolidated) of such Subsidiary and the then latest audited consolidated accounts of the Bank and its Subsidiaries, provided that in the case of a Subsidiary of the Bank acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Bank and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Bank;
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Bank which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Bank and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

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

all as more particularly defined in the Agency Agreement.

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

## **8.2 Enforcement Events – Senior Non-Preferred Notes, Subordinated Notes and Senior Preferred Notes, where applicable**

This Condition 8.2 applies only to Senior Non-Preferred Notes, Subordinated Notes and Senior Preferred Notes where Unrestricted Events of Default is specified as being not applicable in the applicable Final Terms, and references to "Notes" and "Noteholders" in this Condition shall be construed accordingly.

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

- (a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and ten days in the case of interest, any Noteholder may, at its own discretion and without further notice, institute proceedings in Iceland in order to recover the amounts due from the Bank to such Noteholder, provided that a Noteholder may not at any time file for liquidation or bankruptcy of the Bank. Any Noteholder may, at its discretion and without further notice, institute such proceedings against the Bank as it may think fit to enforce any obligation, condition or provision binding on the Bank under the Notes, provided that the Bank shall not by virtue of the institution of any proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it; and
- (b) if an order is made or an effective resolution is passed for the liquidation or bankruptcy of the Bank, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, then the Notes shall become due and payable at their outstanding principal amount together with interest (if any) accrued to such date.

## **9 REPLACEMENT OF NOTES, COUPONS AND TALONS**

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

## **10 PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

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

- (a) there will at all times be a Fiscal Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Bank is incorporated.

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

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Bank and do not assume any obligation to, or relationship of agency or trust with, any Noteholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **11 EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 7.

## **12 NOTICES**

All notices regarding the Notes will be deemed to be validly given if (a) published in a leading English language daily newspaper of general circulation in London, and (b) if and for so long as the Notes are admitted to trading on and listed on the Official List of the Irish Stock Exchange and if the guidelines of that exchange so require, filed with the Companies Announcements Office of the Irish Stock Exchange. It is expected that such publication will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

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

### **13 MEETINGS OF NOTEHOLDERS AND MODIFICATION**

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Bank and shall be convened by the Bank if required in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

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

- (a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Coupons or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law.

Subject to obtaining the prior written consent of the Relevant Regulator (if and to the extent required by the Applicable Banking Regulations), any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.



## **14 FURTHER ISSUES**

The Bank shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes.

## **15 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

## **16 GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **16.1 Governing law**

The Agency Agreement, the Deed of Covenant, the Notes, the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Notes and the Coupons are governed by, and construed in accordance with, English law except for the provisions of Condition 2 which shall, in each case, be governed by, and construed in accordance with, Icelandic law.

### **16.2 Submission to jurisdiction**

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

### **16.3 Appointment of Process Agent**

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

### **16.4 Waiver of immunity**

The Bank irrevocably and unconditionally with respect to any Dispute (i) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction, (ii) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute and (iii) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any

related process, in any jurisdiction, whether before or after final judgment, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

#### **16.5 Other documents**

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

### **17 ACKNOWLEDGEMENT OF STATUTORY LOSS ABSORPTION POWERS**

Notwithstanding and to the exclusion of any other term of the Notes, or any other agreements, arrangements or understanding between any of the parties thereto or between the Issuer and any Noteholder (which, for the purposes of this Condition 17, includes each holder of a beneficial interest in the Notes), each Noteholder by its purchase of the Notes will be deemed to acknowledge, accept, and agree, that any liability arising under the Notes may be subject to the exercise of Statutory Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

- (a) the effect of the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:
  - (i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;
  - (ii) the conversion of all, or a portion, of the Relevant Amounts in respect of the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Noteholder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes;
  - (iii) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; and
  - (iv) the amendment or alteration of the maturity date of the Notes or the amendment of the amount of interest payable on the Notes, or the date on which interest become payable, including by suspending payment for a temporary period; and
- (b) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Statutory Loss Absorption Powers by the Relevant Resolution Authority.

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

**"Relevant Amounts"** means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and additional amounts due on the Notes pursuant to Condition 6. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any applicable Statutory Loss Absorption Powers by the Relevant Resolution Authority;

**"Relevant Resolution Authority"** means the Resolution Authority of the Central Bank of Iceland, the FSA, or any successor authority that has the power to implement Statutory Loss Absorption Powers with respect to the Bank;

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

**"Statutory Loss Absorption Regime"** means any statutory regime implemented or directly effective in Iceland which provides any Relevant Resolution Authority with the powers to implement loss absorption

measures in respect of capital instruments (such as the Notes), including, but not limited to, the Act on the Recovery and Resolution of Credit Institutions, No. 70/2020.

## USE OF PROCEEDS

If "general corporate purposes" is specified in the "Reasons for the Offer" section in Part B of the applicable Final Terms, the net proceeds of the issue of Notes will be used for the Bank's general corporate purposes, which may include making a profit.

If "Sustainable Finance Instrument" is specified in the "Reasons for the Offer" section in Part B of the applicable Final Terms, an amount equal to the net proceeds of the issue of Notes will be used to finance, refinance and/or invest in Eligible Activities and Assets in line with the Bank's Sustainable Finance Framework (as amended and supplemented from time to time), which is available at the Bank'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.

## DESCRIPTION OF THE BANK

### OVERVIEW

The Bank is a leading Icelandic financial institution, offering a full range of financial services in the Icelandic financial service sector with a total of 36 branches and outlets across the country. The Bank was established on 7 October 2008 as a limited liability company, but the history of its predecessor, Landsbanki Íslands hf. (“**LBI**”) dates back to 1886.

The Bank has been granted an operating licence to act as a commercial bank 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 Bank is supervised by the FSA.

Landsbankinn hf. (referred to as Landsbankinn) is registered with the Register of Enterprises in Iceland with registration number 471008-0280. The Bank’s registered office is located at Austurstræti 11, 155 Reykjavík, Iceland and its telephone number is: +354 410 4000. The Legal Entity Identifier (“**LEI**”) of the Bank is 549300TLZPT6JELDWM92.

In October 2021, the international rating agency S&P Global Ratings affirmed the Bank’s long-term credit rating at BBB/A-2 with stable outlook. The previous rating was from April 2020, when the S&P lowered the long-term rating of the Bank to BBB/A-2, with a stable outlook.

For the year ended 31 December 2021, the Group’s net interest income was ISK 38.95 billion compared to ISK 38.07 billion in 2020. Its total net operating income was ISK 62.33 billion compared to ISK 38.25 billion in 2020 and profit for the year ended 31 December 2021 was ISK 28.92 billion compared to ISK 10.52 billion in 2020. As at 31 December 2021, the Group’s total assets were ISK 1.730 billion compared to ISK 1.564 billion, at year-end 2020. Further information can be found in the 2021 Financial Statements and 2022 Q1 Interim Financial Statements, which are incorporated by reference into this Base Prospectus.

### HISTORICAL BACKGROUND

LBI, the Bank’s predecessor, was established by the Icelandic Parliament on 1 July 1886. In establishing LBI, the Icelandic Parliament hoped to boost monetary transactions and encourage the country’s nascent industries. LBI’s first decades of operation were restricted by its limited financial capacity and it was little more than a building society.

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

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

Following the continuous deterioration of the financial markets and the collapse of the Icelandic banking system, the FSA took control of LBI on 7 October 2008. The Bank, wholly owned by the Icelandic State, was established around the domestic deposits and the majority of the Icelandic assets of the old bank. All liabilities and assets not transferred to the Bank 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 31 December 2021, the Bank had 855 shareholders. The ISFI manages 23,567,000,000 (98.2 per cent.) shares and the corresponding voting rights on behalf of the largest shareholder, the Icelandic State Treasury. The ISFI manages its holdings in the Bank in accordance with its publicly available ownership policy. The second largest shareholder is the Bank, which holds 378,800,000 (1.58 per cent.) of its own shares after acquisition by the Bank of its own shares under its buy-back programme originally initiated in December 2018.

	Shares as at 31 December 2021	% of the Bank's share capital
Icelandic State Treasury	23,567,000,000	98.20%
Landsbankinn's own shares	378,800,000	1.58%
Other shareholders	54,000,000	0.22% <sup>4</sup>
<b>Total shares</b>	<b>24,000,000,000</b>	<b>100%</b>

The Bank is not directly or indirectly owned or controlled by others, other than those listed above. The Bank is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Bank.

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 Bank 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.<sup>22</sup>

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

### Share capital

The Bank's total share capital is ISK 24,000,000,000 of which 23,621,000,000 shares are outstanding. Each share has a nominal value of one ISK and the owner is entitled to one vote at shareholders' meetings.

In 2021, the Bank launched a share buyback programme to purchase up to 57 million of own shares, or up to 0.24 per cent. of the Bank's issued share capital, in accordance with a decision of the Board of Directors on 10 June 2021 and a resolution of the Bank's Annual General Meeting on 24 March 2021<sup>23</sup>. The objective of the buyback programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in a transparent manner.

In July and October 2021, the Bank's Board of Directors announced its decision to exercise the authorisation to purchase the Bank's own shares during buyback periods which extended from 26 July 2021 up to and including 9 August 2021 and from 1 November 2021 up to and including 15 November 2021. During these periods, the Bank acquired around 3.4 million own shares at the average price of ISK11,49621, for a total purchase price of ISK 38.8 million. Prior to the repurchase period, the Bank held around 375.5 million own shares or the equivalent of 1.56 per

<sup>22</sup>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](http://www.bankasysla.is/files/EigandastefnaRikisins2020_02_loka_968608008.pdf)

<sup>23</sup> The Bank's AGM held in March 2021, authorised the Bank, in accordance with Article 55 of the Act on Public Limited Companies, No. 2/1995, to acquire its own shares, up to 10 per cent. of the nominal value. The minimum and maximum amounts the Bank 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 Bank's AGM 2022

cent. of issued shares. Furthermore, on 4 February 2022, the Bank announced its decision to exercise the authorisation to purchase the Bank's own shares under the terms of a buyback programme during the period 7 February 2022 to 21 February 2022. During this period the Bank acquired a total of 156,396 own share at a share price of ISK 11.9658, for the total amount of ISK 1,871,403. At its conclusion, the Bank held around 379 million of own shares or the equivalent of around 1.58 per cent. of issued share capital in the Bank.

The Bank's AGM held on 23 March 2022 authorised the Bank, in accordance with Article 55 of the Act on Public Limited Companies, No. 2/1995, to acquire its own shares, up to 10 per cent. of the nominal value. The minimum and maximum amounts the Bank 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 2023 AGM of the Bank. The disposition of own shares purchased by the Bank is based on this authorisation and is subject to approval by a shareholder's meeting.

#### *Dividend policy*

The Bank's current dividend policy provides that the Bank aims to pay regular dividends to shareholders, amounting in general to around 50 per cent. of the previous year's profit. To achieve the Bank's target capital ratio, special dividend payments may also be made to optimise its capital structure. Regard shall be had for risk in the Bank's internal and external environment, growth prospects and the maintenance of a long-term, robust equity and liquidity position, as well as compliance with regulatory requirements of financial standing at any given time.

The AGM of the Bank, held on 23 March 2022, approved the motion of the Board of Directors to pay shareholders a dividend amounting to ISK 0.61 per share for the operating year 2021 and to pay the dividend in two instalments. The first date of payment (ISK 0.31 per share) was 30 March 2022. The latter date of payment (ISK 0.30 per share) shall be 21 September 2022. The total dividend for the accounting year 2021, based on outstanding shares, amounts to ISK 14.409 million, equivalent to 50 per cent. of the year's profit. The meeting also approved payment of a special dividend of ISK 0.26 per share. The date of payment of the special dividend was 28 April 2022. The amount of the special dividend based on outstanding shares was ISK 6.41 million.

## **ORGANISATIONAL STRUCTURE**

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

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

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

## **STRATEGY**

Landsbankinn has formed a new strategy that sets the agenda until the end of 2030, with milestones to hit by the end of the 2022 and the 2025 financial years.

*Value:* Trust

*Vision:* Landsbankinn, an ever-smarter bank

### **Strategic focal points**

The strategy is focused on the changes both individual and corporate finances are undergoing. It is founded on the ideal of mutual trust and a personal approach to banking. The strategy is supported by three pillars, each of which promotes principles linked to different aspects of the Bank's operation; customers, infrastructure, and human resources.

#### *Satisfied customers*

The first pillar is about customer satisfaction. Under this pillar, the principle is to simplify customers' lives and show initiative. The Bank does this by developing simple solutions that are accessible around the clock and by utilising data to provide customers with personal and professional advice.

#### *Continuous development*

The second pillar is about on-going advancement. It refers to the fact that the Bank operates in an ever- transforming environment and must respond by introducing effective ways to adapt and succeed. The Bank wants to advance with ever-smarter operations, utilising the Bank's data better in order to offer tailored services. The Bank aims to have operations that are sound and secure, with a special emphasis on information security. The Bank also aims to lead the way towards a sustainable future.

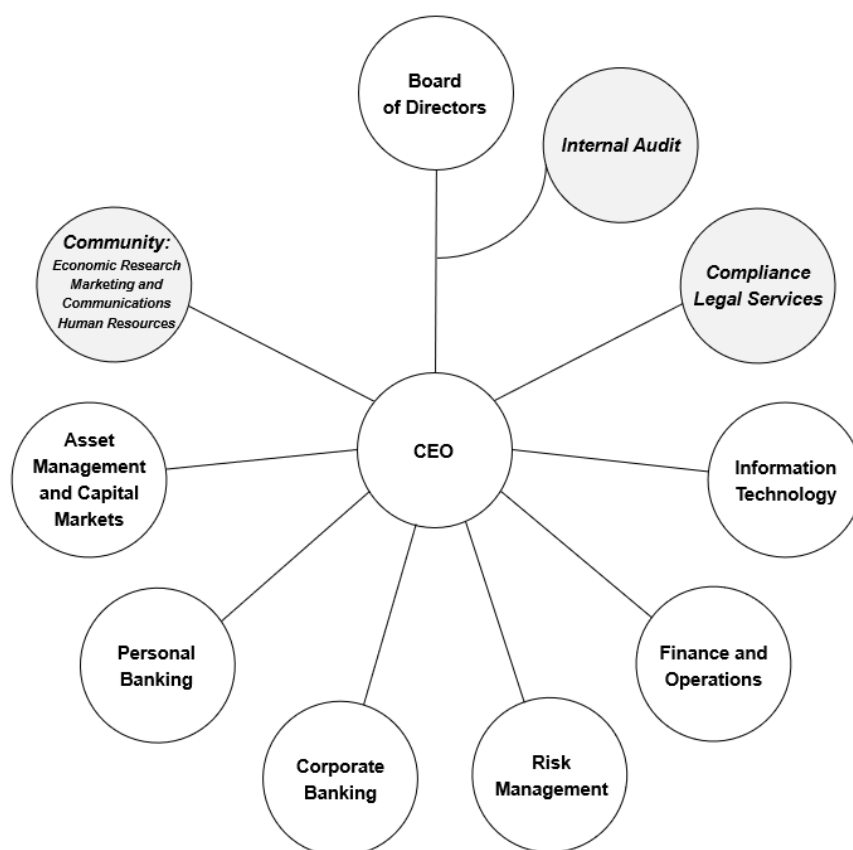
#### *Passion for success*

The third pillar is all about achievement for customers and the Bank's employees. The Bank's share in its customers' success is driven by enthusiasm for results. It is the intention of the Bank to develop the workplace of tomorrow, a diverse and flexible place of employment that fosters cooperation and the development of ideas into solutions.

### **Business**

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





The Bank has three reporting segments: Personal Banking, Corporate Banking and Asset Management & Capital Markets.

## Personal Banking

The Personal Banking division (“**Personal Banking**”) comprises three departments: the Branch Network, the Customer Service Centre and Business Solutions. Business Solutions run product development, product management, campaigning, sales and collections for the retail part of the Bank.

Personal Banking provides general and specialised banking services to individuals. Service for small and medium sized enterprises (“**SME**”) in rural areas is catered for via the bank’s vast branch network around the country.

The Bank operates 36 branches and outlets around Iceland. Its distribution channel strategy is to ensure the provision of personal, economical and value-added banking services to its customers.

Emphasis is placed on providing customers with a diverse range of products. Each branch offers general services and personal advice to individuals. In rural areas, branches provide further service and advice to SMEs. Various self-service options are available throughout the country. In addition, the Bank’s customers have access to financial services through its Customer Service Centre, online banking system and mobile solutions.

Among the Bank’s customers are around 130,000 individuals and around 11,000 SMEs. Its market share is around 38 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 2021.

## **Corporate Banking**

Corporate Banking (“**Corporate Banking**”) provides comprehensive financial services to large, small and medium sized corporate clients and municipalities, as well as tailored services to meet customer specific needs. Corporate Banking also handles corporate and SMEs’ services in the capital region through a SMEs’ Center. Corporate Banking holds a strong position among the largest companies and institutions in Iceland. The market share in Corporate Banking, according to an annual survey conducted by Gallup in 2021, is around 34 per cent.

Corporate Banking comprises six business units and four support units. The business units are split based on sector segmentation; one unit manages relations with contractors, real estate companies, travel service companies and municipalities; the second unit manages relations with industrial companies and companies in trade and service; the third unit manages relations with the Bank’s larger customers in fisheries and agriculture; the fourth unit manages relations with around 7,000 SMEs in the capital region. In addition, the fifth business unit focuses on fleet-, machinery and equipment financing and leasing and finally the sixth unit 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 four support units: Business Support, Credit Assessment, Corporate Debt Restructuring and Legal Services.

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

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

Corporate Debt Restructuring analyses, manages and negotiates for a restructuring of problematic assets in the corporate loan portfolio.

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

## **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 provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Landsbréf hf. a subsidiary of the Bank, is included in Asset Management and Capital Markets. The division comprises three departments: Asset Management, Capital Markets and one support unit: Business Solutions.

Asset Management offers comprehensive asset management services, including advice in selecting appropriate savings options, and development and management of asset portfolios. The customers of Asset Management are diverse and include individuals, pension funds, institutions, municipalities and companies. Part of the product offering provided by Asset Management is securities and investment funds run by Landsbréf hf. In addition, Asset Management has two pension funds under full management, which involves the asset management of securities portfolios, supervising the funds’ accounting, registration of pension rights and pension payments.

Asset Management’s services also entail the management of asset portfolios by Private Banking Services along with customised management for companies, pension funds, insurance companies, municipalities and charities. Private Banking Services are customised to meet the needs of the Bank’s wealthiest customers. Activities involve the management of customers’ asset portfolios in addition to general accounting services. Customers can choose between active management of an asset portfolio where the advisers of Private Banking Services manage the assets in accordance with a predetermined investment strategy, or advice on management where the customer manages its own portfolio with the assistance of an adviser.

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

Business Solutions is a support unit designed to assist the business units by providing business development.

## **Support divisions**

The Bank 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 Bank's credit risk, market risk, liquidity risk, and operational risk. The Risk Management division is responsible for the maintenance and analysis of the Bank's risk assessment systems. Subsidiaries of the Bank have their own risk management functions and the Risk Management Division receives information on exposures from the subsidiaries and collates them into Group exposures. The Risk Management Division is also responsible for comprehensive risk reporting on risk positions to various internal departments and committees and supervisory authorities.

As of December 2021, the Risk Management Division was comprised of six departments.

- The Credit Management Department reviews, and confirms or vetoes, credit decisions made by the Bank'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 Bank's Credit Committee. The department also oversees regular updates of the Bank'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 Bank 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 Bank's banking book along with limit monitoring and reporting. The department develops and maintains the Bank's market risk models and maintains the Bank's Market Risk Policy and Liquidity Risk Policy, as well as implementing processes to measure and monitor market risk and liquidity risk. Market Risk is also responsible for monitoring all derivatives trading the Bank enters into, both for hedging and trading purposes, as well as FX balance monitoring for the Bank.
- The Operational Risk Department is responsible for ensuring centralised management of operational risk other than compliance and conduct risk. The department assists in mapping the Bank'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 Bank with Internal Rating Based ("IRB") and Economic Capital ("EC") models and related processes to estimate credit risk and link the risk to equity, as well as for providing support during the implementation of those models and processes. 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 and Operations*

Finance and Operations 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, Operations and Market Making.

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

A&FR is responsible for financial accounting and budgeting within the Bank. 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 Bank.

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

Loan Administration manages all loans for the Bank 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.

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

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

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.

### *Information Technology*

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

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

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

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

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

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

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

### *Community*

Community is comprised of three departments and two teams: Human Resources ("HR"), Marketing, Economic Research, the Communication Team and the Sustainability Team.

Economic Research Department monitors financial markets and economic trends of relevance to the Bank 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 Bank's marketing strategy and planning. The Communication Team is responsible for internal and external communication. The Sustainability Team is responsible for all sustainability-related concerns of the Bank, such as its Sustainable Finance Framework, its sustainability goals, carbon accounting, sustainability reporting and other sustainability commitments.

As a division, Community takes the lead on shaping and promoting the Bank's corporate culture and message. The division's main role is to contribute to achieving the Bank's business goals through a holistic and transparent approach to communication and disclosure. It plays a key role in implementing the Bank'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 and Compliance 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 Bank's senior management and Board of Directors and following-up on the implementation of decisions.

Legal Services handle legal aspects of the Bank's operations. It, *inter alia*, provides the Bank with legal advice, manages litigation, represents the Bank in courts, prepares cases reviewed by the Complaints Committee on Transactions with Financial Undertakings, reviews and confirms standardised documents relating to the Bank's operations, and prepares correspondence with regulators, in particular the FSA and the Icelandic Competition Authority.

Compliance is an independent management unit placed directly under the CEO in the Bank's organisational chart, operating in accordance with the letter of appointment from the Board of Directors. Compliance is part of the Bank's second level control and is responsible for monitoring laws and actions against money laundering and financing of terrorist activities, and laws on securities trading and laws on data protection. Compliance also monitors the efficiency of the Bank's policy on compliance with laws, regulations and internal rules, and is responsible for consulting and instructing management on the effects of changes to the legal environment on the Bank's operations,

measures to prevent conflicts of interest and actions necessary to ensure that the Bank operates in accordance with proper and sound business practices, with an aim of strengthening the credibility of and confidence in financial markets. The Data Protection Officer works independently from Compliance, in accordance with the letter of appointment from the Board of Directors.

#### *Internal Audit*

The internal audit function is a part of the Bank's organisational structure and constitutes one aspect of its internal oversight system. The role of the internal audit function is to provide independent and objective assurance and advice, which is intended to add value and improve the Bank's operations.

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

The internal audit activity is accountable both administratively and functionally to the Board of Directors. The Board of Directors employs the chief audit executive, who annually confirms to the board the organisational independence of the internal audit activity. According to an external quality assessment, conducted in January 2019, and a self-assessment based on The Internal Audit Ambition Model in the year 2021, the internal audit activity of the Bank generally conforms to the Standards, Definition of Internal Auditing and Code of Ethics, issued by the Institute of Internal Auditors.

## **LOAN PORTFOLIO**

The table below sets out details of the Group's loans and advances to financial institutions, as at 31 December 2021 and 31 December 2020, classified by type of loan.<sup>24</sup>

	<b>2021</b>	<b>2020</b>
Bank accounts with financial institutions	15,261	15,141
Money market loans	29,552	32,210
Other loans	2,418	723
Allowance for impairment	-	(1)
<b>Total</b>	<b>47,231</b>	<b>48,073</b>

The table below sets out details of the Bank's loans and advances to customers at amortised cost, as at 31 December 2021 and 31 December 2020.

	<b>31.12.2021</b>			<b>31.12.2020</b>		
	<b>Gross carrying amount</b>	<b>Allowance for impairment</b>	<b>Carrying amount</b>	<b>Gross carrying amount</b>	<b>Allowance for impairment</b>	<b>Carrying amount</b>
Public entities	3,898	(3)	3,895	4,169	(41)	4,128
Individuals	726,309	(1,359)	724,950	593,984	(2,307)	591,677
Mortgage lending	646,981	(466)	646,515	519,470	(1,221)	518,249
Other	79,328	(893)	78,435	74,514	(1,086)	73,428
<b>Corporates</b>	<b>648,937</b>	<b>(12,461)</b>	<b>636,476</b>	<b>683,233</b>	<b>(22,127)</b>	<b>661,106</b>

<sup>24</sup> Further information can also be found in 2022 Q1 Interim Financial Statements, which are incorporated by reference into this Base Prospectus.

Total	1,379,144	(13,823)	1,365,321	1,281,386	(24,475)	1,256,911
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The following tables show the Group's maximum credit risk exposure at 31 December 2021, and 31 December 2020. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the consolidated statement of financial position. Off-balance sheet amounts, in the tables below, are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

The Bank 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.

Corporates														
As at 31 December 2021	Financial institutions	Public entities * Individuals	Fisheries	Real estate companies	Construct ion companies	Travel industry	Services, ITC **	Retail	Manufact ur-ing and energy	Holding companies	Agri- culture	Other	Maximum exposure	Carrying amount
Cash and balances with Central Bar	-	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	-	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 ins	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	-	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	1,668,381	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	221,271	
and	-	-	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 fac	1	8,002	32,534	2,242	1,063	2,634	1,310	8,859	6,213	3,621	161	308	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	1,889,652	
Percentage of maximum exposure to	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.

Corporates														
As at 31 December 2020	Financial institutions	Public entities * Individuals	Fisheries	Real estate companies	Construct ion companies	Travel industry	Services, ITC **	Retail	Manufact ur-ing and energy	Holding companies	Agri- culture	Other	Maximum exposure	Carrying amount
Cash and balances with Central Bar	-	67,604	-	-	-	-	-	-	-	-	-	-	67,604	67,604
Bonds and debt instruments	26	79,204	-	-	-	-	1,412	-	4,560	22	-	-	85,224	119,330
Equities and equity instruments	1	-	-	41	-	-	1,655	1	49	16,286	-	-	18,034	26,808
Derivative instruments	3,000	-	-	15	2	134	-	71	-	5	-	75	3,302	3,303
Loans and advances to financial ins	48,073	-	-	-	-	-	-	-	-	-	-	-	48,073	48,073
Loans and advances to customers	-	4,128	592,216	179,713	129,462	82,345	95,996	67,352	53,590	30,231	31,849	6,544	1,273,426	1,273,426
Other assets	15,864	26	65	-	2,430	1	-	4,129	-	-	24	-	23,914	25,633
Total on-balance sheet exposure	66,964	150,962	592,281	179,769	131,894	82,480	95,997	74,548	53,662	34,840	48,186	6,544	1,519,577	1,564,177
Off-balance sheet exposure	139	6,953	32,240	18,294	14,836	43,786	16,948	17,495	20,504	14,223	2,539	292	188,287	
and	138	44	645	7,188	1,461	4,395	2,762	2,716	2,640	1,379	665	1	24,069	
Undrawn loan commitments	-	-	-	9,028	11,633	36,740	12,642	5,821	12,651	9,510	1,513	17	99,555	
Undrawn overdraft/credit card fac	1	6,909	31,595	2,078	1,742	2,651	1,544	8,958	5,213	3,334	361	274	64,663	
Maximum exposure to credit risk	67,103	157,915	624,521	198,063	146,730	126,266	112,945	92,043	74,166	49,063	50,725	6,836	1,488	1,707,864
Percentage of maximum exposure to	3.9%	9.2%	36.6%	11.6%	8.6%	7.4%	6.6%	5.4%	4.3%	2.9%	3.0%	0.4%	0.1%	100.0%

\* 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 for year-end 2021 and year-end 2020 show both gross carrying amount and ECL, by industry sectors, and the three stage criteria under IFRS 9.

	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			
<b>As at 31 December 2021</b>										
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
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
<b>Total</b>	<b>1,448,517</b>	<b>1,287,749</b>	<b>(1,845)</b>	<b>106,621</b>	<b>(4,098)</b>	<b>32,005</b>	<b>(7,880)</b>	<b>(13,823)</b>	<b>22,142</b>	<b>1,434,694</b>

Loans and advances by stage allocation (continued)

	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			
<b>As at 31 December 2020</b>										
Financial institutions	48,074	48,074	(1)	-	-	-	-	(1)	-	48,073
Public entities	4,169	4,026	(39)	143	(2)	-	-	(41)	-	4,128
Individuals	594,523	549,450	(415)	40,417	(1,022)	4,117	(870)	(2,307)	539	592,216
Mortgages	519,470	487,781	(242)	28,954	(701)	2,735	(278)	(1,221)	-	518,249
Other	75,053	61,669	(173)	11,463	(321)	1,382	(592)	(1,086)	539	73,967
Corporates	699,209	535,653	(3,378)	112,012	(5,612)	35,568	(13,137)	(22,127)	15,976	677,082
Fisheries	180,949	172,356	(678)	4,665	(153)	1,098	(405)	(1,236)	2,830	179,713
Real estate companies	132,797	114,269	(788)	12,456	(646)	5,550	(1,901)	(3,335)	522	129,462
Construction companies	84,827	67,399	(717)	14,014	(678)	3,302	(1,087)	(2,482)	112	82,345
Travel industry	104,503	29,677	(479)	59,843	(3,624)	14,957	(4,404)	(8,507)	26	95,996
Services, IT and communications	69,591	51,639	(302)	7,011	(198)	3,462	(1,739)	(2,239)	7,479	67,352
Retail	54,990	46,893	(207)	4,440	(116)	1,910	(1,077)	(1,400)	1,747	53,590
Manufacturing and energy	32,771	24,995	(45)	2,857	(67)	4,919	(2,428)	(2,540)	-	30,231
Holding companies	32,093	22,966	(147)	5,860	(93)	7	(4)	(244)	3,260	31,849
Agriculture	6,688	5,459	(15)	866	(37)	363	(92)	(144)	-	6,544
Other	-	-	-	-	-	-	-	-	-	0
<b>Total</b>	<b>1,345,975</b>	<b>1,137,203</b>	<b>(3,833)</b>	<b>152,572</b>	<b>(6,636)</b>	<b>39,685</b>	<b>(14,007)</b>	<b>(24,476)</b>	<b>16,515</b>	<b>1,321,499</b>

The tables below show the gross carrying amount of loans and advances to financial institutions and customers by past due status as at 31 December 2021 and 31 December 2020.

As at 31 December 2021	Gross carrying amount						Allowance for impairment	Carrying amount
	Not past due	Days 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

As at 31 December 2020	Gross carrying amount						Allowance for impairment	Carrying amount
	Not past due	Days past due						
		1-5	6-30	31-60	61-90	over 90		
Financial institutions	48,074	-	-	-	-	-	(1)	48,073
Public entities	4,169	-	-	-	-	-	(41)	4,128
<i>Individuals</i>	585,132	2,038	1,216	2,758	1,530	1,849	(2,307)	592,216
Mortgages	514,190	-	880	2,201	1,232	967	(1,221)	518,249
Other	70,942	2,038	336	557	298	882	(1,086)	73,967
<i>Corporations</i>	670,335	3,757	4,428	1,575	3,361	15,753	(22,127)	677,082
Fisheries	180,482	61	360	19	10	17	(1,236)	179,713
Real estate companies	129,662	144	788	624	308	1,271	(3,335)	129,462
Construction companies	80,973	126	2,234	128	37	1,329	(2,482)	82,345
Travel industry	93,261	124	699	374	2,334	7,711	(8,507)	95,996
Services, IT and communications	66,774	1,932	79	160	56	590	(2,239)	67,352
Retail	53,494	194	174	238	584	306	(1,400)	53,590
Manufacturing and energy	27,949	280	11	-	31	4,500	(2,540)	30,231
Holding companies	31,262	811	3	13	-	4	(244)	31,849
Agriculture	6,478	85	80	19	1	25	(144)	6,544
Other	-	-	-	-	-	-	-	0
<b>Total</b>	<b>1,307,710</b>	<b>5,795</b>	<b>5,644</b>	<b>4,333</b>	<b>4,891</b>	<b>17,602</b>	<b>(24,476)</b>	<b>1,321,499</b>

The tables below show large exposures as at 31 December 2021 and 31 December 2020, after credit mitigation. As at 31 December 2021, four customer groups were rated as large exposures in accordance with the rules on large exposures. Customers are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10 per cent. of the Group's eligible capital. According to these rules, no exposure, after credit risk mitigation, may exceed 25 per cent. of the eligible capital.

	<b>Number of large exposures</b>	<b>Large exposures</b>
<b>As at 31 December 2021</b>		
Large exposures between 10% and 20% of the Group's tier 1 capital	2	61,480
Large exposures between 0% and 10% of the Group's tier 1 capital	3	32,253
<b>Total</b>	<b>5</b>	<b>93,733</b>
Total ratio of large exposures to tier 1 capital		<b>33%</b>
<b>As at 31 December 2020</b>		
Large exposures between 10% and 20% of the Group's eligible capital	3	104,514
Large exposures between 0% and 10% of the Group's eligible capital	1	7,134
<b>Total</b>	<b>4</b>	<b>111,648</b>
Total ratio of large exposures to eligible capital		<b>40%</b>

Further information on the aforementioned tables is disclosed in the notes in the 2021 Financial Statements, which is incorporated by reference to this Base Prospectus.

## FUNDING

The Bank's funding rests on three main pillars: Deposits from customers, market funding and equity. The Bank's credit rating by S&P Global Ratings is BBB/A-2 with stable outlook.

### *Deposits from customers*

The largest part of the Bank's funding is in the form of deposits from customers which amounted to ISK 900 billion at year-end 2021, mostly non-indexed and on demand. Deposits from customers increased by 107 billion during the year 2021. Inflation-linked deposits amounted to ISK 136 billion at year-end 2021, increasing by ISK 10 billion from the previous year.

### Market funding

#### *EMTN issuance*

Issuance of bonds in foreign currencies is the most important pillar in the Bank's market funding. The size of the Bank's EMTN programme is EUR 2 billion and was increased in size from EUR1.5 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 Bank published a Sustainable Finance Framework with a second-party opinion from Sustainalytics.

In February 2021, the Bank completed its inaugural green bond issuance with reference to the Sustainable Finance Framework. The 4.25-year bond issuance amounted to EUR 300 million. Concurrent with the issuance, the Bank announced a tender offer of bonds maturing in March 2021 which led to a bond buy-back in the amount of EUR 48 million. The remaining outstanding principal was paid in full at maturity. In addition, the Bank issued 1.5-year bonds in February 2021 amounting to SEK 900 million.

In November 2021, the Bank issued green 4.5-year bonds for the amount of EUR 300 million in conjunction with a tender offer resulting in a buy-back of bonds maturing in March 2022 amounting to EUR 156 million.

At year-end 2021, bond issuance in foreign currency amounted to ISK 248 billion, increasing by ISK 36 billion during the year.

#### *Covered bonds*

The size of the programme for covered bond issuance is ISK 250 billion and was increased from ISK 200 billion in 2020. Issuances of covered bonds are primarily intended to fund the Bank's mortgage portfolio and to mitigate interest rate risk.

Regular auctions of covered bonds were held in 2021 where previously issued series were tapped. One non-indexed series LBANK CB 21 matured in 2021. Agreements with market makers in the secondary market for covered bonds were renewed in the year 2021.

At year-end 2021, outstanding covered bonds amounted to ISK 218 billion, increasing by ISK 29 billion during the year.

#### *Commercial paper*

No commercial paper auctions were held in 2021 under the ISK 50 billion debt issuance programme. No series matured in 2021 and there was no outstanding issuance of commercial paper at year-end 2021.

#### *Subordinated bond issuance*

Subordinated bond issuances under the Bank's debt issuance programme amounted to ISK 5.5 billion at year-end and subordinated issuance under the Bank's EMTN programme amounted to EUR 100 million at the same time. Both bond issues count as tier 2 capital and amounted to ISK 21 billion at year-end 2021, unchanged from the previous year.

#### *Equity*

The Bank's equity amounted to ISK 283 billion at year-end 2021, increasing by ISK 24 billion over the course of the year.

The Bank paid ISK 4.489 billion in dividends to shareholders in 2021. The Bank's total capital ratio was 26.6 per cent. at year-end 2021.

#### *Credit rating*

The Bank's credit has been rated by international rating agency S&P Global Ratings since 2014. In April 2020, the Bank's credit rating was lowered to BBB/A-2 with stable outlook.

Further information on the funding of the Bank is disclosed in the notes in the 2021 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. Finally, 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 Bank 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.

The Executive Board serves as a forum for discussion about business opportunities and challenges, approves funding for larger projects, and serves as a decision-making platform on matters that do not fall under the remit of other committees. The main role of the Executive Board is to ensure compliance of the Bank's operations with laws, regulations, business plans and policies at any given time. The Credit Committee's main role is to ensure that the Bank's loan portfolio and credit risk remain in compliance with its credit risk policy and risk appetite. The Credit Committee covers individual credit decisions, credit limits for customers, credit quality and large exposures, among other things. The Risk & Finance Committee primarily covers market and liquidity risk and is responsible for formulating risk limits for these factors for the Board of Directors. The Credit Committee also covers counterparty risk, reviews various rules and policies regarding risk, review the ICAAP methodology and scenarios and reviews the Bank's market risk, liquidity risk and economic capital policies. The Operational Risk Committee is a forum for discussion and decisions on operational risk issues and review of the effective implementation of the operational risk policy. The Project Committee selects, prioritises and oversees key projects that support the Bank's strategy.

Risk appetite defines the type and extent of risk that management is willing to take to meet the Bank's business objectives. In pursuit of its goals, the Bank only takes on risks that it understands, and can measure, evaluate and manage. The Bank's risk appetite is reviewed and revised at least annually.

The material risks which the Bank 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 Bank's credit risk models which include probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). These models are used for various purposes, 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 Bank'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 Bank's operations.

Credit risk is the greatest single risk faced by the Bank 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 Bank has developed an internal rating system, including several 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 going 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.

In 2021 the Bank revised its definition of default in accordance with the European Banking Authority (“EBA”) Guidelines on the application of the definition of default and EBA Regulatory Technical Standards on materiality threshold of credit obligation past due.

The internal rating system is used to assign ratings and calculate risk-weighted exposure amounts for the majority of the Bank’s customers for economic capital. However, there are a few exceptions. 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 Bank’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 re-estimated and validated annually by a quantitative and qualitative assessment. The quantitative assessment includes statistical tests to ensure that the estimates remain valid when new data is added. PD estimates are based on observed default frequency in available internal data and adjusted to long term default frequencies 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 Bank uses the standard approach for estimating risk-weighted exposure amount (“RWEA”) and EC but uses internal models for provisioning.

#### *Credit risk management*

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

The Bank’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 Bank manages credit risk according to its risk appetite statement and credit policy approved by the Board of Directors, as well as detailed credit policies approved by the CEO. The risk appetite and credit policy include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposure to certain industries. The CEO ensures that the risk policy is reflected in the Bank’s internal framework of regulations and guidelines. The Bank’s Managing Directors are responsible for ensuring that the Bank’s business units execute the risk policy appropriately and the CEO is responsible for the oversight of the process as a whole.

Incremental credit authorisation levels are defined based on size of units, types of customers and lending experience of credit officers. The Bank has also set industry policies that describe its appetite to provide credit to specific industries. Credit decisions exceeding authorisation levels of business units are subject to confirmation 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 signing limits of the Corporate Banking Credit Committee are subject to approval by the Bank's Credit Committee. Credit decisions exceeding the limits of the Credit Committee are subject to approval by the Board of Directors, which holds the highest credit authorisation within the Bank.

#### *Credit risk mitigation*

Mitigating risk in the credit portfolio is a key element of the Bank'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 Bank's credit policy. Credit extended by the Bank 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 Bank 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 Bank regularly assesses the market value of received collateral. The Bank 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 Bank 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 Bank enters into netting agreements, under which the Bank 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 Bank 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 Bank 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.

#### *Derivative financial instruments and securities financing*

In order to mitigate credit risk arising from derivatives and securities financing transactions, the Bank chooses the counterparties for derivatives and margin trading based on stringent requirements. The Bank also enters into standard International Swaps and Derivatives Association ("ISDA") master netting agreements and similar general netting agreements with financial counterparties.

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

The Bank'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 Bank are offset when the Bank has a legally enforceable right to set off a recognised amount and intends either to settle on a net basis or to realise the asset and settle the liability

simultaneously. External ratings are used where applicable to assist in managing the credit risk exposure of bonds. Otherwise, the Bank uses fair value estimates based on available information and the Bank's own estimates.

#### *Credit risk control and monitoring*

The Bank has set limits for large exposures as well as policies for exposure ratio for different portfolios to control the credit risk in the Bank's credit portfolio and ensure risk diversification. The credit risk decision process is controlled with limits set in the Bank's Credit rules approved by the Board of Directors. The rules set the limit for each credit decision party within the Bank 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 Bank monitors exposures to identify signs of weakness in customer earnings and liquidity, or other issues that could increase the Bank's credit risk, as soon as possible. To monitor customers, the Bank 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 repayment problems;
- Yellow: the customer shows indication of deteriorating financial strength, which could lead to financial difficulties;
- Orange: the customer is or has been in financial difficulties or default; and
- Red: the customer is in default and in legal collection and/or restructuring.

The Credit Risk Department within Risk Management is together with the business units responsible for the colour classification of customers.

#### *Impairment process*

The Bank 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 Bank 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 Bank's Economic Research department and involves the creation of scenarios of relevant economic variables, including an assessment of the probability for each scenario.

Staging and ECL estimation for individually significant loans is done manually on a quarterly basis. When assessing individually significant loans manually, the Bank 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 Bank's historical experience, expert credit assessment and forward-looking information. Only Stage 3 loans are manually estimated for ECL.

The Bank 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 Bank 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 inception.

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

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 allowance for impairment was ISK 14.4 billion, at year-end 2021, compared to ISK 25.3 billion at year-end 2020. The decrease in ECL is primarily due to write-offs and a decrease in PD values, both because of increasing credit quality in the portfolio, and more favourable economic scenarios in impairment calculations. This led to decreased ECL, as well as decreased transfers from stage 1 to stage 2. In 2021, a new model for calculating LGD was implemented. The implementation of the model had a net-decreasing impact on ECL. The significant decrease in ECL in stage 3 is explained in part by write-offs during the year, and in part by a more favourable outlook regarding recoveries from certain defaulted individually assessed significant customers. Details on the development of ECL during the year can be found in note 61 in the Bank's annual financial statement for 2021, which are incorporated by reference into this Base Prospectus. Further information can also be found in 2022 Q1 Interim Financial Statements, which are incorporated by reference into this Base Prospectus.

## **Liquidity Risk**

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

A liquidity policy for the Bank 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 Bank 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 Bank has also implemented stringent stress tests that have a realistic basis in the Bank's operating environment to further measure the Bank's ability to withstand different and adverse scenarios of stressed operating environments.

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

The Bank 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 Bank's liquidity management process includes:

- projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities and monitoring balance sheet liquidity;
- monitoring and managing the maturity profile of liabilities and off-balance sheet commitments;
- monitoring the concentration of liquidity risk in order to avoid undue reliance on large financing counterparties projecting cash flows arising from future business; and
- maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from a liquidity crisis.

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

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

The Bank complies with the liquidity Rules set by the Central Bank 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). Rules No. 266/2017 requires the Bank to maintain a LCR minimum of 100 per cent. Total, 100 per cent. for foreign currencies and 40 per cent. for ISK. Rules No. 750/2021 sets requirements for a minimum of 100 per cent. NSFR Total. As mentioned above, the Bank also complies with Rules No. 1032/2014 on funding set by the Central Bank including the guidelines No. 2/2010 from the FSA on best practice for managing liquidity in banking organisation. The guidelines further promote sound management and supervision of liquidity within the Bank which is reflected in the Bank’s risk appetite and internal processes and policies. The Bank submits regular reports on its liquidity position to the Central Bank and the FSA.

The table below sets out the Bank’s LCR as at 31 December 2021 and 31 December 2020 respectively:

	<b>LCR – Total</b>	<b>LCR – FX</b>	<b>LCR - ISK</b>	<b>NSFR - ISK</b>
As at 31 December 2021	179%	556%	120%	121%
As at 31 December 2020	154%	424%	105%	116%

## 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 Bank’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 Bank’s overall risk appetite, including market risk. The CEO of the Bank appoints the Risk & Finance Committee, which is responsible for developing detailed market risk management policies and setting market risk limits. Treasury and the Market Making department within Markets are responsible for managing market-related positions under the supervision of the Market Risk unit within Risk Management. The objective of market risk management is to identify, locate and monitor market risk exposures and analyse and report to appropriate parties. Together, the risk appetite of the Bank and the market risk policies set the overall limits that govern market risk management within the Bank.

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

#### *Sensitivity analysis for trading portfolios*

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

#### *Sensitivity analysis for non-trading portfolios*

The management of interest rate risk is supplemented by monitoring the sensitivity of financial assets and liabilities to various interest rate scenarios. The Bank employs a monthly stress test of the interest rate risk in the Bank'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 FSA, taking historical interest rate volatility into account.

#### *CPI indexation risk (all portfolios)*

To mitigate the Bank's imbalance in its CPI-indexed assets and liabilities, the Bank offers non-CPI-indexed loans and CPI-indexed deposits. CPI indexation risk is managed centrally by the Treasury of the Bank and is monitored by the Market Risk Department.

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

#### *Currency risk (all portfolios)*

The Bank complies with the Rules No. 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 Bank's capital base, in each currency and for all currencies combined. Furthermore, the Bank's total foreign exchange balance (whether long or short) shall not exceed ISK 25 billion. The Bank submits daily and monthly reports to the Central Bank with information on its foreign exchange balance.

### **Operational risk management**

Whereas the executive managing director of each division is responsible for that division's operational risk, the daily management of operational risk is in the hands of general managers of each department. The Bank establishes, maintains and co-ordinates its operational risk management framework at a group level. This framework complies with the Basel Committee's 2011 publication "Principles for the Sound Management of Operational Risk". The Bank ensures that operational risk management stays consistent throughout the Bank by upholding a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, together with active monitoring by the Internal Audit Department. By managing operational risk in this manner, the Bank intends to ensure that all the Bank's business units are kept aware of any operational risks, that a robust monitoring system remains in place and that controls are implemented efficiently and effectively.

In order to safeguard business continuity and continue providing services to customers in response to the COVID-19 pandemic, the Bank activated the relevant business continuity plans. The functionality of both the headquarters of the Bank and the network of commercial branches and digital channels has therefore been maintained. The Bank has been able to continue its operations using remote working at scale with the Bank's information technology and communications infrastructure, while an increase in the use of alternatives to physical presence in banking transactions has taken place, such as the Bank's website and applications.

## Capital Adequacy

The purpose of the Bank's capital management framework is to support the Bank's strategy and ensure that it has sufficient capital to cover its risks. The capital management framework of the Bank is comprised of four interdependent activities: capital assessment, risk appetite/capital target, capital planning, and reporting/monitoring. The Bank's capital requirements are defined in Icelandic law and regulations, on the one hand, and by the 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 Bank annually assesses its own capital needs through the internal capital adequacy assessment process ("ICAAP"). The ICAAP results are subsequently reviewed by the FSA in the Supervisory Review and Evaluation Process ("SREP"). The Bank's minimum capital requirement, as determined by the FSA, is the sum of Pillar I and Pillar II-R requirements.

In addition to the minimum capital requirement, the Bank is required by law to maintain certain capital buffers determined by the FSA, which may, depending on the situation, be based on recommendations from the FSC<sup>25</sup>. The FSC has defined the Bank as a systematically important financial institution in Iceland.

The Bank's most recent capital requirements, as determined by the FSA, are as follows (as a percentage of RWEA):

	<b>CET1</b>	<b>Tier 1</b>	<b>Total</b>
Pillar I	4.5%	6.0%	8.0%
Pillar II R	2.0%	2.6%	3.5%
<b>Minimum requirement under Pillar I and Pillar II-R</b>	<b>6.5%</b>	<b>8.6%</b>	<b>11.5%</b>
Systemic risk buffer	2.90%	2.90%	2.90%
Capital buffer for systematically important institutions	2.00%	2.00%	2.00%
Countercyclical capital buffer	0.00%	0.00%	0.00%
Capital conservation buffer	2.50%	2.50%	2.50%
<b>Combined buffer requirement</b>	<b>7.40%</b>	<b>7.40%</b>	<b>7.40%</b>
<b>Total Capital Requirement</b>	<b>13.9%</b>	<b>16.0%</b>	<b>18.9%</b>

- 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

<sup>25</sup> The Icelandic Financial Stability Council

The Bank's capital target is based on the current regulatory capital requirement of 13.9 per cent. CET1 and 18.9 per cent. total capital ratio. In addition, the Bank 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 Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies.

As at 31 December 2021, the Bank's total capital ratio was 26.6 per cent., compared to 25.1 per cent. as at 31 December 2020. As at 31 December 2021, the Group's total CET 1 ratio was 24.8 per cent., compared to 23.2 per cent. as at 31 December 2020. Further information can be found in note 48 in the 2021 Financial Statements and in the 2022 Q1 Interim Financial Statements, which are incorporated by reference into this Base Prospectus.

## LITIGATION

The Bank 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 Bank 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 Bank 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 was the sixth case that has been brought before the courts for this purpose, but all previous cases have been dismissed. In a written statement submitted in September 2021 the Bank claimed the case should be dismissed. In March 2022, the District Court of Reykjavik decided to reject the request of the plaintiff that assessors be appointed and an advisory opinion be requested from the EFTA Court before an oral argumentation on the claim by the defendants for dismissal of the case takes place. In April 2022, the plaintiff appealed the decision to the Appeal Court.

In September 2018, the Icelandic Bankers' Pension Fund commenced litigation against the Bank, the Icelandic Central Bank, the Icelandic State and certain companies and associations. The Pension Fund demands that an agreement on the settlement of obligations of the then participating companies from 1997 be amended such that, firstly, the defendants shall pay a total of around ISK 5.600 million to the Pension Fund, out of which the Bank shall pay around ISK 4.100 million, and, secondly, that the defendants shall guarantee the obligations of the Pension Fund's Rate Department (Hlutfallsdeild) which are higher than its assets at any time. On 12 November 2021 the District Court acquitted the Bank and the other defendants of all claims of the Pension Fund. The Pension Fund has appealed the case to the Appeal Court.

In January 2022, an individual commenced litigation against the Bank claiming that a provision in a mortgage credit agreement issued in 2006 be deemed illegal and void as it allegedly does not specify under which conditions changes are made to the interest rate, provided for in the Consumer Credit Act No. 121/1994, applicable at the time. Furthermore, the plaintiff demands an acknowledgement by the Court that interest be recalculated, in accordance with Article 4 of the Act on Interest and Indexation and that the debt remaining in November 2020 amounted to an overpayment of around ISK 26.5 million. Alternatively, the plaintiff demands an acknowledgement that interest be recalculated in accordance with the initial interest rate of the credit agreement and that the debt remaining in November 2020 amounted to an overpayment of around ISK 2 million. The litigation was initially commenced in September 2021 but the case was dismissed in December 2021.

In December 2021 two individuals commenced litigation against the Bank 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 plaintiffs demand that interests be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 3.5 million plus interest. In February 2022 the Bank submitted its written statement claiming that all claims by the plaintiffs should be rejected.

In March 2022 the plaintiffs submitted a claim that an advisory opinion by the EFTA Court should be requested on the interpretation of certain provisions in directives incorporated into the EEA Agreement.

In December 2021, two individuals commenced litigation against the Bank 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 plaintiffs demand that interest be recalculated in accordance with Article 4 of the Act on Interest and Indexation, and that the Bank repays the plaintiffs around ISK 83,000 plus interest. In February 2022, the Bank submitted its written statement claiming that all claims by the plaintiffs should be rejected. In March 2022, the plaintiffs submitted a claim that an advisory opinion by the EFTA Court should be requested on the interpretation of certain provisions in directives incorporated into the EEA Agreement.

In January 2017, the Bank commenced proceedings before the Reykjavík District Court against BPS ehf., Eignarhaldsfélagið Borgun slf., Borgun hf., now SaltPay IIB hf. (the “**Company**”), and the then CEO of the Company. The Bank 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 Bank sold its 31.2 per cent. shareholding that they failed to disclose to the Bank. The Bank demands acknowledgement of the defendants’ liability for losses incurred by the Bank on these grounds. The defendants have submitted their written defences, responding to the substance of the Bank’s pleadings. At the request of the Bank, the District Court of Reykjavík ruled on 10 September 2018 on the appointment of assessors to evaluate certain issues regarding the Company’s Annual Accounts. The assessors delivered their assessment on 22 October 2019. The assessors conclude, *inter alia*, that information on the existence of an option to buy and sell holdings of the Company in Visa Europe Ltd to Visa Inc., the terms of the option and possible payments to the Company based on the option had been of relevance for the drawing up, presentation and therefore the audit of the Annual Accounts of the Company for the year 2013. The Company should have provided information in its Annual Accounts for 2013 on its holding in Visa Europe Ltd. and that the Company was a principal member of Visa Europe Ltd. The Company should have informed about the option in the Annual Accounts for 2013 in accordance with the provisions of the international financial reporting standard IFRS 7 and informed about the uncertainty relating to the option in the Report of the Board of Directors in accordance with the Act on Annual Accounts No. 3/2006. Moreover, the assessors conclude that the Annual Accounts of the Company for the year 2013 did not fulfil all requirements of the Act on Annual Accounts and of international financial reporting standards as approved by the European Union at the time. At the request of the Company and another defendant the District Court appointed new assessors to review the assessment. The revised assessment was delivered in April 2021. The reassessors concluded, *inter alia*, that information on the existence and terms of the option could have been of relevance for the drawing up, presentation and the audit of the Annual Accounts of the Company for the year 2013, that the directors of the Company had been obligated to provide information on the existence and, under the circumstances, the terms of the option in the notes to the Annual Accounts, and that the Annual Accounts did not fulfil all requirements to inform about the holdings of the Company in Visa Europe Ltd and/or the option according to the laws and regulation applicable at the time. It is expected that the main hearing of the case will be in October 2022.

## COMPETITION

The Bank is exposed to increasing competition. There is substantial competition for the types of banking and other products and services the Bank provides. Such competition is affected by various factors such as, consumer demand, technological changes, new entrants, regulatory actions and impact of consolidation. The Icelandic competitive landscape is comprised of four commercial banks, four savings banks, and three credit undertakings. The financials market also includes nine investment firms, ten registered alternative investment funds and six management companies of undertakings for collective investment in transferable securities (“UCITS”)<sup>26</sup>. In addition, the HCA, whose role in the market as a lender has been reduced and is now responsible for implementation of government housing policies and acting as an intermediary for social housing funding, all of which the Bank competes with (see “*Financial Markets in Iceland - Market participants*”). Moreover, as additional channels arise for new lending and

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<sup>26</sup> Source: Central Bank of Iceland -Financial Supervision: <https://en.fme.is/supervision/supervised-entities/>

other banking products, particularly in the online environment, the Bank faces increasing competition from these market participants.

With lower interest rates in the Icelandic economy the demand for new lending and other financial products has increased. The Bank is subject to considerable regulatory scrutiny that can hinder competitiveness, in particular vis-à-vis Fintech firms, which are not subject to the same regulatory burden. On 1 May 2022 Iceland implemented the PSD2 in full, which enables banks' customers, both consumers and businesses, to use third party providers to manage their finances. Banks, however, are obligated to provide these third-party providers access to their customers' accounts through open application program interface ("API"), which enables third parties to build financial service on top of banks' data and infrastructure. It is likely that this will introduce increased competition. An emerging source of competition for the Bank comes from smaller specialised institutions, such as Fintech companies and shadow banking, where online solutions may have greater impact on the market.

The Bank's main competitors are the other large commercial banks in Iceland: Íslandsbanki, Arion bank, (each one is classified as a systematically important financial institution), Kvika Bank, which merged in 2020 with TM, one of the largest insurance companies in Iceland, and Lykill fjármögnun hf., an asset leasing entity. The merged company provides these three large Icelandic banks with increased competition. Furthermore, the other institutions in the industry are Icelandic pension funds and the HCA. The Icelandic pension funds have become more active competitors in recent years after they started increasing their mortgage lending to the public. The pension funds also provide competition for deposits, as a proportion of an individual's savings (proportion of persons' salary and contribution from employers) are held in pension funds rather than in bank deposits, since it is required to do so by law.<sup>27</sup> These same pensions funds are purchasers of the Bank's covered bonds and therefore represent a significant source of the Bank's funding in Icelandic Krona. Furthermore, the investment banking and wealth and asset management markets are in an increased competitive environment, 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.

Foreign banks have in the past created competition in the Icelandic corporate market with loan offerings to larger companies. While these external foreign banks and companies 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 Bank could face increased competition from foreign banks and foreign financial, banking and payment services providers (including fintech companies and related initiatives) who wish to operate to some extent in Iceland. Foreign banks and companies could have a competitive advantage in the market because they may not be subject to the stringent regulatory requirements which the Bank is subject to as a systemically important financial institution in Iceland and could have lower funding costs. The aforementioned foreign entities may have more resources available to them to provide wider-ranging services and at higher efficiency given the relatively small size of the Bank.

The Bank will continue to offer a full range of specialised financial services to individuals, corporate entities and institutions, as well as work on further product developments to meet consumer demands and face increased competition from domestic competitors, as well as foreign banks potentially seeking to establish operations in Iceland.

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

## **ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES**

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

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<sup>27</sup> Private pension savings

Name	Function	Principal Outside Activities
<b>Senior Management</b>		
Ms. Lilja Björk Einarisdóttir	CEO	Member of the executive board and the board of SA Confederation of Icelandic Enterprise. 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 Flygildi ehf., 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 A. Einarisdóttir	Managing Director of Asset Management and Capital Markets	N/A
Mr. Hreiðar Bjarnason	Managing Director of Finance (“CFO”) and deputy CEO	N/A
Ms. Sara Pálsdóttir	Managing Director of Community	N/A
<b>Board of Directors</b>		
Ms. Helga Björk Eiríksdóttir	Chairman	General Manager and Board Member of Integrum ehf. Board Member of Budz Boot Camp ehf. General Manager and Alternate Board Member of Förli ehf.
Ms. Berglind Svavarsdóttir	Board Member	Attorney and partner at Reykjavík Law Firm. Owner and board member of Lögfræðipjónusta BS slf.
Ms. Elín Jónsdóttir	Board Member	Director of the Faculty of Law at Bifröst University ( <i>Ice. Háskólinn á Bifröst</i> ). Chairman of the Board of Arnrún íbúðafélags hses.
Mr. Guðbrandur Sigurðsson	Board Member	CEO of Brynja leigufélag.



<b>Name</b>	<b>Function</b>	<b>Principal Outside Activities</b>
		Board member of Málmsteypa Þorgríms Jónssonar ehf. Director of the board of Reykjavík Creamery ehf. and Talnakönnun hf. General Manager and Board member of Nýland ehf. and Nýgildi slf.
Ms. Guðrún Ó. Blöndal	Board Member	CEO of Nasdaq CSD from 2013-2018. Board Member of Eimskipafélag Íslands hf and member of Remuneration and Nomination Committee.
Mr. Helgi Friðjón Arnarson	Board Member	Board member of Maurholt ehf.
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 Opin kerfi hf.
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 Austurstræti 11, 155 Reykjavík, Iceland.

There are no potential conflicts of interests between any duties of the Senior Management and Directors above and their private interests and/or other duties, other than a potential conflict arising out of one 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.
- alternates to the Board of Directors, Mr. Sigurður Jón Björnsson, being the brother of one of the heads of a business unit in Corporate Banking, Mr. Davíð Björnsson.

## 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 ECONOMY<sup>28</sup>

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 3,233 billion in 2021<sup>29</sup>. The population is also small, numbering just under 369,000, as at the end of 2021<sup>30</sup>. According to World Bank data, GDP per capita, measured in terms of purchasing power parities, amounted to USD 55,200 in 2020, which is in the top twenty of the highest in the world.<sup>31</sup>

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 2021, services accounted for 38 per cent. of total export revenues, while exports of marine products accounted for 24 per cent. and exports of aluminium and aluminium products accounted for 23 per cent<sup>32</sup>.

In 2008, the Icelandic economy entered into a deep recession after a five-year period of robust but unsustainable economic growth. The growth was initially spurred by investments in the aluminium and power sectors, followed by the rapid growth of the banking sector accompanied by a credit boom, sustained by easy access to global credit. The growth soon became increasingly imbalanced which was reflected in a rapidly growing current account (“CA”) deficit and mounting inflationary pressures. The recession was triggered by a twin currency and banking crisis in autumn 2008. Domestic demand contracted by nearly 27 per cent. from its peak in 2007 to its trough in 2010<sup>33</sup>.

After a period of austerity measures and restructuring of the financial sector, growth resumed in 2011 as GDP grew by 1.8 per cent. in 2012, growth continued at 1.1 per cent<sup>34</sup>. Unemployment was 5.2 per cent. in January 2022<sup>35</sup>. 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 February 2022, the ISK had appreciated by 32 per cent. since its lowest level in November 2009<sup>36</sup>.

The trade account deficit measured 2.10 per cent. of GDP in 2020 and the current account deficit was 2.8 per cent. of GDP<sup>37</sup>. In 2021, the current account surplus measured ISK 90 billion compared to ISK 24 billion surplus in 2020. The trade account deficit measured ISK 69 billion in 2021 compared to ISK 22 billion surplus in 2020<sup>38</sup>. Annual CPI inflation in February 2022 measured 6.2 per cent., well above the 2.5 per cent. inflation target of the Central Bank.

The IMF projects an increase in GDP of 4.1 per cent. in 2022 and 3,7 per cent. in 2023. Consumer prices are projected to increase by 5.3 per cent. in 2022 and 3.4 per cent. in 2023. The current account balance is projected to be in 1.2 per cent. surplus in 2022 and 1.6 per cent. surplus in 2023. Unemployment is projected to be 4.0 per cent. in 2022 and 2023<sup>39</sup>.

The emergence of the COVID-19 pandemic, coupled with measures implemented by the Icelandic government as well as other foreign government authorities to contain the pandemic, such as travel restrictions, border control, lock downs, quarantines and other measures to discourage or prohibit the movement of people, had an adverse impact on

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<sup>28</sup> 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 2 March 2022.

<sup>29</sup> Source: Statistics Iceland

<sup>30</sup> Source: Statistics Iceland

<sup>31</sup> Source: World Bank

<sup>32</sup> Source: Statistics Iceland, own calculation

<sup>33</sup> Source: Statistics Iceland, own calculation

<sup>34</sup> Source: Statistics Iceland

<sup>35</sup> Source: The Directorate of Labour

<sup>36</sup> Source: Central Bank of Iceland

<sup>37</sup> Source: Statistics Iceland, Central Bank of Iceland, own calculations

<sup>38</sup> Source: Central Bank of Iceland

<sup>39</sup> Source: International Monetary Fund

the Icelandic and global financial markets and on the level of economic activity in Iceland and the global economy. If the impact of the COVID-19 pandemic is severe or prolonged, this may result in greater volatility, reduced liquidity, widening of credit spreads and a lack of price transparency in credit markets. In view of the continued deterioration in the economic outlook, following the COVID-19 pandemic and in order to protect the Icelandic economy, the Icelandic Government and the Central Bank introduced in March and April 2020 various measures to deal with the expected impact of the pandemic<sup>40</sup> and <sup>41</sup>. These measures were to counteract the negative economic impact of the COVID-19 pandemic, with for instance Act No. 25/2020 which amended various acts in an effort to counter the economic impact of the COVID-19 pandemic (*ice. Lög um breytingu á ýmsum lögum til að mæta efnahagslegum áhrifum heimsfaraldurs kórónuveiru*). The aim was to make it easier for households and businesses to withstand the temporary loss of income that they may suffer, to counteract unemployment and to facilitate the banking system to support households and businesses.

The development of the COVID-19 pandemic, actions taken to contain the virus, or treat its impact, implementation of vaccination, the extent and effectiveness of economic stimulus taken to contain the virus or treat its impact and how quickly and to what extent normal economic and business activity can resume, means that only very limited forecasts can be made regarding the further economic impact on the global and Icelandic economy, as well as the resulting consequences. Prospective investors must consider further changes to the prospects of the Icelandic Economy which may occur during these unprecedented times.

### **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.

#### ***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 38 per cent. of goods exported in 2021. Marine products accounted for 24 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 6.7 per cent. in 2021<sup>42</sup>.

#### ***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

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<sup>40</sup> Source: Ministry of Finance and Economic Affairs, Prime Minister's Office, Ministry of Transport and Local Government, <https://www.government.is/news/article/2020/03/10/-Economic-response-to-COVID-19-/>

<sup>41</sup> Source: Government of Iceland, Prime Minister's Office: <https://www.government.is/default.aspx?pageid=5781e635-46bb-4c79-8218-03d44073071e> and <https://www.government.is/news/article/2020/03/21/Icelandic-Government-announces-1.6bn-USD-response-package-to-the-COVID-19-crisis/>

<sup>42</sup> Source: Statistics Iceland

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 37 per cent. of goods exported in 2021, from 19 per cent. in 2000. Production has risen sharply this century, from 283,000 metric tonnes per year in 2002 to 867,000 metric tonnes in 2020. 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 23 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 2010 per cent.<sup>43</sup> 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 687,000 foreigners visited Iceland, a rise of 44 per cent. from 2020. This sector generated 16.5 per cent. of total export revenues in 2021 compared with 12 per cent. in 2020 and 35 per cent. in 2019.

### ***The agricultural and farming sector***

The agricultural sector accounted for 1.5 per cent. of GDP in 2021. Icelandic agriculture is heavily subsidised, with total on-budget transfers to farmers amounting to 0.4 per cent. of GDP in 2019<sup>44</sup>. The total area of Iceland that is arable land or pasture is around 20 per cent. and less than 5 per cent. of this area is cultivated. The remainder is used for grazing or left undeveloped. The principal crops are hay cereal for animal feed, root vegetables and green vegetables which are primarily cultivated in greenhouses heated with geothermal water. Meat and dairy products are mainly for domestic consumption. Imports of meat, dairy products, and some vegetables that compete with domestic production are subject to tariffs, import quotas, and non-tariff import restrictions.

### ***The financial sector***

See "Financial Markets in Iceland" below for further detail.

## **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 estimated at 1.4 times Iceland's GDP as of 31 December 2022<sup>45</sup>. There are now four commercial banks and four savings banks currently operating in Iceland and their main focus is on the domestic market. The state is the majority owner of two of the commercial banks, namely the Bank

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<sup>43</sup> Source: The Icelandic Tourist Board

<sup>44</sup> Source: The Financial Management Authority, Statistics Iceland, own calculations

<sup>45</sup> Source: Central Bank of Iceland, Statistics Iceland, own calculations

and 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 Bank 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 Bank 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.<sup>46</sup> 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. were sold. Following the transaction the Treasury of Iceland will own 42.5 per cent. of Íslandsbanki and those holdings will continue to be managed by the ISFI.<sup>47</sup>

### Size of the banking system

Total assets of Icelandic deposit money banks, which are the four commercial banks and four savings banks, amounted to ISK 4,703 billion as at 31 December 2021, of which foreign assets were ISK 428 billion, or 9.1 per cent. The Icelandic financial market is therefore highly exposed to the Icelandic economy<sup>48</sup>.

The total assets of the three largest commercial banks, the Bank, Íslandsbanki and Arion Bank, comprised around 75 per cent. of the total assets of the Icelandic credit institutions (excluding the Central Bank and including the failed banks' holding companies)<sup>49</sup> as at the end of 2020, according to the Central Bank. The proportion of total assets of government credit funds, of which ÍL-sjóður is largest was 17 per cent. of the total assets. For more information on the merger of the Housing Finance Fund and the Icelandic Construction Authority, see the section entitled "*Market participants*" below.

### Market participants

Icelandic credit institutions are comprised of four commercial banks, four savings banks and four credit undertakings subject to minimum reserve requirements. The financial market also includes nine investment firms, ten registered alternative investment funds and nine management companies of UCITS, twenty-one pension funds, as well as one supervised entity Depositors' and Investors' Guarantee Fund<sup>50</sup>.

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 Authority<sup>51</sup>. 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

<sup>46</sup> 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](http://www.bankasysla.is/files/EigandastefnaRikisins2020_02_loka_968608008.pdf)

<sup>47</sup> Source: "Bankasýsla ríkisins" published in January 2022 by the ISFI: <http://www.bankasysla.is/fjolmidlar/frettir/nr/401/> and <https://view.news.eu.nasdaq.com/view?id=bf0ced96f884689f4a86c760c2cb6311e&lang=en>

<sup>48</sup> Source: Central Bank of Iceland

<sup>49</sup> Source: Central Bank of Iceland, Landsbankinn, Arion Bank and Íslandsbanki annual reports

<sup>50</sup> Source: Financial Supervisory Authority, <https://en.fme.is/supervision/supervised-entities/>

<sup>51</sup> Source: Icelandic parliament: <https://www.althingi.is/lagas/150a/2019137.html>

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., Vátryggingafélag Íslands hf., and Vörður tryggingar hf., which are licensed to operate in Iceland. Tryggingamiðstöðin hf., Sjóvá-Almennar tryggingar hf., and Vátryggingarfélag Íslands hf. have been active in the financial market through their investment activities in Iceland. TM hf., Sjóvá-Almennar tryggingar hf., and Vátryggingafélag Íslands hf. insurance companies are listed on Nasdaq Iceland. The commercial bank, Kvika banki hf. and TM hf. merged into one entity on 30 March 2021, after regulatory and shareholders approvals<sup>52</sup>.

### **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).

There are also two securities depositories, Nasdaq CSD Iceland (“NCSD”) and Verðbréfamiðstöð 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 verðbréfamiðstöðvar, uppgjör og rafræna eignaskráningu fjármálagerninga*). 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. NCSDI 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.

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, which shall be referred to as the Financial Supervisory Authority of the Central Bank of Iceland (“FSA” or “FSA-Iceland”).

In 1999, the Bank Inspectorate of the Central Bank and the Insurance Supervisory Authority were merged into a new independent entity, the FSA. Icelandic financial markets are supervised by the FSA. Entities engaging in financial activities which are subject to licence are regulated by the FSA, including credit institutions, insurance companies and pension funds. The activities of the 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 following<sup>53</sup>;

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<sup>52</sup> 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>

<sup>53</sup> Source: Icelandic Parliament <https://www.althingi.is/altext/stjt/2017.024.html>

- 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/EC <sup>54</sup>.

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 intermediation<sup>55</sup>. The Central Bank imposes a reserve requirement on all the commercial and savings banks. The purpose of this limitation is to ensure that credit institutions have sufficient margin to the reserve requirement account to meet fluctuations in their liquidity positions. The Central Bank oversees surveillance of the rules on Foreign Exchange.

In accordance with the aforementioned merger of the FSA and the Central Bank, the Central Bank is now responsible for the tasks entrusted by law and governmental directives to the 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.

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<sup>54</sup> Source: Icelandic Parliament; <https://www.althingi.is/alttext/stjt/2017.024.html>

<sup>55</sup> Source: The Central Bank of Iceland; <https://www.cb.is/about-the-bank/central-bank-of-iceland/>



## TAXATION

### **Iceland**

The comments below are of a general nature based on the Bank's understanding of current law and practice in Iceland. Prospective holders of Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

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

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

### ***Non-Icelandic Tax Residents***

As a general rule, Article 3 (8) of the ITA provides that any interest received from Iceland (outbound payments), such as the interest payable according to the Notes, by any person or entity residing outside of Iceland is taxable income in Iceland. According to Article 70 (8) of the ITA, the current tax rate on taxable income under Article 3 (8) is (a) 12 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 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), cf. Article 3 (3) of Regulation no. 630/2013, the Bank is not required by Icelandic law to deduct or withhold tax from interest payments on notes or bonds that are issued by a financial institution, in its own name, registered with a securities depository in 1) a member state of the OECD, 2) a member state of the EEA, 3) a member state of EFTA, or 4) the Faroe Islands, and do not constitute business subject to restrictions, cf. chapter III of Act No. 70/2021 on Foreign Exchange. The Bank has obtained confirmation from the Directorate of Internal Revenue in Iceland (the "RSK") that the Programme is within the scope of the exemption contained in paragraph 3 of Article 3 (8) of the ITA, although an exemption will need to be applied for in respect of each Tranche of Notes. Accordingly, the Bank will, based on this confirmation, register any Notes issued under the Programme with the RSK and request that the RSK provide a certificate confirming that the relevant Notes are exempt from such taxation.

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

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

Capital gains on the sale of the Notes are classified as interest under Icelandic tax law. Accordingly, based on the wording of Article 3 (8) of the ITA, cf. Article 3 (3) of Regulation no. 630/2013, capital gains on the sale of the Notes should not be subject to Income tax in Iceland, provided a tax exemption is in place in accordance with the above.

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

### ***Icelandic Tax Residents***

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

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

Subject to certain exemptions (which apply, *inter alia*, to most banks and pension funds), the Bank is required to withhold a 22 per cent. tax on the interest paid to the holders of Notes who are Icelandic residents, cf. Act No. 94/1996 on Withholding of Tax on Financial Income. Such withholding is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder. However, the Bank should generally not be held responsible for withholding tax on income related to bonds that have been registered as exempted with the Director of Revenue, unless the Bank has knowledge that the bonds have been acquired by an Icelandic tax resident, cf. *inter alia* explanatory notes accompanying Act No. 39/2013, amending the ITA. This exemption of the withholding obligation does not affect the tax obligations of the relevant bondholder.

### **FATCA**

#### ***Foreign Account Tax Compliance Act ("FATCA")***

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

#### ***The proposed financial transactions tax ("FTT")***

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a "**participating Member State**"). Estonia has since ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states might decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT and its potential impact on the Notes.

## SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as amended and/or supplemented and/or restated from time to time, the "**Programme Agreement**") dated 23 May 2022, agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### United States

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

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") and U.S. Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether the Notes will be issued (i) in compliance with U.S. Treasury regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("**TEFRA C**") rules or U.S. Treasury regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("**TEFRA D**") or (ii) under circumstances pursuant to which the Notes will not constitute registration required obligations under the U.S. Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") such that TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

### Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or
  - (ii) a customer within the meaning of Directive (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 Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

### **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 Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the UK. 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 UK domestic law by virtue of 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 UK domestic law by virtue of the EUWA; or
  - (iii) not a qualified investor as defined in Article 2 of the UK 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

### **United Kingdom**

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

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Bank;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and

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

## 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 Notes issued under the Programme has not been registered pursuant to Italian securities legislation and, accordingly, the Notes may not be offered, sold or delivered, nor may copies of this Base Prospectus or any other document relating to the Notes 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 Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes 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 Notes. Each Dealer will be required to represent and agree that the Notes 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 Notes 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 Notes constitutes a prospectus pursuant to the FinSA, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

## Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the "**FIEA**") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident

of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Hong Kong**

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

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any of the Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**")) other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

## **Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

*Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act 2001 of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

## **Canada**

Each Dealer has acknowledged that the Notes 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 Notes to such purchasers in Canada.

## **General**

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

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



## GENERAL INFORMATION

### Authorisation

The establishment of the Programme has been duly authorised by a resolution of the Board of Directors of the Bank dated 30 June 2014 and this update of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Bank dated 6 March 2019.

### Listing of Notes

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

### Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection, electronically, from website of the Bank at <https://www.landsbankinn.is/en/the-bank/investor-relations/funding>:

- (a) the articles of association and certificate of incorporation (with an English translation thereof) of the Bank;
- (b) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (c) a copy of this Base Prospectus;
- (d) the Terms and Conditions of the Notes contained in the Base Prospectus dated 8 September 2015, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme;
- (e) the Terms and Conditions of the Notes contained in the Base Prospectus dated 30 August 2016, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme;
- (f) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2017, pages 36 to 59 (inclusive) prepared by the Bank in connection with the Programme;
- (g) the Terms and Conditions of the Notes contained in the Base Prospectus dated 6 April 2018, pages 50 to 79 (inclusive) prepared by the Bank in connection with the Programme, as supplemented by the Terms and Conditions of the Notes included in the Supplemental Prospectus dated 30 May 2018;
- (h) the Terms and Conditions of the Notes contained in the Base Prospectus dated 27 March 2019, pages 56 to 93 (inclusive) prepared by the Bank in connection with the Programme;
- (i) the Terms and Conditions of the Notes contained in the Base Prospectus dated 22 May 2020, pages 59 to 97 (inclusive) prepared by the Bank in connection with the Programme, as supplemented by the Supplemental Prospectuses dated 4 September 2020, 6 November 2020, 10 February 2021 and 12 February 2021;
- (j) the Terms and Conditions of the Notes contained in the Base Prospectus dated 27 April 2021, pages 66 to 114 (inclusive) prepared by the Bank in connection with the Programme, as supplemented by the Supplemental Prospectus dated 6 October 2021; and
- (k) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

## **Clearing Systems**

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

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

## **Conditions for determining price**

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

## **Significant or Material Change**

There has been no significant change in the financial position or financial performance of the Group since 31 March 2021, and there has been no material adverse change in the prospects of the Bank since 31 December 2021.

## **Litigation**

Except as disclosed in the section entitled "*Description of the Bank – Litigation*" starting on page 139 of this Base Prospectus and updated in "*Note 39- Litigation*" on pages 40 and 41 of the 2021 Financial Statements and "*Note 30 – Litigation*" on pages 29 and 30 of the 2022 Q1 Interim Financial Statements which are both incorporated into the Base Prospectus, neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had significant effect on the financial position or profitability of the Bank 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 - 2021. 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 Bank**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and

their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Availability of Prospectus**

This Base Prospectus is available on Euronext Dublin's website at <https://live.euronext.com/>.

### **Listing Agent**

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

### **Websites**

The website of the Bank is: <https://www.landsbankinn.is>

The information on this website and any other website specified in this Base Prospectus does not form part of this Base Prospectus, except where that information has been specifically incorporated by reference into this Base Prospectus.

**BANK**

**Landsbankinn hf.**

Austurstæti 11  
155 Reykjavík  
Iceland

**FISCAL AGENT AND PAYING AGENT**

**Citibank, N.A. London Branch**

Citigroup Centre  
Canada Square  
London E14 5LB  
United Kingdom

**LEGAL ADVISERS**

*To the Bank as to English law*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*To the Dealers as to English law*

**Freshfields Bruckhaus Deringer LLP**  
100 Bishopsgate  
London EC2P 2SR  
United Kingdom

*To the Dealers as to Icelandic law*

**LOGOS**

Efstaleiti 5  
103 Reykjavík  
Iceland

**AUDITORS**

*To the Bank*

**PricewaterhouseCoopers ehf.**

Skógarhlíð 12  
105 Reykjavík  
Iceland

**ARRANGER**

**Deutsche Bank Aktiengesellschaft**

Mainzer Landstr. 11-17  
60329 Frankfurt am Main  
Germany

**DEALERS**

**Barclays Bank Ireland PLC**

One Molesworth Street  
Dublin 2  
D02RF29  
Ireland

**BofA Securities Europe SA**

51 rue La Boétie  
75008 Paris  
France

**Citigroup Global Markets Europe AG**

Reuterweg 16  
60323 Frankfurt am Main  
Germany

**Deutsche Bank Aktiengesellschaft**

Mainzer Landstr. 11-17  
60329 Frankfurt am Main  
Germany

**Goldman Sachs Bank Europe SE**

Marienturm, Taunusanlage 9-10  
D-60329 Frankfurt am Main  
Germany

**J.P. Morgan SE**

Taunustor 1 (TaunusTurm)  
60310 Frankfurt am Main  
Germany

**Morgan Stanley Europe SE**

Grosse Gallusstrasse 18  
60312 Frankfurt-am-Main  
Germany

**Nomura Financial Products Europe GmbH**

Rathenauplatz 1  
60313, Frankfurt-am-Main  
Germany

**UBS Europe SE**

Bockenheimer Landstraße 2-4  
60306 Frankfurt am Main  
Germany

**LISTING AGENT****Arthur Cox Listing Services Limited**

Ten Earlsfort Terrace  
Dublin 2  
Ireland