

IMPORTANT NOTICE

THIS BASE PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)) AND ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following notice before continuing. The following notice applies to the attached base prospectus following this notice (the “**Base Prospectus**”), whether received by email, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Base Prospectus. In reading, accessing or making any other use of the Base Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in the Base Prospectus, including any modifications made to them from time to time, each time you receive any information from Landsbankinn hf. (the “**Issuer**”) as a result of such access.

RESTRICTIONS: NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES DESCRIBED IN THE BASE PROSPECTUS (THE “**NOTES**”) HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S) IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S.

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the Notes, each prospective investor in respect of the Notes must be a person other than a U.S. Person. By accessing, reading or making any other use of the Base Prospectus, you shall be deemed to have represented to the Dealers (as defined in the Base Prospectus) that (1) you have understood and agree to the terms set out herein, (2) you are (or the person you represent is) a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Base Prospectus has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) you consent to delivery by electronic transmission, (4) you will not transmit the attached Base Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Dealers and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Notes.

You are reminded that the Base Prospectus has been delivered to you on the basis that you are a person into whose possession the Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Base Prospectus, electronically or otherwise, to any other person and in particular to any U.S. Person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received this Base Prospectus by e-mail, you should not reply by e-mail. Any reply e-mail communications, including those you generate by using the “Reply” function on your e-mail software, will be ignored or rejected. If you received this Base Prospectus by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Base Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall the Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in this Base Prospectus.

The Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Dealers, the Issuer nor any person who controls or is a director, officer, employee or agent of the Dealers, the Issuer nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Dealers.

The distribution of the Base Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession the attached document comes are required by the Dealers and the Issuer to inform themselves about, and to observe, any such restrictions.

BASE PROSPECTUS



LANDSBANKINN HF.

(incorporated with limited liability in Iceland)

€1,000,000,000

Euro Medium Term Note Programme

Under this €1,000,000,000 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 €1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement (as defined in “*Subscription and Sale*”), subject to increase as described herein. The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Overview of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Bank (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

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

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

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

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer.

Each Series (as defined in “*Overview of the Programme – Distribution*”) of Notes will be represented on issue by a temporary global note in bearer form (each a “**Temporary Global Note**”) or a permanent global note in bearer form (each a “**Permanent Global Note**”). If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“**NGN**”) form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**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*”.

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

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

The Bank has been rated BB+ by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”). The Programme has been rated BB+ by Standard & Poor’s. Standard & Poor’s is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the “**CRA Regulation**”). As such Standard & Poor’s is included in the list of credit rating agencies published by the European Securities and Markets Authority (“**ESMA**”) on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated by the rating agency referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme by Standard & Poor’s. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger

Deutsche Bank

Dealers

BofA Merrill Lynch

Deutsche Bank

Morgan Stanley

Citigroup

J.P. Morgan

UBS Investment Bank

The date of this Base Prospectus is 27 August 2014

IMPORTANT INFORMATION

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

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

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

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

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

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

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

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

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Bank and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the

Bank or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the EEA (including the United Kingdom and Iceland), Japan and Hong Kong, see “*Subscription and Sale*”.

This Base Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank or any Dealer to publish or supplement a prospectus for such offer.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. 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 be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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

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

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

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

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to:

- References in this Base Prospectus to the “**Group**” are to the Bank and its consolidated subsidiaries, taken as a whole;
- “**U.S. dollars**”, “**USD**” and “**\$**” refer to United States dollars;
- “**ISK**”, “**krona**” or “**kronur**” 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.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2012 (the “**2012 Financial Statements**”), together with the audit report thereon;

<http://www.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Statements-2012.pdf>

- (ii) the audited consolidated financial statements of the Bank for the financial years ended 31 December 2013 (the “**2013 Financial Statements**”), together with the audit report thereon; and

<http://www.landsbankinn.com/Uploads/Documents/ArsskyrslurOgUppgjor/Consolidated-Financial-Report-2013-EN.pdf>

- (iii) the interim financial statements of the Bank for the first six months of 2014, together with the review report thereon (the “**2014 Interim Financial Statements**”).

<http://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Interim-Report-H1-2014.pdf>

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

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

SUPPLEMENTARY PROSPECTUS

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

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

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OVERVIEW OF THE PROGRAMME

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

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

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

Issuer:	Landsbankinn hf.
Risk Factors:	There are certain factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include the exposure of the Bank to credit risk, market risk, operational risk and liquidity risk. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under “ <i>Risk Factors</i> ” and include certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	€1,000,000,000 Euro Medium Term Note Programme
Arranger:	Deutsche Bank AG, London Branch
Dealers:	Citigroup Global Markets Limited Deutsche Bank AG, London Branch J.P. Morgan Securities plc Merrill Lynch International Morgan Stanley & Co International plc UBS Limited and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “ <i>Subscription and Sale</i> ”) including the following restrictions applicable at the date of this Base Prospectus. Notes having a maturity of less than one year Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in Section 19 of the Financial Services and Markets Act 2000 unless they are issued to a

limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see “*Subscription and Sale*”.

Fiscal Agent:	Citibank, N.A., London Branch
Listing Agent:	Arthur Cox Listing Services Limited
Programme Size:	Up to €1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the “ Final Terms ”).
Currencies:	Notes may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Bank and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in “ <i>Form of the Notes</i> ”.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional

interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

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

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

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

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

Change of Interest Basis:

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

Zero Coupon Notes:

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

Redemption:

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

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

Denomination of Notes:

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

above, and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

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

Negative Pledge:

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

Cross Default:

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

Status of the Notes:

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

Rating:

The Programme has been rated BB+ by Standard & Poor's. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

Listing:

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

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

Governing Law:

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

Selling Restrictions:

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

United States Selling Restrictions:

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

RISK FACTORS

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

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

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

FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

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

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

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

The Bank's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing depend on customer confidence, employment trends, state of the economy and market interest rates at each time. As the Bank currently conducts most of its business in Iceland, its performance is influenced by the level and cyclical nature of business activity in Iceland, which is in turn affected by both domestic and international economic and political events. There can be no assurance that a weakening in the Icelandic economy will not have a material effect on the Bank's future financial results.

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

The Bank's retail and corporate banking business may be affected during recessionary conditions, as there may be less demand for loan products or certain customers may face financial problems and the Bank may experience higher loan defaults. The impact of the economy and business climate on the credit quality of borrowers and counterparties can affect the recoverability of loans and amounts due from counterparties. Interest rate increases may also impact the demand for mortgages and other loan products and credit quality. The Bank's investment banking, securities trading, asset management and private banking services, as well as

its investments in, and sales of products linked to, financial assets, will be affected by several factors, such as the liquidity of global financial markets, the level and volatility of equity prices and interest rates, investor sentiment, inflation and the availability and cost of credit, which are related to the economic cycle. These conditions may have an adverse effect on the Bank's business, financial condition and results of operations.

The Bank operates in a competitive market and increased competition by Icelandic or foreign banks could increase downward pressure on interest rate margins. The Bank operates in a market which has changed rapidly in recent years, with increased competition. The main competitors are Arion Bank hf., Íslandsbanki hf., MP banki hf. and the Icelandic Housing Financing Fund (the "HFF"). There is always a risk of new entrants to the market, foreign or domestic, or for smaller competitors to merge and increase their strength. Such competition could develop in individual market sectors, or in the market as a whole. The Bank has a high market share, which it intends to maintain. The Bank makes every effort to ensure that its product range, service and prices are competitive, and must constantly monitor its competitors and their offerings. However, there is always a risk that the Bank could lose its competitive edge and that new products could fail to meet the demands of the market or compete with competitors' products. All of the above could undermine the Bank's income generation and may have an adverse effect on the Bank's business, financial condition and results of operations.

Icelandic State Financial Investments ("ISFI") is the largest shareholder of the Bank. If ISFI decides to dispose of its shareholding or a proportion of its shareholding, this may affect the Bank and its business

As at the date of this Base Prospectus, the largest shareholder of the Bank is ISFI which holds a 97.9 per cent. shareholding on behalf of the National Treasury of Iceland. The Icelandic parliament has authorised the sale of up to 27.9 per cent. of ISFI's shareholding which would reduce ISFI's shareholding to 70 per cent. ISFI, on behalf of the National Treasury of Iceland, may sell or otherwise dispose of all, or part of, its shareholding in the Bank to any private or public entity, although it is expected that ISFI will remain a significant shareholder of the Bank.

Any such sale or disposal, and any conditions attaching to it, could affect the Bank's business, financial condition and results of operations.

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

In early October 2008, the Icelandic economy experienced a serious banking crisis when the three large commercial banks, Glitnir banki hf., Landsbanki Íslands hf. and Kaupthing Bank hf. (the "Old Banks"), were taken into special resolution regimes on the basis of emergency legislation passed by the Icelandic parliament. Since then, the Icelandic economy and the financial system have taken a number of steps forward. Economic growth has been quite robust compared to other developed countries in recent years. According to Statistics Iceland, the average economic growth in Iceland in the years 2011 to 2013 was 2.5 per cent. and last year's economic growth was 3.3 per cent. due to strong export growth. The economic forecast for the next years should further strengthen the stability of the Icelandic banks. A recent Organisation for Economic Co-operation and Development ("OECD") report is forecasting 2.7 per cent. economic growth in 2014 and 3.2 per cent. in 2015 compared with 1.2 per cent. and 1.7 per cent. respectively for the Euro area.

Household and corporate debt has continued to decline, owing to restructuring, write-downs and increased income. Household debt declined by over 5 per cent. of GDP in 2013 as compared to 2.5 per cent. of GDP in 2012. Corporate debt amounted to 141 per cent. of GDP at the end of 2013 compared to 165 per cent. in 2012. At present, the corporate debt ratio is similar to that at the beginning of 2005.

The economic upswing and improved private sector financial conditions are reflected in the position of Icelandic banks, which strengthened further in 2013, with good returns on equity and total assets, declining

levels of non-performing loans and rising capital ratios. Banking system liquidity has remained strong. As of the end of 2013, the capital ratio of the three largest Icelandic commercial banks was 26.1 per cent. but the ratio grew by one percentage point between the years and is well above the Financial Supervisory Authority's (the "FME") required minimum.

Even though progress has been made and the financial stability of the Icelandic banks has strengthened, the following should be taken into account.

- *Removal of capital controls.* In November 2008, the Central Bank of Iceland (the "Central Bank") introduced capital controls. Their main objective was to prevent capital flight from Iceland and devaluation of the ISK which would have had a large negative impact on debt levels of large parts of Icelandic households and corporates with foreign denominated and index-linked debt. These capital controls are now being relaxed in accordance with a capital controls liberalisation strategy established in March 2011. Even though capital controls are being relaxed, no deadline or firm future date has been established as to when they will be lifted completely. Should the capital controls be removed too quickly, it could lead to rapid and severe depreciation of the domestic currency resulting in increased inflation and through that have a negative impact on index-linked loans to households. Such depreciation would also cause disruption to the Icelandic economy and financial system resulting in lower consumption and a big strain on customers with foreign currency loans. The Icelandic banking system is largely funded by deposits. By lifting the capital controls, a large chunk of these deposits could be withdrawn putting a stress on the Icelandic banking system as a whole. The Central Bank has emphasised that lifting the controls will be done with great care and without putting financial stability at risk.
- *Possible depreciation of the ISK.* Even though the existence of the capital controls decreases the risk of a sharp depreciation of the ISK, there are other risk factors that can put pressure on the ISK. The Icelandic export sector is not very diversified and large parts of Icelandic exports are in only three major exports sectors: aluminium, seafood and tourism. Negative shocks which would decrease export revenues in any of those sectors could have a big impact on the balance of payments and put pressure on the ISK. The debt service burden on foreign debt is heavy, both in 2014 and in the coming four years, and exceeds the foreseeable current account surplus. These foreign debt payments are in large part due to the payments from the Bank to LBI hf. under the terms of the outstanding bonds between LBI hf. and the Bank. By renegotiating the terms of these bonds either by extension or by selling it to a third party, a large near term uncertainty in the balance of payments for the Icelandic economy and thus negative effects in the ISK could be eliminated. See "*Failure of the Bank to refinance the outstanding bonds between LBI hf. and the Bank could have a negative impact on the Bank's business*".
- *The deposits funding of the banks.* A large part of Icelandic banks' funding comes from deposits and it may prove difficult for the banks to increase other kinds of funding in the near future. In October 2008, the Icelandic government stated that all deposits in banks domiciled in Iceland were guaranteed by the state. Even though this statement has never been entered into law by the Icelandic parliament, the statement has probably had some effect on deposits. Should the statement be withdrawn, this could have an impact on the funding and the business of the Icelandic banks.

In addition to the risk factors above, there are other economic risk factors facing the Icelandic banking system such as the effects of the sovereign debt crisis in Europe and instability or deterioration of the international financial markets.

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

The Bank, Íslandsbanki and Arion Bank (together the “**New Banks**”) are the three largest commercial banks in Iceland and were established after the banking crisis in 2008.

The Icelandic banking system is small and the New Banks have limited opportunities for growth in the near term. Given the existing leverage of Icelandic households and businesses and slow economic growth, the New Banks are not expected to grow significantly through domestic lending in the near term. It is also unlikely that the New Banks will grow through international operations in the near future. The New Banks have begun to re-establish credit lines with foreign institutions, which is beginning to give them access to foreign currency transactions, but on a limited scale. They are unlikely to be able to engage in such transactions to any meaningful degree until capital controls are completely removed. If Iceland’s banking system does not increase in size and in the strength of its assets and business, or if some or all of the New Banks should collapse, Iceland’s economy could be vulnerable to renewed disruptions, cessation or reversal of growth. The New Banks could also be adversely affected if other developments in the Icelandic economy or in world affairs result in further slowing of growth in Iceland's economy.

In addition, the guarantee by the Icelandic government of deposits in domestic commercial and savings banks that has been in place since October 2008 has never been enacted into law by the Icelandic parliament, and the basis of this guarantee is an announcement from the Prime Minister’s Office of 6 October 2008 stating that deposits in domestic commercial and savings banks and their branches in Iceland will be fully covered. This announcement has since been repeated by subsequent governments and the European Free Trade Association Surveillance Authority has not objected to the guarantee under the EEA State Aid rules to date. It is assumed that the blanket guarantee will be gradually lifted when the banking market both domestic and foreign has stabilised. However, a sudden lifting of the guarantee, with or without regulatory intervention, could have an impact on deposit holders and the outflow of deposits held by the Bank.

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 conditions, results of operations, cash flows and prospects, and its ability to make payments in respect of the Notes.

Icelandic laws and rules on foreign exchange - existing currency restrictions

On 28 November 2008, the Icelandic parliament passed Act No. 134/2008, amending the Act on Foreign Exchange No. 87/1992, as amended (the “**Foreign Exchange Act**”) granting the Central Bank powers to intervene in the currency market with the view of stabilising the foreign exchange rate of the ISK. For this purpose, the Central Bank issued new Rules on Foreign Exchange No. 1082 of 28 November 2008 which were codified with the adoption of Act No. 127/2011 in 2011 amending the Foreign Exchange Act. The Foreign Exchange Act has since then been amended four times, one amendment Act in March 2012, two amendments in March 2013 and one in May 2014. The general regime on currency restrictions is set out in Article 13 of the Foreign Exchange Act. The Foreign Exchange Act is supplemented by the foreign exchange rules No. 300/2013.

The Foreign Exchange Act restricts the outflow of foreign currency from Iceland except in the case of a payment for goods or services. All financial transactions leading to currency outflow are prohibited unless explicitly permitted. More specifically, these rules include provisions restricting certain transactions, including lending and borrowing between resident and non-resident parties, as well as currency derivatives of any kind and the acquisition by domestic parties of financial instruments denominated in foreign currency. An exemption has been obtained to permit repurchases. Furthermore, these rules make it compulsory for residents to “repatriate” all of their foreign currency.

The Foreign Exchange Act provides for several general exceptions. Commercial banks are provided with a general exemption from certain provisions of the Foreign Exchange Act and, consequently, the capital controls. Accordingly, commercial banks, savings banks and credit institutions operating under a FME licence are exempt from restrictions on borrowing and lending between national and foreign parties, the restriction on assuming liability for payments between national and foreign parties, and the requirement to repatriate all foreign currency.

In addition to the general exemptions, the Foreign Exchange Act provides for specific exemptions from the restrictions under this legislation, subject to the Central Bank's approval. An application for any such exemptions must be made to the Central Bank and the estimated process time of such applications is approximately eight weeks.

However, in the case of the winding-up, bankruptcy or insolvency of the Bank, the exemptions from the Foreign Exchange Act may not apply and, therefore, restrictions will be effected in respect of payments of foreign currency due under the Notes, whether by reason of the Foreign Exchange Act, the Act on Bankruptcy No. 21/1991 or applicable provisions under the Act on Financial Undertakings, No. 161/2002 (the "**Act on Financial Undertakings**") which may effectively prohibit the outflow of foreign currency from Iceland.

Subject to the preceding paragraph, the payment by the Bank of interest on the relevant Interest Payment Date and of principal on the relevant Maturity Date will, therefore, be exempt from the restrictions of the Foreign Exchange Act under the general exemption. However, it is not clear whether the general exemption covers prepayments and, therefore, whether it covers the payment of an Early Redemption Amount or an Optional Redemption Amount under the Notes.

Accordingly, the Bank has separately obtained a specific exemption from the Foreign Exchange Act set out in the Central Bank's letter dated 11 August 2014 which confirms that, subject to the preceding paragraph of this risk factor, the payment of an Early Redemption Amount or Optional Redemption Amount under the Notes will be exempt from the Foreign Exchange Act.

The amendments made to the Foreign Exchange Act in March 2012 by Act No. 17/2012 imposed further restrictions on the outflow of foreign currency. This involved two amendments to the capital controls regime, among others, in response to a perceived increase in circumvention of the currency controls. Preceding these amendments, an investor could change its interests in the principal amortisation and indexation payments under a Consumer Price Index ("**CPI**") indexed annuity bond into foreign currency and transfer such payments out of the economy. This legislation removed the previous exemption provided for such payments which are now subject to the general capital controls regime, meaning that only interest payments remain within the exemption. Furthermore, the wide exemptions for payments by the winding-up committees of the failed Icelandic banks to creditors were removed and are now subject to the Central Bank's approval.

Two additional amendments were made to the Foreign Exchange Act in March 2013. Amendments by Act No. 16/2013 implemented certain changes to the currency control regime, including the removal of the expiration date from the Foreign Exchange Act. Moreover, these amendments imposed limits on the exemptions which the Central Bank can apply and the extent to which these may now be subject to prior consultation with the relevant ministry. These limits primarily relate to financial institutions or legal entities under the control of the FME through winding-up proceedings or legal entities with a balance sheet exceeding ISK 400 billion and where the transaction may have a substantial effect on the debt position of the economy or concerns ownership of a commercial bank. Amendments by Act No. 35/2013 primarily related to general exemptions and enhanced authorisations in favour of the Central Bank. Both of these amendments to the Foreign Exchange Act enhanced the Central Bank's surveillance of foreign exchange, including in relation to payments of interest, indexation, dividends and contractual maturities. The Central Bank also received authorisation to collect certain information, which may extend to any relevant third party, and to impose fines.

The Foreign Exchange Act was further amended on 16 May 2014 with the enactment of Act No. 67/2014. With this amendment act, three changes were made to the Foreign Exchange Act. The first change limits the definition of dividend within the meaning of the Foreign Exchange Act. The second change clarifies what shall be considered to be a contractual payment within the meaning of Article 13(j) of the Foreign Exchange Act. The third change introduces a new provision that provides that a legal person may be fined for violations of the Foreign Exchange Act and rules set on its basis regardless of whether the violation is derived from negligent or intentional acts by the management or employees of the legal person.

On 25 March 2011, the Central Bank announced a new strategy for the gradual removal of the remaining capital controls in phases, each of which is subject to conditions. The three conditions for lifting of controls include: macroeconomic stability, an adequate level of foreign reserves and a sound financial system.

The above currency controls constitute protective measures under Article 44 of the EEA Agreement (the “**EEA Agreement**”) and have as such been notified to the European Free Trade Association (the “**EFTA**”) Standing Committee under the procedures provided for in Protocol 18 of the EEA Agreement in conjunction with Protocol 2 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (the “**Surveillance and Court Agreement**”). Following a referral by the District Court of Reykjavík, the Court of Justice of the European Free Trade Association States (the “**EFTA Court**”) issued a reasoned opinion on 14 December 2011 whereby the EFTA Court ruled that it had competence according to the EEA Agreement and the Surveillance and Court Agreement to review the rules on currency restrictions, *inter alia*, in light of the general principle of proportionality. The EFTA Court further declared that at the time in question the rules in question were proportionate. However, this ruling of the EFTA Court does not preclude further scrutiny of the above currency controls by the relevant EEA institutions at any time.

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

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

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

Adverse changes in the credit quality of the Bank’s customers and counterparties or a general deterioration in Icelandic or global economic conditions, or arising from systematic risks in the financial systems, could affect the recoverability and value of the Bank’s assets and require an increase in the Bank’s provision for bad and doubtful debts and other provisions. Specific issues and events where credit risk could adversely affect revenues in 2014 and subsequent years include, but are not limited to:

- *Concentration of loan portfolio in certain sectors could adversely affect the Bank.* The Bank’s loan portfolio is relatively concentrated in key sectors. These are households, fisheries and construction and real estate companies. Downturns in these sectors that would influence customers’ ability to meet their obligations may have an adverse effect on the Bank’s business, financial condition and results of operations.
- *Deterioration of economic conditions could increase the required loan impairment for the Bank.* Higher unemployment, reduced personal disposable income levels and increased personal and corporate insolvency rates may reduce customers’ ability to repay loans. This, in addition to depressed asset valuations, could have an impact on the adequacy of the Bank’s loss reserves and future impairment charges.

- *Renegotiated loans.* Financial restructuring and renegotiation of loans to the Bank's customers acquired from LBI hf. started in 2009. With regards to financial restructuring of customers, the Group has put remedies in place for those experiencing financial difficulties and also presented procedures for financial restructuring. These restructuring approaches include extended and modified repayment arrangements and approved external management plans. During 2013, the Bank continued its focus and effort on restructuring loans to individuals and companies.

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

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset, or of having to do so at excessive cost. This risk arises from earlier maturities of financial liabilities compared to financial assets. The Bank's liquidity risk management policy assumes that the Bank has at all times sufficient liquidity to meet liabilities maturing over the next 12 months.

Since the financial crisis in 2008, the Bank has placed an increased emphasis on improving its liquidity risk policies. The Bank intends to comply with international best practice in its management of liquidity risk and has revised its liquidity risk policies to address recent and upcoming regulatory changes, including the new Basel III rules.

Failure of the Bank to refinance the outstanding bonds between LBI hf. and the Bank could have a negative impact on the Bank's business

The Bank will have to make annual repayments of principal to LBI hf. in foreign currencies of around ISK 14 billion in 2014, ISK 48 billion in 2015 and ISK 59 billion annually in the years 2016 to 2018, plus interest. Without renegotiation of these debts or access to refinancing from international credit markets, there could be a material adverse effect on the Bank's business, financial condition and results of operations. These bonds were initially issued on the basis of decisions of the FME in accordance with provisions of the Emergency Act from 2008. The principal amount of the bonds was compensation for the net assets and liabilities transferred to the Bank.

On 8 May 2014 the Bank and the winding up board of LBI hf. reached an agreement on amendments to contractual obligations under the bonds issued in December 2009, with a total outstanding balance equivalent to approximately ISK 226 billion. The agreement is conditional upon the winding up board of LBI hf. obtaining certain exemptions from the capital controls. The final maturity will be extended from October 2018 to October 2026 with bond tranches maturing every second year throughout the period. The Bank has an option to make prepayments of the bond without any additional costs.

Interest rates will remain unchanged at 2.90 per cent. until October 2018. Thereafter the margin steps up to 3.50 per cent. for the 2020 maturity, increasing to 4.05 per cent. for the 2026 maturity. Each of the maturities between 2020 and 2026 will be equivalent to approximately ISK 30 billion.

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

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk arises from open positions in currency, equity and interest rate products, all of which are exposed to general and specific market movements and changing volatility levels in market rates and prices, for instance in interest rates, credit spreads, foreign exchange rates and equity prices.

Changes in interest rate levels, inflation, yield curves and spreads may affect the interest rate margin realised between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the Bank's investment and trading portfolios.

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.

The Bank's interest rate risk arises from the impact of interest rate changes on the Bank's assets and liabilities, since a major portion of the Bank's assets and liabilities are interest-related in one manner or another. The Bank's limited access to debt 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.

The Bank's foreign exchange risk arises from exposure to unanticipated changes in the exchange rate between currencies and limitations to mitigate the foreign exchange risk due to capital controls. Increased volatility in the foreign exchange markets could have an adverse effect on the Bank's business, financial condition and results of operations.

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

Uncertainty regarding currency denomination in the Bank's loan portfolio has not been fully resolved in the period from 30 June 2013 to 31 December 2013. As explained in "*Description of the Bank – Litigation*", there is litigation pending concerning these currency denominations that the Icelandic courts have not passed judgment on yet.

Due to capital controls, the Bank's ability to mitigate the risk from ISK-related currency fluctuations is limited. However, the Bank has taken various measures to decrease its overall currency risk and expects future currency risk levels to be within acceptable limits.

The Bank's indexation risks arise from a considerable imbalance in its CPI-indexed assets and liabilities. CPI indexation risk is the risk that the fair value or future cash flows of CPI-indexed financial instruments may fluctuate due to changes in the Icelandic CPI. The majority of the Bank's mortgage loans and consumer loans are indexed to the CPI and the Bank is therefore exposed to inflation risk. In the case of deflation in the CPI, there could be a corresponding impact on the balance sheet and loss to the Bank.

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

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

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

Both current and former employees of the Bank can damage the Bank if they infringe its rules either intentionally or through negligence. While it is difficult to evaluate the damage in each instance, the loss can be financial and/or damage the Bank's reputation.

The Bank could suffer a loss as a result of criminal actions, such as a bank robbery, fraud, money laundering or embezzlement. All of these risk factors could cause the Bank extensive damage and affect its performance.

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

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

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

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

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

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

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

Competition for personnel with relevant expertise is significant, due to the relatively small number of available qualified individuals. Failure to attract and retain senior management and key employees could have a material adverse effect on the Bank's business.

The Bank's majority owner is the Icelandic government and the Bank's remuneration policy is determined by the owner. The ability of the Bank to attract and retain competent personnel could be adversely affected by this. In the Bank's annual financial report for the year ended 31 December 2012, the Board of Directors of the Bank highlighted the inherent risk to the Bank due to the fact that its CEO's salary is determined by the Senior Civil Servants Salary Board ("*Kjararáð*"). The Senior Civil Servants Salary Board has considered itself not to be authorised to set the CEO salary for regular hours above the nominal salary of the Prime Minister of Iceland. Legal opinions prepared for the Bank's Board of Directors find that the current arrangement is contrary to the Constitution of Iceland and the EEA Agreement.

The Board of Directors has in a letter to the Senior Civil Servants Salary Board formally requested that it determine, by way of a new decision, an acceptable salary and employment terms for the CEO. The matter is under consideration by the Senior Civil Servants Salary Board.

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

The image and reputation of financial enterprises are among their most valuable assets. The risk of damage to the Bank's image or reputation is present whenever it is the subject of discussion. Damage to its image or reputation could prompt the Bank's customers to direct their business elsewhere. This could have a very negative impact on the Bank's business. Such damage could result, for instance, from business mistakes, violations of laws or regulations, errors of judgement and poor service or products offered.

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 damage the Bank's reputation.

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

Although natural catastrophes and environmental disasters could threaten the Bank's ability to maintain its operations, attempts are made to limit this risk by ensuring the security of critical equipment, its location and distribution between risk areas. The Bank also has in place specific disaster recovery and business continuity plans.

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

The preparation of financial statements requires the Bank's management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Estimates and assumptions involve a substantial risk which could result in material adjustments to the carrying amounts of assets and liabilities during the next financial year.

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

The Bank has taken a conscious decision to insure itself against specific risks. The Bank holds all mandatory insurance coverage, including fire insurance and mandatory vehicle insurance, plus comprehensive vehicle insurance. The Bank also holds insurance policies provided for in collective bargaining agreements with the Confederation of Icelandic Bank and Finance Employees, such as life and accident insurance, and insurance stipulated by other wage contracts as applicable. In addition, the Bank has taken out liability insurance against third-party claims, insurance on moveable property and professional liability insurance for its auditors and directors and officers' liability insurance for the Bank's directors and senior management. The Bank also carries insurance against computer crime and professional indemnity coverage. In addition, money transportation is insured in accordance with the interests at stake in each instance. It should be borne in mind, however, that, despite the insurance policies carried by the Bank, there is no guarantee that it will be fully compensated should it need to lodge claims. If the Bank did submit claims under its policies, the premiums it pays could be expected to increase in the future. The Bank's insurance policies are subject to the terms and conditions of the applicable policies.

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

The Bank has developed and implemented principles, procedures and rating methods for the monitoring and identification of risks. Nevertheless, even with these monitoring systems in place it is not possible to completely eradicate the Bank's exposure to risks of various kinds which may not be identified or anticipated. Unanticipated or incorrectly quantified risk exposures could have a material adverse effect on the Bank's operation. Information regarding the Bank's risk management is further described in "*Description of the Bank – Risk Management Framework*".

Legal risk

The Bank's business operations are governed by laws and regulations and are subject to regulatory supervision. The Bank is regulated by the FME. The Bank's operating licence is subject to compliance with laws and regulations governing the Bank and its operations, and any breach of those laws or regulations may result in severe fines, liability for damages and/or the revocation of the Bank's licence.

The Bank is subject to a number of laws, regulations, administrative actions and policies governing the provision of financial services in Iceland. Any changes to current legislation might affect the Bank's operations and its results of operations. Although the Bank works closely with regulators and continually monitors its legal position, future changes in regulations, fiscal or other policies can be unpredictable and are beyond the Bank's control.

The Bank will at any time be involved in a number of court proceedings which is considered normal due to the nature of the business undertaken. Should any proceedings be determined adversely to the Bank, this could have a material adverse effect on its results. For further information please see "*Description of the Bank – Litigation*".

Changes to the Capital Requirements Directive could adversely affect the Bank's results

The new international regulatory framework for banks, Basel III, has been developed and includes requirements regarding regulatory capital, liquidity, leverage ratio and counterparty credit risk measurements. In December 2010, the Basel Committee issued the first version of the Basel III framework and a revised version was issued in June 2012. On 26 June 2013, the European Parliament and Council adopted a legislative package (known as "**CRD IV**") for the implementation of the Basel III framework in the European Union and to strengthen the regulation of the banking sector. CRD IV replaces the current Capital Requirements Directives (2006/48/EC and 2006/49/EC) with Directive (2013/36/EU) and Regulation ((EU) No. 575/2013). The global implementation plan of the framework extends throughout 2018. The Ministry of Industries and Innovation has formed a committee to implement CRD IV in Iceland. The timeframe for the implementation has not yet been published.

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

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

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

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

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

On 27 November 2013, the EFTA Working Group on Financial Services stated that "it would appear that the proposal represented by the June 2012 draft of the BRRD may be deemed EEA relevant and thus likely to be incorporated into the EEA Agreement once adopted by the EU side". The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

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

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

The BRRD will be applied by EU member states from 1 January 2015 except for the bail-in tool which is to be applied from 1 January 2016. It is unknown if and when the directive would be implemented in Iceland.

The powers set out in the BRRD impact how credit institutions and investment firms are managed, as well as, in certain circumstances, the rights of creditors. There can be no assurance that, if implemented in Iceland, its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights

of Noteholders, the price or value of their investment in the Notes and/or the ability of the Bank to satisfy its obligations under the Notes.

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

The Bank's results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, changes in corporate tax rates and the refusal of tax authorities to issue or extend advanced tax rulings.

In December 2010, the Icelandic parliament passed Act No. 155/2010 under which certain types of financial institution, including the Bank, are required to pay an annual levy of the carrying amount of their liabilities as determined for tax purposes. This levy was originally 0.041 per cent. but in December 2011 a transitional provision was introduced under which financial institutions had to pay an additional 0.0875 per cent. of their tax base as assessed for the years 2012 and 2013. In 2013 the levy was increased and set at 0.376 per cent. of the total debt of the Bank excluding tax liabilities in excess of ISK 50 billion at the end of the year. Non-financial subsidiaries are exempt from this tax. There can be no assurance that the levy will not be further increased. Any such increase could have a material adverse effect on the financial condition of the Bank.

In June 2009, the Icelandic parliament adopted an amendment to the Income Tax Act No. 90/2003 (the "ITA") as a result of which payments of Icelandic sourced interest by an Icelandic debtor, such as the Bank, to a foreign creditor, including holders of Notes who are not Icelandic are taxable in Iceland and can be subject to withholding tax at the rate of 10 per cent. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Icelandic Inland Revenue that an exemption applies, such as the existence of a relevant double taxation treaty, and in such case the provisions of the double tax treaty will apply. Bonds issued by energy companies and certain financial institutions, including bonds issued by the Bank, are also subject to exemption. The exemption, subject to certain other requirements, applies to bonds that are held through a clearing system, such as the Icelandic Securities Depository, Euroclear and Clearstream, Luxembourg, within a member state of the OECD, the EEA, a founding member state of EFTA or the Faroe Islands.

In December 2011, the Icelandic parliament passed Act No. 165/2011 under which certain types of financial institution, including the Bank, were required to pay a special additional tax levied on all remuneration paid to employees, with effect from 1 January 2012. The levy is currently set at 5.5 per cent. of such remuneration.

Abnormal pricing as a consequence of capital controls

The currency controls described in "Icelandic laws and rules on foreign exchange - existing currency restrictions" above mean that domestic parties, primarily investors, are prohibited from transferring their funds and investing outside of the Icelandic market. Consequently, they are confined to and must focus their investments on Iceland, which entails various risks, including a risk for abnormal pricing and financial bubbles occurring within several sectors of the Icelandic market. This applies both to investments in shares of listed and unlisted companies, investment funds, various other financial instruments and real-estate (primarily commercial) and may have a negative impact on the Bank's business.

Iceland's national implementation of EEA rules may be inadequate in certain circumstances

Iceland is a member state of the EEA and is therefore obligated to implement certain EU instruments with EEA relevance, including legislation relating to financial markets. Where implementation of such instruments into Icelandic law is inadequate, (for example, Iceland has failed to adapt national law to conform to EEA rules) citizens may be unable to rely on these instruments and the Icelandic courts may be barred from applying them, unless Icelandic legislation may be interpreted in accordance with the EEA rules. As a result, Noteholders in some circumstances may experience different legal protections than they would expect as

holders of securities issued by issuers in EU member states where EU instruments are directly applicable or have been adequately implemented into national legislation.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

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

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

An optional redemption feature of Notes is likely to limit their market value. During any period when the Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

If the Bank has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned

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

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

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

Risks related to Notes generally

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

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

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

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

Withholding under the EU Savings Directive.

Under Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident in another EU Member State or certain other types of entities established in another EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

The Council of the European Union has adopted Council Directive 2014/48/EU (the “**Amending Directive**”) which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular, to include additional types of income payable on securities and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Issuer is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, which may mitigate an element of this risk if the Noteholder is able to arrange for payment through such a Paying Agent. However, investors should choose their custodians and intermediaries with care, and provide each custodian and intermediary with any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

U.S. Foreign Account Tax Compliance Withholding

Whilst the Notes are in global form and held within Euroclear Bank SA/NV or Clearstream Banking, société anonyme (together the “ICSDs”), in all but the most remote circumstances, it is not expected that the new reporting regime and potential withholding tax imposed by sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (“FATCA”) will affect the amount of any payment received by the ICSDs (see “Taxation - Foreign Account Tax Compliance Act”). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Bank’s obligations under the Notes are discharged once it has paid the common depository or common safekeeper for the ICSDs (as bearer of the Notes) and the Bank has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. To the extent any such amount is subject to FATCA withholding an investor may, therefore, receive a lesser amount than would otherwise be the case.

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

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

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

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

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

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

The Icelandic statutory exemption from withholding only applies to Notes held through a securities depository in an OECD state, an EU state, an EFTA state or the Faroe Islands. If Notes in definitive form are

issued, holders should be aware that the tax exemption may not be available. However, the Bank will be required to pay the necessary additional amounts under Condition 6 in such circumstances to cover any resulting amounts deducted.

Reliance on Euroclear and Clearstream, Luxembourg procedures

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

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

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

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

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

Risks related to the market generally

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

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

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

If an investor holds Notes which are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In

addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

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

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

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

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

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

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

FORM OF THE NOTES

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

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

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

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

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

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

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

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

The following legend will appear on all Notes which have an original maturity of more than one year and on all interest coupons 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 or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes or interest coupons.

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 27 August 2014 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]

LANDSBANKINN HF.

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

under the €1,000,000,000

Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 27 August 2014 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “**Base Prospectus**”). [This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.]¹ Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at [●].

- 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:*

¹ Delete where the Notes are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive.

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

- (b) Calculation Amount: []
(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)
- 6 (a) Issue Date: []
(b) Interest Commencement Date: [specify/Issue Date/Not Applicable]
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
- 7 Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to [specify month and year]]
- 8 Interest Basis: [[] per cent. Fixed Rate]
[[[] month
[LIBOR/EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR]] +/-
[] per cent. Floating Rate]
[Zero coupon]
(see paragraph [13]/[14]/[15]below)
- 9 Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [] per cent. of their nominal amount
(N.B. The Notes will only be redeemed at an amount other than 100 per cent. of their nominal amount in the case of certain Zero Coupon Notes)
- 10 Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [13/14] applies][Not Applicable]
- 11 Put/Call Options: [Issuer Call]
[Not Applicable]
[(see paragraph 16 below)]
- 12 Status of the Notes: Senior

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 13 Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest

		Payment Date
	(b) Interest Payment Date(s):	[] in each year up to and including the Maturity Date (Amend appropriately in the case of irregular coupons)
	(c) Fixed Coupon Amount(s):	[] per Calculation Amount
	(d) Broken Amount(s):	[[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
	(e) Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(f) (Determination Date(s):	[[] in each year][Not Applicable] (Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
14	Floating Rate Note Provisions	[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)
	(a) Specified Period(s)/Specified Interest Payment Dates:	[] [], subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
	(b) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention][Not Applicable]
	(c) Additional Business Centre(s):	[]
	(d) Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent):	[]
	(f) Screen Rate Determination:	
	• Reference Rate:	[currency][] month [LIBOR/EURIBOR/NIBOR/ STIBOR/REIBOR/CIBOR].
	• Interest Determination Date(s):	[•] (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR. Second Oslo, Stockholm, Reykjavik or Copenhagen (as the case may be) business day prior to the start of each

Interest Period if NIBOR, STIBOR, REIBOR or CIBOR)

- Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (g) ISDA Determination:
 - Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
(In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
- (h) Linear Interpolation: [Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (i) Margin(s): [+/-] [] per cent. per annum
- (j) Minimum Rate of Interest: [] per cent. per annum
- (k) Maximum Rate of Interest: [] per cent. per annum
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360][360/360][Bond Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)
(See Condition 3 for alternatives)
- 15 Zero Coupon Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (a) Accrual Yield: [] per cent. per annum
 - (b) Reference Price: []
 - (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]

PROVISIONS RELATING TO REDEMPTION

- 16 Issuer Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
 - (a) Optional Redemption Date(s): []
 - (b) Optional Redemption Amount: [[] per Calculation Amount]

- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
- (ii) Maximum Redemption Amount: []
- (d) Notice periods: Minimum period: [] days
Maximum period: [] days

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

- 17 Final Redemption Amount: [] per Calculation Amount

(N.B. Except in the case of Zero Coupon Notes where a Redemption/Payment Basis other than 100 per cent. of the nominal amount has been specified, the Final Redemption Amount shall be equal to 100 per cent. of the Calculation Amount per Calculation Amount)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 18 Form of Notes:

- (a) Form: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[Permanent Global Note exchangeable for Definitive Notes [only upon an Exchange Event/at any time at the request of the Bank]]

(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)

- (b) New Global Note: [Yes][No]

- 19 Additional Financial Centre(s): [Not Applicable/Applicable (list relevant financial centres)]
(Note that this paragraph relates to the date of payment and not Interest Period end dates to which sub-paragraph 14(c)

20 Talons for future Coupons to be attached to Definitive Notes: *relates)*
[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

THIRD PARTY INFORMATION

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

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

By:
Duly authorised

By:
Duly authorised

PART B – OTHER INFORMATION

1 LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading [Application has been made by the Bank (or on its behalf) to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Main Securities Market with effect from [] / [Not Applicable]].
- [Application is expected to be made by the Bank (or on its behalf) for the Notes to be admitted to trading on *[specify relevant regulated market (for example the Bourse de Luxembourg, the London Stock Exchange’s regulated market or the Main Securities Market of the Irish Stock Exchange) and, if relevant, listing on an official list (for example, the Official List of the Luxembourg Stock Exchange)]* with effect from [].]
- (ii) Estimate of total expenses related to admission to trading: []

2 RATINGS

- Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:
- [insert details]* by *[insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms]*.
- [Each of *[insert legal name of relevant credit rating agency entity providing rating]* is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “**CRA Regulation**”).]
- [Insert legal name of relevant credit rating agency entity providing rating]* is not established in the EU but the rating it has given to the Notes is endorsed by *[insert legal name of credit rating agency]*, which is established in the EU and registered under Regulation (EC) No 1060/2009 (the “**CRA Regulation**”).]
- [Insert legal name of relevant credit rating agency entity providing rating]* is not established in the EU but is certified under Regulation (EC) No 1060/2009 (the “**CRA Regulation**”).]
- [Insert legal name of relevant credit rating agency entity providing rating]* is not established in the EU and is not certified under Regulation (EC) No 1060/2009 (the “**CRA Regulation**”) and the rating it has given to the Notes is not endorsed by a credit rating agency under Regulation (EC) No 1060/2009 (the “**CRA Regulation**”).
- (The above disclosure should reflect the rating allocated to*

Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

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

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

4 YIELD (Fixed Rate Notes only)

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

5 HISTORIC INTEREST RATES (Floating Rate Notes only)

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

6 OPERATIONAL INFORMATION

- (i) ISIN: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): []
- [(vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation “yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/
[No. Whilst the designation is specified as “no” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of

meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

7 DISTRIBUTION

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

TERMS AND CONDITIONS OF THE NOTES

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

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

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

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

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

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the “**Conditions**”). References to the “**applicable Final Terms**” are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) to the extent implemented in the relevant Member State of the European Economic Area and includes any relevant implementing measure in the relevant Member State and the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

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

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

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches

of Notes which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

The Noteholders and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as modified and/or supplemented and/or restated from time to time, the “**Deed of Covenant**”) dated 27 August 2014 and made by the Bank. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

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

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

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

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

1 FORM, DENOMINATION AND TITLE

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

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

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

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

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“**Euroclear**”) and/or Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of

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

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

2 STATUS OF THE NOTES

The Notes and any relative Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Bank, from time to time outstanding.

3 INTEREST

3.1 Interest on Fixed Rate Notes

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

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

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation

Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

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

- (a) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

(c) In the Conditions:

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

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

3.2 Interest on Floating Rate Notes

(a) Interest Payment Dates

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

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

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

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

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

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

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars

shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “**TARGET2 System**”) is open.

(b) Rate of Interest

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

(i) ISDA Determination for Floating Rate Notes

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

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

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

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

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being LIBOR, EURIBOR, NIBOR, STIBOR, REIBOR or CIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR and Copenhagen time, in the case of CIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Fiscal Agent. If five or more of such

offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (A) above, no offered quotation appears or, in the case of (B) above, fewer than three offered quotations appear, in each case as at 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR), the Fiscal Agent shall request each of the Reference Banks to provide the Fiscal Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Fiscal Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Fiscal Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Fiscal Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro-zone inter-bank market (if the Reference Rate is EURIBOR), the Norwegian inter-bank market (if the Reference Rate is NIBOR), the Swedish inter-bank market (if the Reference Rate is STIBOR), the Icelandic inter-bank market (if the Reference Rate is REIBOR) or the Danish inter-bank market (if the Reference Rate is CIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Fiscal Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time in the case of LIBOR, Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the

Fiscal Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR), the Euro-zone inter-bank market (if the Reference Rate is EURIBOR), the Norwegian inter-bank market (if the Reference Rate is NIBOR), the Swedish inter-bank market (if the Reference Rate is STIBOR), the Icelandic inter-bank market (if the Reference Rate is REIBOR) or the Danish inter-bank market (if the Reference Rate is CIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

As used herein, “**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in the case of a determination of NIBOR, the principal Oslo office of four major banks in the Norwegian inter-bank market, in the case of a determination of STIBOR, the principal Stockholm office of four major banks in the Swedish inter-bank market, in the case of a determination of REIBOR, the principal Reykjavik office of four major banks in the Icelandic inter-bank market and, in the case of a determination of CIBOR, the principal Copenhagen office of four major banks in the Danish inter-bank market, in each case selected by the Fiscal Agent in consultation with the Issuer.

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

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

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

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

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

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

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

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

where:

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

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

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

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

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

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

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

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

where:

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

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

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

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

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

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

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

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

where:

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

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

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

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

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(e) Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Fiscal Agent by straight line linear interpolation by reference to two rates based on the relevant

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

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

(f) Notification of Rate of Interest and Interest Amounts

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

(g) Certificates to be final

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

3.3 Accrual of interest

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

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

4 PAYMENTS

4.1 Method of payment

Subject as provided below:

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

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

4.2 Presentation of definitive Notes and Coupons

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

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 6) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 7) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall

become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A “**Long Maturity Note**” is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

4.3 Payments in respect of Global Notes

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

4.4 General provisions applicable to payments

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

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

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

4.5 Payment Day

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

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

4.6 Interpretation of principal and interest

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

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

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

5 REDEMPTION AND PURCHASE

5.1 Redemption at maturity

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

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

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

5.2 Redemption for tax reasons

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

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

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

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

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

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

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

5.4 Early Redemption Amounts

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

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

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

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

5.5 Purchases

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

5.6 Cancellation

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

5.7 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 5.1, 5.2 or 5.3 above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 5.4(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

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

6 TAXATION

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

- (a) presented for payment in Iceland; or
- (b) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4.5); or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

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

7 PRESCRIPTION

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

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

8 EVENTS OF DEFAULT

8.1 Events of Default

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

- (a) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and 10 days in the case of interest; or
- (b) if the Bank fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Bank of notice requiring the same to be remedied; or
- (c) if (i) any Financial Indebtedness (as defined below) of the Bank or any of its Principal Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Bank or any of its Principal Subsidiaries fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any originally applicable grace period; (iii) any security given by the Bank or any of its Principal Subsidiaries for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Bank or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Financial Indebtedness of any other person, provided that the aggregate nominal amount of any such Financial Indebtedness of the Bank or such Principal Subsidiary in the case of (i), (ii) and/or (iii) above, and/or amount of Financial Indebtedness in relation to which such guarantee and/or indemnity of the Bank or such Principal Subsidiary has been given in the case of (iv) above, is at least €25,000,000 (or its equivalent in any other currency);
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Bank or any of its Principal Subsidiaries, save for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the Principal Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent); or
- (e) if the Bank or any of its Principal Subsidiaries ceases or threatens to cease to carry on (in the case of the Bank) the whole or a substantial part of its business or (in the case of a Principal Subsidiary) the whole or substantially the whole of its business, (save in each case for the purposes of reorganisation (i) on terms previously approved by an Extraordinary Resolution, or (ii) in the case of a Principal Subsidiary, whereby the undertaking and the assets of the

Principal Subsidiary are transferred to or otherwise vested in the Bank or another of its Subsidiaries as part of a voluntary amalgamation, reconstruction or restructuring in relation to a Principal Subsidiary which is solvent) or the Bank or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

- (f) if (A) proceedings are initiated against the Bank or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Bank or any of its Principal Subsidiaries or, as the case may be, in relation to all or substantially all of the undertaking or assets of any of them, or an encumbrance takes possession of all or substantially all of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- (g) if the Bank or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

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

8.2 Definitions

For the purposes of the Conditions:

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

- (a) borrowed money;
- (b) any amount raised by acceptance under any acceptance credit facility or any dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of any debenture, bond, note or loan stock or other similar instrument (with the exception of any loan stock issued by a member of the Group which is cash collateralised);
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;
- (e) receivables sold or discounted (otherwise than on a non-recourse basis);

- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial or economic effect of a borrowing and which, for the avoidance of doubt, includes any transaction that is required to be classified and accounted for as borrowings, for financial reporting purposes in accordance with IFRS;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account); or
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;

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

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

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

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

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

all as more particularly defined in the Agency Agreement.

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

9 REPLACEMENT OF NOTES, COUPONS AND TALONS

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

10 PAYING AGENTS

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

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

- (a) there will at all times be a Fiscal Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Bank is incorporated.

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

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

11 EXCHANGE OF TALONS

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

12 NOTICES

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

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

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

13 MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes,

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

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

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

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

14 FURTHER ISSUES

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

15 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

16 GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing law

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

16.2 Submission to jurisdiction

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

16.3 Appointment of Process Agent

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

16.4 Waiver of immunity

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

16.5 Other documents

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

USE OF PROCEEDS

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

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a leading Icelandic financial institution, offering a full range of financial services in the Icelandic financial service sector with a total of 34 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, LBI hf., dates back to 1886.

The Bank operates pursuant to the provisions of the Act on Financial Undertakings, the Act on Public Limited Companies, No. 2/1995 and the Act on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc., No. 125/2008. The Bank is supervised by the FME.

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

In January 2014, the international rating agency Standard & Poor's assigned its BB+ long-term counterparty credit rating to the Bank with stable outlook. This rating is one notch below the sovereign credit rating for Iceland.

For the year ended 31 December 2013, the Bank's net interest income was ISK 34.3 billion (compared to ISK 35.6 billion in 2012), its operating income was ISK 65.6 billion (compared to ISK 49.1 billion in 2012) and profit for the year 2013 was ISK 28.8 billion (compared to ISK 25.5 billion in 2012). As at 31 December 2013, the Bank's total assets were ISK 1,151 billion.

HISTORICAL BACKGROUND

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

Following the turn of the 20th century, however, Icelandic society progressed and prospered as industrialisation finally made inroads, and the bank grew and developed in parallel to the nation. In the 1920s, LBI hf. became Iceland's largest bank and was made responsible for issuing Iceland's bank notes. After the issuing of bank notes was transferred to the then newly established Central Bank of Iceland in 1961, LBI hf. 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 hf. managed to take advantage of, despite some economic adversity. In 1997, LBI hf. was incorporated as a limited liability company, and the ensuing privatisation was concluded in 2003. From 2003 to 2008, LBI hf. operated as a private bank with substantial international activities in jurisdictions such as the UK and the Netherlands in addition to its traditional Icelandic operations.

Following the continuous deterioration of the financial markets and the collapse of the Icelandic banking system, the FME took control of LBI hf. on 7 October 2008. Subsequently, the bank was split into two entities. 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 hf. and a Resolution Committee was appointed to supersede the board of directors of LBI hf.

SHAREHOLDERS

The Bank's total share capital is ISK 24,000,000,000. Each share is of the nominal value of one ISK and entitles the owner to one vote at shareholders' meetings.

The Bank has 1,400 shareholders. The largest shareholder is Icelandic State Financial Investments, which manages 23,500,000,000 (97.9 per cent.) shares and voting rights of the National Treasury. Icelandic State Financial Investments manages its holdings in the Bank in accordance with its publicly available ownership policy. The second largest shareholder is the Bank, which holds 312,930,963 (1.30 per cent.) of its own shares after the delivery of shares to current and former employees of the Bank. These shares are held by the Bank to meet income taxes, financial services tax and other salary related expenses as described below. The allocation of shares to current and former employees of the Bank took place in September 2013 and in February 2014. 1,398 other shareholders that are current and former employees of the Bank hold 187,069,037 (0.78 per cent.) shares and voting rights in the Bank.

The Bank's holding of its own shares is a result of a settlement agreement, between the Bank, LBI hf. and the Icelandic state dated 15 December 2009. The settlement agreement stipulated that 500,000,000 shares were to be distributed to the Bank's employees ("**Employee Shareholders**"). After the allocation of shares, the Bank retained 1.30 per cent. of its own shares because employees are required to pay income tax on the value of the shares in the same way as normal salary payments. The Bank retained shares in the amount of the income tax payment required from employees, financial services tax levied on financial undertakings, pension and other salary-linked expenses and paid this amount to the state and pension funds.

Employee Shareholders are required, according to the terms on which the shares were allocated to them, to retain the shares in the Bank for at least three years, following allocation. Should the Bank list its shares on a stock exchange, 60 per cent. of the shares held by each Employee Shareholder may be sold one month following listing. The remaining shares (40 per cent.) may not be sold until three years have elapsed from the date of allocation. During that time, the shares may not be mortgaged or assigned.

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

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

ORGANISATIONAL STRUCTURE

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

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

STRATEGY

The Bank's strategy is "Landsbankinn – your financial partner". The Bank's strategy, which was introduced in 2010, rests on four main pillars, all of equal importance. These pillars are:

- A unified team, referring to the Bank’s human resources and employees’ positive attitude;
- A solid infrastructure, referring to procedures, financial strength, risk management and operational discipline;
- Satisfied customers, referring to the Bank’s service to customers and the mutual benefit of a long-term business relationship; and,
- Benefits to society and owners, which refers to the Bank’s role in Icelandic society.

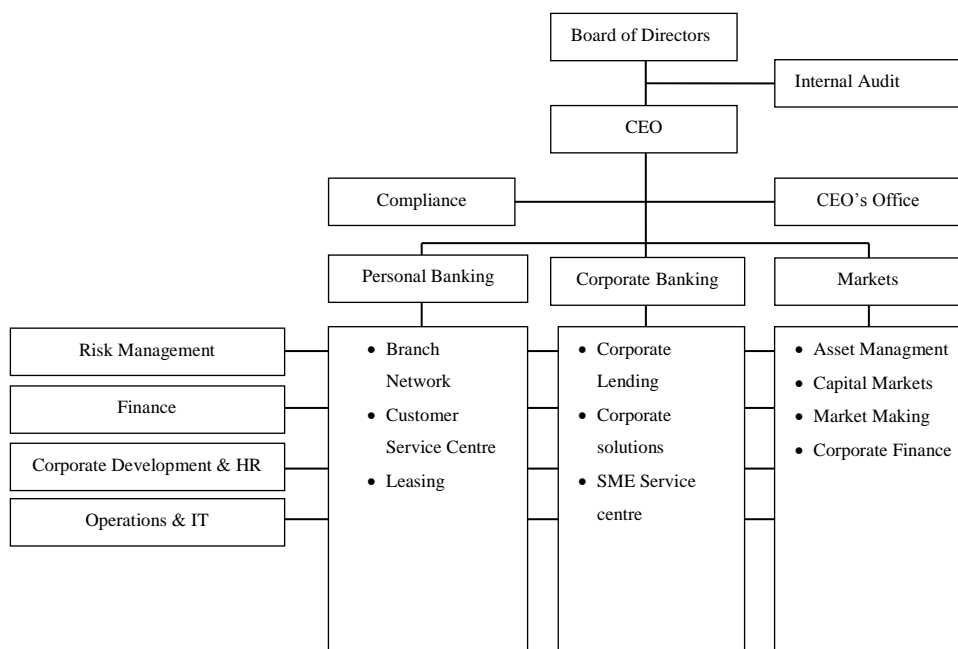
The strategy outlines the Bank’s vision to become an exemplary company and to be among the best banks in the Nordic region by 2015. To achieve these goals, the Bank’s focus is on efficient operations, sound management, a unified team and a responsible marketing strategy. The Bank aims to be a force for change with the aim of creating value for customers, society, owners and employees.

In September 2012, the Bank introduced new emphases leading up to 2015 based on its strategy introduced in 2010. The new emphases entail increasing operational efficiency by reducing cost, strengthening management and team unity, while also pursuing a responsible market strategy. At the same time, the Bank made significant changes to its organisational structure, which came into effect on 1 October 2012.

Emphasis is placed on increased co-operation between all of the Bank’s divisions that communicate with customers, in order to offer better and more effective services for the mutual benefit of customers and the Bank. The aim is to promote the objective of efficient and profitable operations while simultaneously strengthening the branches and providing employees with efficient tools, solutions and equipment to help them understand the customer needs and take initiative in offering services and provide solutions to problems.

BUSINESS

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



The Bank has three reporting segments: Personal Banking, Corporate Banking and Markets.

Personal Banking

The Personal Banking division (“**Personal Banking**”) comprises three departments: the Branch Network, the Customer Service Centre and Leasing (Vehicle and Equipment Financing). Personal Banking has two support units: the Debt Management Advisory Centre and Business Solutions.

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

The Bank operates 34 branches and outlets around the country. 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 and, in rural areas, branches further provide service and advice to SMEs. Various self-service options are available throughout the country. In addition, the Bank’s customers have access to financial services through its Customer Service Centre and online banking system.

Towards the end of 2013, all services to corporate customers, including SMEs, in the capital region were merged under the auspices of a Corporate Service Centre, a new business unit located in the Corporate Banking division of the Bank’s organisational structure. Nevertheless, most branches still provide basic SME services to ensure customer comfort.

At Leifstöð, Iceland’s international airport, travellers are provided with a certain range of targeted financial services.

Among the Bank’s customers are over 100,000 individuals and around 3,000 SMEs. Its market share is around 33 per cent. with respect to retail customers and 32 per cent. with respect to SMEs, according to a survey conducted by Capacent in December 2013.

Corporate Banking

Corporate Banking (“**Corporate Banking**”) provides comprehensive financial services to large, small and medium size corporate clients and municipalities, as well as tailored services to meet customer specific needs. Corporate Banking holds a strong position among the largest companies and institutions in Iceland. As at March 2014, according to an annual survey conducted by Capacent, the Bank’s share of the market in Corporate Banking was around 33.6 per cent.

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

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

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

Legal Services provides legal advice regarding corporate lending and restructuring and is responsible for drafting more complex loan contracts and collateral agreements.

Markets

Markets (“**Markets**”) provides brokerage services in securities, foreign currencies and derivatives, sale of securities issues, money market lending and advisory services. The division provides a range of wealth and asset management products and services for individuals, corporations and institutional investors. Horn fjárfestingarfélag and Landsbréf ehf., subsidiaries of the Bank, are included in Markets. The Markets Division comprises four departments: Asset Management, Capital Markets, Market Making and Corporate Finance. The Markets Division has one support unit: Business Solutions.

Asset Management offers comprehensive asset management services, including advice in selecting appropriate savings options, and development and management of asset portfolios. The customers of Asset Management are diverse and include individuals, pension funds, institutions, municipalities and companies.

A part of the product offering provided by Asset Management is securities and investment funds run by Landsbréf ehf., an independent subsidiary of the Bank. In addition, Asset Management has two pension funds under full management, which involves the asset management of securities portfolios, supervising the funds’ accounting, registration of pension rights and pension payments.

Asset Management’s services also entail the management of asset portfolios by Private Banking Services along with customised management for companies, pension funds, insurance companies, municipalities and charities. Private Banking Services are customised to meet the needs of the Bank’s wealthiest customers. Activities involve the management of customer’s asset portfolios in addition to general accounting services. Customers can choose between active management of an asset portfolio where the advisers of Private Banking Services manage the assets in accordance with a predetermined investment strategy, or advise on management where the customer manages its own portfolio with the assistance of an adviser.

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

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

Capital Markets incorporates Fund & Pension Advisory Services, which provide the Bank’s customers with advice and services in matters relating to savings, investments and pensions. The department’s main customers are general investors involved in securities trading and individuals and companies in relation to pension issues.

Market Making acts as a market maker for a number of issuers of listed securities, as well as the ISK on the interbank market. The role of a market maker is to promote normal price formation and liquidity on the market by submitting offers to buy or sell the asset to which the market making agreement applies at any time, for its own account within a maximum price range.

Corporate Finance provides advisory services to companies and investors, and is focused on services in relation to the restructuring of companies, among other things, through mergers and acquisitions, purchase and sale of companies and advice on project financing. It also advises on and co-ordinates public offerings and listings on stock exchanges, as well as providing services to companies listed on a stock exchange.

Business Solutions is a support unit designed to assist the business units by providing business development.

Support divisions

The Bank has four support divisions: Risk Management, Finance, Corporate Development & Human Resources and Operations & IT.

Risk Management

The role of the Risk Management Division is to assess and control the Bank's credit risk, to assess market risk, liquidity risk and operational risk, and monitor these risk factors in the Bank's operations. The Risk Management Division is responsible for maintenance and analysis of the Bank's risk assessment systems. The Division comprises five departments: Credit Management, Credit Risk Monitoring, Market Risk, Operational Risk and Models & Analysis.

The Credit Management department is responsible for risk assessment and veto rights on credit applications from customers with exposures exceeding the credit limits of individual business units and customers which have been classified yellow, orange or red as further described below under "*Description of the Bank - Risk Management Framework – Credit risk control and monitoring*". Secondary voting on decisions exceeding the authorisation of the Risk Management Division is referred to the Bank's Credit Committee.

The Credit Risk Monitoring Department is responsible for monitoring credit risk within the Bank's credit portfolio. This is done by operating a credit monitoring system. The Credit Risk Monitoring Department is also responsible for the portfolio valuation methodology and for the operation of the Bank's write-off process. In addition, the Department works with other departments on impairment analysis.

The Market Risk Department is responsible for measuring and monitoring market risk, liquidity risk and interest rate risk in the Bank's banking book. The Bank's banking book is the portfolio of assets, primarily loans the Bank expects to hold until maturity when the loan is repaid fully; the banking book typically refers to the loans the Bank underwrites. The Market Risk Department is also responsible for (i) monitoring all derivatives trading the Bank enters into, both for hedging and trading purposes, (ii) FX balance monitoring for the Bank and (iii) providing limit monitoring for pension funds under management by the Bank. The Market Risk Department is also responsible for comprehensive risk reporting to various departments and committees.

The Operational Risk Department is responsible for ensuring that the Bank's operational risks are monitored and that the Bank implements and maintains an effective operational risk management framework. The department assists the Bank's managers with operational risk assessment incidents related to normal operations and operational loss incidents analysis, and oversees continuity plans. The Operational Risk Department leads the work on the Bank's certification under the ISO 2701 standard for information security.

The Models and Analysis Department is responsible for providing, developing and maintaining the Bank's internal models and related processes to measure risk, including the Economic Capital framework, as well as supporting the implementation of such models and processes within the Bank. In addition, the Department is responsible for credit risk, economic capital and risk appetite reporting within the Bank and reporting to supervisory authorities.

Finance

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

Treasury is primarily concerned with liquidity management and financing for the Bank, Asset and Liability Management, market-making in the money market and controlling internal pricing of capital. Treasury also handles communications with the Central Bank, domestic and overseas financial institutions, as well as rating agencies. Treasury proposes changes to the Bank's tariff and determines special terms for accounts in collaboration with the branch network. Treasury is also responsible for the Bank's internal and external

pricing and proposes changes to the Bank's tariff and interests in collaboration with other divisions and determines special terms for accounts in collaboration with the branch network.

Accounting & Financial Reporting is responsible for financial accounting and prepares the Bank's monthly, quarterly and annual financial statements. Accounting & Financial Reporting registers and discharges cost accounting. The department manages the accounts of asset custody portfolios and pension funds under management by the Bank.

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

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

Following ruling No. 155/2011 of the Supreme Court of Iceland (the "**Supreme Court**"), the Bank created the Recalculation department. Its role is to handle recalculation of exchange rate indexed loans and the correction thereof in the Bank's systems. Currently, its main tasks involve correction of recalculations of car loans with shorter maturity in accordance with the Supreme Court rulings No. 60/2011 and No. 464/2012. In addition, Recalculation works with Legal on various court proceedings that concern disputes on classification and recalculation of loans and queries on FX-denominated loans.

Corporate Development & Human Resources

Corporate Development & Human Resources comprises seven departments: Strategic Project Management Office ("**Strategic PMO**"), Human Resources ("**HR**"), the Marketing Department, the Web Department, Sales & Services, Business Development and Corporate Social Responsibility ("**CSR**").

The role of the Strategic PMO is to ensure that the Bank's activities progress effectively and professionally, guided by the Bank's strategy. In addition, Strategic PMO oversees the Bank's strategy, which involves conducting reviews, audits and implementation thereof.

HR is responsible for all employee-related issues, such as salary and benefits, recruitment and job development. The Education and Training Department is located within HR.

The Marketing Department is responsible for formulating and implementing the Bank's marketing strategy and planning.

The Web Department is responsible for mobile banking and the development and technical maintenance of the intranet and external internet services, as well as special solutions for the Bank's various divisions.

The Sales & Services Department is project-driven and is responsible for development in areas relating to the Bank's sales and service quality. The Department provides advice, education and support to the development and implementation of improvement measures in sales and services.

The role of Business Development is to drive innovation in banking services, product development and the Bank's distribution channels. Business Development closely monitors market developments, changes in consumer behaviour and distribution channels.

CSR is responsible for defining and forming the Bank's CSR policy and works towards the implementation of CSR in the Bank's daily operations and in its departments and divisions.

Operations & IT

Operations & IT comprises six departments: Property, IT, Appropriated Assets, Transaction Services, Loan Administration and Records and Information Management.

The Property Department oversees the Bank's internal operations, in other words, the operation and maintenance of all its properties, including sale or purchase. The Department is also responsible for employees' working facilities, purchase of equipment for the Bank's operations, internal security and relations with external security facilities and custodial operations.

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

Appropriated Assets handles assets which the Bank comes to possess through foreclosure or other debt settlement and is responsible for their sale.

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

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

Records and Information Management provides document management consulting, information searching, printing services and administration of the archives.

Other divisions

CEO's Office

The CEO's Office works closely with the CEO and aids him in his duties. The CEO Office's main responsibilities are to implement the Bank's strategy, handle internal and external communication, including with institutions, public enterprises and various stakeholders. The CEO's Office manages the activities and decisions of the Bank's Board of Directors and executive board and provides follow-up.

Compliance

Compliance is an independent unit directly under the CEO. Compliance's main responsibilities are to:

- Monitor and regularly assess the functionality of measures established to maintain relevant policies and procedures designed to detect any risk that the Bank might fail to fulfil its obligations pursuant to legislation on securities transactions.
- Assist, support and advise management in the fulfilment of their duties. Provide those employees of the Bank, who are responsible for securities transactions, with the training, advice and assistance necessary to enable them to fulfil the Bank's obligations in accordance with legislation on securities transactions.
- Enforce provisions of the Act on Actions to Combat Money Laundering and Terrorist Financing and make sure that co-ordinated procedures are developed to ensure the correct execution of the above referenced Act.
- Identify, assess and monitor the compliance risks faced by the Bank.

- Implement a document management policy and ensure its compliance within the Bank.

Internal Audit

The internal audit function is a part of the Bank's organisational structure and constitutes one aspect of its internal oversight system. The role of the internal audit function is to provide independent and objective assurance and advice, which is intended to add value and improve the Bank's operations.

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

The Internal Auditor is appointed by the Bank's Board of Directors and is responsible to the Board and its Audit Committee. The Internal Auditor reports functionally and administratively to the Chairman of the Board of Directors. Strong emphasis is placed on employees of the internal audit function being independent and objective in their work. The Internal Auditor ensures that the work undertaken by the internal audit function is performed in accordance with the International Professional Practices Framework issued by the Institute of Internal Auditors.

LOAN PORTFOLIO

The table below sets out details of the Bank's loans and advances to financial institutions as at 31 December 2013 and 2012, classified by type of loan.

	2013	2012
	<i>(millions of ISK)</i>	
Bank accounts with financial institutions.....	4,863	8,559
Money market loans.....	49,625	37,769
Overdrafts.....	6,394	7,726
Other loans.....	7,034	10,295
Total	67,916	64,349

The table below sets out details of the Bank's loans and advances to customers as at 31 December 2013 and 2012 classified by type of loan. During the reporting period the Bank was not permitted to sell or repledge any collateral in absence of default by the owner of the collateral.

	2013	2012
	<i>(millions of ISK)</i>	
Public entities.....	10,149	11,682
Individuals.....	217,719	207,608
Corporations.....	503,544	490,827
Less: Allowance for impairment.....	(50,944)	(44,030)
Total	680,468	666,087

Notes:

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

The following tables show the Group's maximum credit risk exposure at 31 December 2013 and 2012. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position. Off-balance sheet amounts in the tables below are the maximum amounts the Group might have to pay for guarantees, loan commitments in their full amount, and undrawn overdraft and credit card facilities.

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

Corporations													
At 31 December 2013	Financial institutions	Public entities ⁽¹⁾	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC ⁽²⁾	Other	Carrying amount
<i>(millions of ISK except %)</i>													
Cash and balances with Central Bank.....	-	21,520	-	-	-	-	-	-	-	-	-	-	21,520
Bonds and debt instruments	844	265,482	-	-	13,860	-	-	9,655	-	-	-	755	290,595
Derivative instruments.....	606	1	-	-	-	-	30	-	-	-	-	17	654
Loans and advances to financial institutions.....	67,916	-	-	-	-	-	-	-	-	-	-	-	67,916
Loans and advances to customers	-	10,015	201,485	146,302	127,233	46,617	35,974	55,814	25,337	7,714	19,459	4,518	680,468
Other financial assets.....	3,743	327	458	99	1,193	438	20	1	5	40	2	41	6,366
Total on-balance sheet exposure.....	73,109	297,345	201,943	146,401	142,286	47,055	36,024	65,470	25,342	7,754	19,461	5,331	1,067,521
Off-balance sheet exposure.....	4,568	16,833	20,818	20,191	23,508	14,355	8,249	8,064	7,723	395	4,088	646	129,438
Financial guarantees and underwriting commitments	26	705	506	1,666	2,486	5,529	1,738	34	593	28	1,012	40	14,363
Undrawn loan commitments	1,500	9,687	49	16,613	19,626	807	1,238	7,225	5,348	35	2,007	433	64,568
Undrawn overdraft/credit card facilities.....	3,042	6,441	20,263	1,912	1,396	8,019	5,273	805	1,782	332	1,069	173	50,507
Maximum exposure to credit risk	77,677	314,178	222,761	166,592	165,794	61,410	44,273	73,534	33,065	8,149	23,549	5,977	1,196,959
Percentage of carrying amount..	6.5%	26.2%	18.6%	13.9%	13.9%	5.1%	3.7%	6.1%	2.8%	0.7%	2.0%	0.5%	100%

Notes:

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

Corporations													
At 31 December 2012	Financial institutions	Public entities ⁽¹⁾	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC ⁽²⁾	Other	Carrying amount
<i>(millions of ISK except %)</i>													
Cash and balances with Central Bank.....	-	25,898	-	-	-	-	-	-	-	-	-	-	25,898
Bonds and debt instruments	9,528	216,935	-	-	3	-	-	397	352	-	-	993	228,208
Derivative instruments.....	1,039	-	-	-	-	-	-	-	-	-	-	4	1,043
Loans and advances to financial institutions.....	64,349	-	-	-	-	-	-	-	-	-	-	-	64,349
Loans and advances to	-	11,576	195,047	142,952	104,928	52,700	42,019	60,009	25,665	10,199	19,413	1,579	666,087

Corporations

At 31 December 2012	Financial institutions	Public entities ⁽¹⁾	Individuals	Fisheries	Construction and real estate companies	Services	Retail	Holding companies	Manufacturing	Agriculture	ITC ⁽²⁾	Other	Carrying amount
	<i>(millions of ISK except %)</i>												
customers.....													
Other financial assets.....	8,106	276	600	11	300	587	–	–	253	–	2	346	10,481
Total on-balance sheet exposure.....	83,022	254,685	195,647	142,963	105,231	53,287	42,019	60,406	26,270	10,199	19,415	2,922	996,066
Off-balance sheet exposure.....	4,054	14,215	28,146	14,374	30,797	11,465	8,612	1,147	2,361	1,049	2,496	46	118,762
Financial guarantees and underwriting commitments	–	95	463	1,731	23,149	2,123	1,685	208	584	39	552	35	30,664
Undrawn loan commitments	1,500	9,022	22	10,592	5,628	2,122	1,948	278	194	701	901	–	32,908
Undrawn overdraft/credit card facilities.....	2,554	5,098	27,661	2,051	2,020	7,220	4,979	661	1,583	309	1,043	11	55,190
Maximum exposure to credit risk.....	87,076	268,900	223,793	157,337	136,028	64,752	50,631	61,553	28,631	11,248	21,911	2,968	1,114,828
Percentage of carrying amount..	7.8%	24.1%	20.1%	14.1%	12.2%	5.8%	4.5%	5.5%	2.6%	1.0%	2.0%	0.3%	100%

Notes:

(1) Public entities consist of central government, state-owned enterprises, Central Bank and municipalities.

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

The table below sets out details of the carrying amount of the loans and advances to customers as at 31 December 2013 and 2012, classified by customer sector.

	2013	2012
Financial institutions	9.1%	8.8%
Public entities.....	1.3%	1.6%
Individuals.....	26.9%	26.7%
Fisheries	19.5%	19.6%
Construction and real estate companies	17.0%	14.4%
Services	6.2%	7.2%
Retail	4.8%	5.8%
Holding companies.....	7.5%	8.2%
Manufacturing	3.4%	3.5%
Agriculture	1.0%	1.4%
ITC ⁽¹⁾	2.6%	2.7%
Other	0.6%	0.2%
	100.0%	100%

Note:

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

The table below shows the credit exposure, allowances and impairment by industry and customer segments as at 31 December 2013 and 2012.

At 31 December 2013	Individually impaired							
	Gross carrying amount	Gross not individually impaired	Collective allowance	Of which performing		Of which non-performing ⁽¹⁾		Carrying amount
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
<i>(millions of ISK)</i>								
Financial institutions	67,916	67,916	–	–	–	–	–	67,916
Public entities.....	10,149	10,065	58	70	63	14	12	10,016
Individuals	217,719	193,669	3,114	11,866	6,341	12,184	6,779	201,486
Corporations								
Fisheries.....	155,176	130,702	782	22,454	6,745	2,020	1,348	146,300
Construction and real estate companies	136,224	122,365	2,191	5,925	3,704	7,934	3,098	127,231
Holding companies.....	59,808	45,547	738	12,641	1,836	1,620	1,420	55,814
Retail.....	41,666	34,081	825	5,742	3,454	1,843	1,414	35,973
Services.....	50,375	46,620	1,013	1,502	1,082	2,253	1,663	46,616
Information, technology and communication.....	20,096	19,847	426	181	150	68	61	19,459
Manufacturing.....	26,814	25,225	355	1,148	923	441	198	25,340
Agriculture.....	8,514	7,728	101	388	370	398	329	7,714
Other	4,871	4,550	63	–	–	320	288	4,519
Total	799,328	708,315	9,666	61,917	24,668	29,095	16,610	748,384

At 31 December 2012	Individually impaired							
	Gross carrying amount	Gross not individually impaired	Collective allowance	Of which performing		Of which non-performing ⁽¹⁾		Carrying amount
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
<i>(millions of ISK)</i>								
Financial institutions	64,349	64,349	–	–	–	–	–	64,349
Public entities.....	11,682	7,794	44	3,768	51	120	11	11,576
Individuals	207,608	167,667	2,632	25,984	3,549	13,956	6,379	195,047
Corporations								
Fisheries.....	149,477	89,405	2,582	56,827	2,448	3,245	1,496	142,952
Construction and real estate companies	112,558	82,272	3,835	24,914	1,926	5,371	1,869	104,928
Holding companies.....	66,235	40,464	3,087	22,614	564	3,157	2,575	60,009
Retail.....	47,549	33,737	1,520	11,139	2,376	2,673	1,634	42,019
Services.....	55,917	45,944	986	8,036	1,323	1,937	908	52,700
ITC.....	19,770	14,202	126	5,473	186	95	46	19,413
Manufacturing.....	26,802	22,807	346	3,347	458	649	334	25,665
Agriculture.....	10,747	5,098	248	5,219	127	429	173	10,199
Other	1,772	1,573	102	–	–	201	90	1,581
Total	774,466	575,312	15,508	167,321	13,008	31,833	15,515	730,438

Note:

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

The table below shows the credit quality of the Bank's financial assets, including its loans and advances as at 31 December 2013 and 2012. The allowance for impairment includes both the allowance for individual impairment and the allowance for collective impairment.

	Gross carrying amount			Total	Allowance for impairment	Carrying amount
	Neither past due not individually impaired	Past due but not individually impaired	Individually impaired			
<i>(millions of ISK)</i>						
At 31 December 2013						
Cash and balances with Central Bank	21,520	–	–	21,520	–	21,520
Bonds and debt instruments	280,736	9,859	–	290,595	–	290,595
Derivative instruments	654	–	–	654	–	654
Loans and advances to financial institutions .	67,916	–	–	67,916	–	67,916
Loans and advances to customers.....	585,526	54,874	91,012	731,412	(50,944)	680,468
Other financial assets	6,366	–	–	6,366	–	6,366
Total	962,718	64,733	91,012	1,118,463	(50,944)	1,067,519
At 31 December 2012						
Cash and balances with Central Bank	25,898	–	–	25,898	–	25,898
Bonds and debt instruments	219,009	9,199	–	228,208	–	228,208
Derivative instruments	1,043	–	–	1,043	–	1,043
Loans and advances to financial institutions .	64,349	–	–	64,349	–	64,349
Loans and advances to customers.....	450,885	60,078	199,154	710,117	(40,030)	666,087
Other financial assets	10,481	–	–	10,481	–	10,481
Total	771,665	69,277	199,154	1,040,096	(44,030)	996,066

Note:

(1) The allowance for impairment includes both the allowance for individual impairment and the allowance for collective impairment.

The table below shows the gross carrying amount of loans and advances to financial institutions and customers that have failed to make payments which had become the ageing of the Bank's past due but not impaired loans and advances.

	Past due 1–5 days	Past due 6–30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Gross carrying amount
<i>(millions of ISK)</i>						
At 31 December 2013						
Public entities	–	105	1	24	20	150
Individuals	180	9,630	3,276	1,003	6,702	20,791
Corporations	1,069	11,382	3,392	977	17,113	33,933

	Past due 1–5 days	Past due 6–30 days	Past due 31–60 days	Past due 61–90 days	Past due over 90 days	Gross carrying amount
	<i>(millions of ISK)</i>					
Total	1,249	21,117	6,669	2,004	23,835	54,874
At 31 December 2012						
Public entities	–	2	1	–	19	22
Individuals	115	7,545	3,156	1,487	11,450	23,753
Corporations	1,052	4,570	2,134	1,262	27,285	36,303
Total	1,167	12,117	5,291	2,749	38,754	60,078

The table below shows the credit exposure, allowances and impairment by industry and customer segments as at 31 December 2013 and 2012.

At 31 December 2013	Gross carrying amount	Gross not individually impaired	Collective allowance	Individually impaired				Carrying amount
				Of which performing		Of which non- performing ⁽¹⁾		
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
				<i>(millions of ISK)</i>				
Financial institutions	67,916	67,916	–	–	–	–	–	67,916
Public entities	10,149	10,065	58	70	63	14	12	10,016
Individuals	217,719	193,669	3,114	11,866	6,341	12,184	6,779	201,486
Corporations								
Fisheries.....	155,176	130,702	782	22,454	6,745	2,020	1,348	146,300
Construction and real estate companies	136,224	122,365	2,191	5,925	3,704	7,934	3,098	127,231
Holding companies.....	59,808	45,547	738	12,641	1,836	1,620	1,420	55,814
Retail.....	41,666	34,081	825	5,742	3,454	1,843	1,414	35,973
Services.....	50,375	46,620	1,013	1,502	1,082	2,253	1,663	46,616
Information, technology and communication.....	20,096	19,847	426	181	150	68	61	19,459
Manufacturing.....	26,814	25,225	355	1,148	923	441	198	25,340
Agriculture.....	8,514	7,728	101	388	370	398	329	7,714
Other	4,871	4,550	63	–	–	320	288	4,519
Total	799,328	708,315	9,666	61,917	24,668	29,095	16,610	748,384

At 31 December 2012	Individually impaired							
	Gross carrying amount	Gross not individually impaired	Collective allowance	Of which performing		Of which non-performing ⁽¹⁾		Carrying amount
				Gross carrying amount	Individual allowance	Gross carrying amount	Individual allowance	
	<i>(millions of ISK)</i>							
Financial institutions	64,349	64,349	–	–	–	–	–	64,349
Public entities.....	11,682	7,794	44	3,768	51	120	11	11,576
Individuals	207,608	167,667	2,632	25,984	3,549	13,956	6,379	195,047
Corporations								
Fisheries.....	149,477	89,405	2,582	56,827	2,448	3,245	1,496	142,952
Construction and real estate companies	112,558	82,272	3,835	24,914	1,926	5,371	1,869	104,928
Holding companies.....	66,235	40,464	3,087	22,614	564	3,157	2,575	60,009
Retail.....	47,549	33,737	1,520	11,139	2,376	2,673	1,634	42,019
Services.....	55,917	45,944	986	8,036	1,323	1,937	908	52,700
ITC.....	19,770	14,202	126	5,473	186	95	46	19,413
Manufacturing.....	26,802	22,807	346	3,347	458	649	334	25,665
Agriculture.....	10,747	5,098	248	5,219	127	429	173	10,199
Other	1,772	1,573	102	–	–	201	90	1,581
Total	774,466	575,312	15,508	167,321	13,008	31,833	15,515	730,438

Note:

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

The table below shows large exposures as at 31 December 2013, including subsidiaries of the Bank classified as held for sale. Clients are rated as large exposures if their total obligations or those of financially connected parties, exceed 10 per cent. of the Bank's capital base. The large exposures amount is calculated after taking account of collateral held, in accordance with the FME's Rules on Large Exposures incurred by Financial Undertakings No. 216/2007. According to these rules, no exposure may attain the equivalent of 25 per cent. of the capital base. All of the Bank's large exposures were within these limits as at 31 December 2013 and 2012.

	Number of large exposures	Large exposures <i>(millions of ISK, except %)</i>
At 31 December 2013		
Large exposures between 10% and 20% of the Group's capital base	2	70,696
Total.....	2	70,696
Total large exposure to capital base (400% is the maximum limit).....		30%
At 31 December 2012		
Large exposures between 10% and 20% of the Group's capital base	2	71,610
Total.....	2	71,610

	Number of large exposures	Large exposures <i>(millions of ISK, except %)</i>
Total large exposure to capital base (400% is the maximum limit).....		32%

FUNDING

The Bank is predominantly funded by four main sources: customer deposits, liabilities due to financial institutions, borrowing and share capital (for further information, see the 2013 Financial Statements).

Deposits from customers are the Bank's single largest financing item accounting for around 50 per cent. of the Bank's liabilities as at 31 December 2013. The Bank offers various types of deposits to its customers, both fixed rates and variable rates, indexed as well as non-indexed to the Icelandic CPI index. Deposits are predominately non-indexed and available on demand.

Liabilities due to financial institutions are primarily in the form of deposits, including deposits from foreign financial undertakings in ISK (off-shore ISK). These deposits have decreased steadily over the past two years due to the Central Bank's currency auctions whereby off-shore ISK can be exchanged for euros.

The Bank's borrowing is predominantly in the form of bonds issued to LBI hf. in accordance with the agreement on the transfer of assets and liabilities from LBI hf. to the Bank. The bonds issued to LBI hf. are denominated in EUR, USD and GBP and are used to fund the FX-denominated part of the Bank's loan portfolio and other FX- denominated assets of the Bank.

The bond issuance was initially twofold: (i) a bond issued by the Bank in December 2009 and (ii) the issuance in April 2013 of a contingent bond linked to possible value increase in a designated part of the Bank's loan portfolio. The bond issued by the Bank in December 2009 was for ISK 260 billion and is denominated in EUR, USD and GBP with quarterly instalments. The first due date on the principal was set for 2014 with final payment in 2018. In the second quarter of 2012, the Bank prepaid the first five instalments on the bond of ISK 70 billion and accordingly, the next instalment is not due until 2015. The contingent bond is for ISK 92 billion, and is also denominated in EUR, USD and GBP. In December 2013 the Bank made another prepayment of ISK 50 billion towards the bonds which reduced on a *pro-rata* basis, payments of principal due between 2014 and 2018. The total amount outstanding on the bonds issued to LBI hf. was approximately ISK 238 billion as at 31 December 2013 (For further information, see the 2013 Financial Statements, Note 19).

In 2014, the Bank and the winding up board of LBI hf. reached an agreement regarding amendments to the terms of the bond issued in December 2009, with a total outstanding balance equivalent to approximately ISK 226 billion. The agreement is conditional upon the winding up board of LBI hf. obtaining certain exemptions from capital controls in Iceland. The final maturity of the bond will be extended from October 2018 to October 2026 with bond tranches maturing every second year throughout the period. The Bank has an option to make prepayments of the bonds without any additional costs (see "*Risk Factors - Factors that may affect the Bank's ability to fulfil its obligations under Notes issued under the Programme- Failure of the Bank to refinance the outstanding bonds between LBI hf. and the Bank could have a negative impact on the Bank's business*").

In addition to the bonds issued to LBI hf. the Bank has in place an ISK 100 billion covered bond programme. The Bank is licensed by the FME to issue covered bonds in accordance with the Icelandic Act on Covered Bonds, No. 11/2008, and Rules on Covered Bonds, No. 528/2008. The licence is initially limited to issuances

of up to ISK 10 billion and is primarily intended to fund the Bank's non-indexed housing loans and to limit its fixed interest rate risk. The Bank issued its first tranche of covered bonds in June 2013 and subsequent tranches in October 2013 and March 2014. Following issuance of the third tranche, ISK 3.4 billion covered bonds have been issued. The covered bonds are listed for trading on NASDAQ OMX Iceland. This was the first listing on a stock exchange of debt issued by the Bank.

Deposits are expected to continue to form a significant part of the Bank's funding in the future. External factors might however affect the Bank's deposit base in the short and medium term, such as the lifting of capital controls and the increased availability of other investment opportunities for investors who currently hold deposits with the Bank. To reduce the risk of these external factors, the Bank will continue to diversify its funding profile when conditions permit by issuing bonds in the domestic and international bond markets.

RISK MANAGEMENT FRAMEWORK

Risk is inherent in the Bank's activities and is managed through a process of ongoing identification, measurement, management and monitoring, subject to risk limits and other controls. Risk identification involves finding the origins and structures of possible risk factors in the Bank's operations and undertakings. Risk measurement entails measuring the identified risks for management and monitoring purposes. Finally, risk controls and limits ensure compliance with rules and procedures, as well as compliance with the Bank's risk appetite.

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

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

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

The Credit Committee deals with credit risk, both credit limits on individual customers, as well as policy issues regarding credit risk. The Risk & Finance Committee covers primarily market risk, liquidity risk, operational risk and legal risk. The Risk & Finance Committee monitors all the Bank's risks. It is also responsible for enforcing the Bank's risk appetite and risk limits, and reviews and approves changes to risk models before being presented to the Board of Directors. The Executive Management Committee serves as a forum for consultation and communication between the CEO and managing directors, addressing the main current issues in each division. This committee makes all major decisions that are not being considered in other standing committees. The Security Committee is a forum for discussions and decisions on information safety, personnel security, responsibilities in specific security areas and the Bank's safety procedures.

Risk appetite is defined as the level and nature of risk that the Bank is willing to take in order to pursue its articulated strategy, and is defined by constraints reflecting the views of the Board of Directors and the Bank's CEO and Executive Management. 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 and market risk.

Credit Risk

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

Credit risk identification

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

Credit risk is the greatest single risk faced by the Bank and arises principally from loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts and aforementioned settlement risk.

Credit risk assessment

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

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

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

In 2013, the Bank implemented a new credit rating model for individuals which substantially amended the former model. The new model's discriminatory power significantly exceeds the Basel II regulatory minimum requirement of 0.5. Furthermore, the new model is well calibrated, in other words, the weighted probability of default for each rating grade is equal to the actual default rate with respect to reasonable error limits.

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

Exposure is calculated using the credit conversion factors of the Basel framework.

Credit risk management

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 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 lending rules approved by the CEO. The risk appetite

statement and credit policy include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposures to certain industries. The CEO ensures that the risk policy is reflected in the Bank's internal framework of regulation and guidelines. The Bank's executives are responsible for the appropriate execution of the risk policy by the Bank's business units 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. Credit decisions exceeding authorisation levels of business units are subject to confirmation by Credit Management, a department within Risk Management. Credit decisions exceeding the limits of Credit Management are subject to approval by the 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 risks in the credit portfolio is a key element of the Bank's credit policy and is an inherent part of the credit decision process. Securing loans with collateral is the main method of mitigating credit risk whereas for many 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, ships and financial assets (shares or bonds).

The Bank regularly assesses the market value of collateral received. The Bank has developed models to estimate the value of the most common types of collateral. For collateral for which no valuation model exists, the Bank estimates the value manually. It calculates the value as the market value less a haircut. The haircut represents a conservative estimate of the costs to sell in a forced sale. Costs to sell include maintenance costs in the period over which the asset is up for sale, fees for external advisory services and any loss in value. For listed securities, haircuts are calculated with an internal model based on variables, such as price volatility and marketability.

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

Derivative financial instruments

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

Commensurate collateral and margin requirements are in place for all derivative contracts the 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 derivative exposure and collateral value and calculates the credit equivalent value for each derivative intraday. It also issues margin calls and manages netting agreements.

Amounts due to and from the 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 employs an internal Early Warning System to monitor exposures in order to identify signs of weakness in customer earnings and liquidity as soon as possible. To monitor customers, the Bank uses - supplemental to ratings - a credit monitoring classification of four risk groups (green, yellow, orange and red). The colour classification is the following:

- Green customers are considered as performing without signs of repayment problems;
- Yellow customers are on *Watch list 1*. They have temporary difficulties and may need some instalments postponed or modification to terms or loan covenants;
- Orange customers are on *Watch list 2*. They are still under the supervision of the relevant business unit but are likely to go through debt restructuring or postponement of instalments; and
- Red customers are under supervision by Corporate Solutions and need restructuring or are in legal collection. Management of the customer's operations will possibly be taken over by the Bank. In some cases, collateral or guarantees will be collected and/or the operations sold.

The Credit Risk Monitoring Department within Risk Management is, together with the business units, responsible for the verification of colour of the customer and the transfer of customers from the business units to Corporate Solutions if necessary.

Impairment process

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

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

After the financial crisis and recession in October 2008, the Bank has significantly reduced granting loans in foreign currency unless the customer's income is in the same currency or a comparable currency. This also applies to granting CPI indexed loans to corporate customers.

The total allowance for impairment was ISK 51 billion in 2013, compared to ISK 44 billion in 2012. Allowances increased in nearly all industry sectors during 2013 while the overall carrying amount increased slightly. The increase in allowances was mainly due to loans acquired at a deep discount which now have been restructured. As at 31 December 2013, 87 per cent. of the portfolio consisted of claims that were neither past due nor impaired and the accumulated impairment loss amounted to ISK 8 billion (for further information, see the 2013 Financial Statements, Note 64 - Allowance for impairment on loans and advances to financial institutions and customers and other financial assets).

Liquidity Risk

Liquidity risk is identified as one of the Bank's key risk factors, in light of the Bank's current operating environment. 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 and its subsidiaries 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 Bank's 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.
- 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 the Net Stable Funding Ratio ("NSFR") and it also applies measurements that best suit the operating environment of the Bank.

It is the intent of the Bank to utilise the framework published by the Basel Committee on Banking Supervision, e.g. LCR and NSFR to further ensure the Bank's ability to measure and withstand liquidity needs in the short term, as well as to promote more medium and long-term funding of the assets and activities of the Bank. As stated earlier, LCR is a short-term liquidity ratio whereas NSFR has a time horizon of one year and its objective is to capture structural issues in the balance sheet with the aim to provide a sustainable maturity structure of assets and liabilities.

Implementation on LCR is already in place within the Bank in line with the regulatory changes made by the Central Bank in December 2013. Implementation on NSFR is in progress and a further analysis is on going parallel to the work of the Central Bank and the FME. The Bank reported impact surveys for LCR and NSFR to the Icelandic regulators in the year 2013 and has co-operated with them on implementation of these ratios. The Bank will continue to work closely with the Icelandic regulators in the year 2014, as well as follow the development of these measurements in Europe.

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

The Central Bank issued new Rules on Liquidity Ratio, no. 1055/2013, and the rules took effect on 1 December 2013. The Central Bank rules on liquidity are based on international standards developed by the Basel Committee on Banking Supervision but are adapted to Icelandic conditions, e.g. including special requirements on foreign currency liquidity and treatment of risk related to the winding-up of the Old Banks.

The rules required the Bank to maintain a LCR minimum of 60 per cent. for total LCR and 100 per cent. for FX by the end of 2013. According to the implementation schedule, the total LCR minimum will gradually increase to 100 per cent. from 2014 to 2019, whereas the FX ratio is constant. The Bank's LCR as at 31 December 2013 was 102 per cent. and 208 per cent. for foreign currencies (for further information, see the 2013 Financial Statements, Note 71 - Liquidity risk management).

Another key measure used by the Bank for monitoring liquidity risk is the ratio of core liquid assets to deposits, which shows the ratio of deposits that the Bank could deliver on demand without incurring any significant losses due to forced asset sales or other costly actions. Core liquid assets are comprised of cash at hand, balances with the Central Bank, loans to financial institutions (maturity within seven days) and assets eligible for repo transactions with the Central Bank. In addition, the Bank monitors liquidity risk by its cash ratio, which shows the ratio of on demand deposits that the Bank could deliver with cash and cash equivalents such as cash at hand, balances with the Central Bank and loans to financial institutions (maturity within seven days).

The table below shows various values of the core liquidity ratio and cash ratio for 2012 and 2013.

	Core liquidity ratio		Cash ratio	
	2013	2012	2013	2012
Year-end	50%	48%	13%	12%
Maximum	53%	51%	22%	32%
Minimum	41%	36%	10%	12%
Average.....	47%	45%	16%	20%

In 2013, the Bank followed liquidity rules set by the Central Bank to govern the ratio of weighted liquid assets and liabilities, as well as guideline No. 1/2008 from the FME on best practices for managing liquidity in banking organisation. Former liquidity rules set by the Central Bank require the ratio of weighted assets to weighted liabilities to stay above "1" for the next three months, and involve stress test, weighting assets and liabilities with specific coefficients and reflecting how accessible each asset would be in a liquidity crisis and how great the need would be to repay the liability in question when due. The Bank exceeded "1" in all periods in 2013.

The guidelines set by the FME require the ratio of core liquid assets to deposits to be greater than 20 per cent. and the ratio of cash and cash equivalents to on-demand deposits to be greater than 5 per cent.

The Bank submits monthly reports on its liquidity position to the Central Bank and the FME.

Market Risk

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

The Board of Directors is responsible for determining the 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. In the current economic environment, the Bank has limited access to derivative instruments and other tools for managing interest rate risk.

Sensitivity analysis for trading portfolios

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

Sensitivity analysis for non-trading portfolios

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

CPI indexation risk (all portfolios)

To mitigate the Bank's imbalance in its CPI-indexed assets and liabilities, which the Bank is in a limited position to do, the Bank offers non-CPI-indexed loans and CPI-indexed deposits. CPI indexation risk is

managed centrally within the Bank by the Treasury of the Bank, and is monitored by the Market Risk Department.

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

Operational risk management

Whereas the executive managing director of each division is responsible for that division's operational risk, the daily management of operational risk is in the hands of general managers of each department. The Bank establishes, maintains and co-ordinates its operational risk management framework at a group level. This framework complies with the Basel Committee's 2011 publication "Principles for the Sound Management of Operational Risk". The Bank ensures that operational risk management stays consistent throughout the Bank by upholding a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, together with active monitoring by the Internal Audit Department. By managing operational risk in this manner, the Bank intends to ensure that all of the Bank's business units are kept aware of any operational risks, that a robust monitoring system remains in place and that controls are implemented efficiently and effectively.

Capital Adequacy

The Bank's capital management policies and practices ensure that the Bank has sufficient capital to cover the risk associated with its activities. The capital management framework of the Bank comprises four interdependent activities: Capital Assessment, Risk Appetite/Capital Target, Capital Planning and Reporting/Monitoring. The Bank regularly monitors and assesses its current risk profile in the most important business areas and for the most important risk types. Risk appetite sets out the level of risk the Bank is willing to take in pursuit of its business objectives.

Capital requirements are defined by two external bodies: the European Council and the FME. The basis of the requirements of both bodies is the CRD IV. The regulatory minimum capital requirement under the CRD IV is 8 per cent. of Risk Weighted Assets ("RWA") for credit risk, market risk and operational risk. The Capital Adequacy Requirement ("CAR") is reviewed by the FME in the Supervisory Review and Evaluation Process ("SREP"). The FME also requires the Bank to maintain a minimum core Tier 1 capital ratio of 12 per cent.

The Bank uses the standardised approach in measuring Pillar I risks. The ICAAP under Pillar II is the Bank's calculation of its solvency need (as a percentage of RWA) and is based on economic capital calculations, stress tests and results of the SREP. The economic capital requirement at the end of 2013 was 13.7 per cent. Including capital buffers the Group's internal assessment was 15.1 per cent. as at 31 December 2013. In the latest SREP process, based on year-end 2012, the FME determined the CAR to be 16.7 per cent. (which replaces the 19.5 per cent. requirement determined by the FME in the previous SREP process, based on year-end 2011).

The Bank's equity at 31 December 2013 amounted to ISK 241 billion, equivalent to 21.0 per cent. (compared to 20.8 per cent. as at 31 December 2012) of total assets, according to the consolidated statement of financial position. The Capital Adequacy ratio calculated in accordance with Article 84 of Act No. 161/2002 on

Financial Undertakings was 26.7 per cent. at 31 December 2013. According to this Act, this ratio may not fall below 8 per cent.

As part of ICAAP and the capital planning process, internal stress tests are used as an important risk management tool in order to determine how severe, unlikely but plausible, changes in the business and macro environment affect the capital need. Stress tests reveal how the capital need varies during a stress scenario, where impact on financial statements, regulatory capital requirements and capital ratios occur.

The new CRD IV framework has not been incorporated into the EEA Agreement and is therefore not yet at least, binding on Iceland under international public law. At present, it is not clear when it will be implemented, if at all.

Currently, the Bank does not have information on proposals for the implementation of the aforementioned provisions of CRD IV into Icelandic law. The Bank does not expect the implementation of the provisions to lead, overall, to an increase in capital requirements for the Bank. This view is based on the Bank's strong capital and liquidity position and the already far reaching capital requirements imposed by the FME under Pillar II.

COMPETITION

The Icelandic competitive landscape is comprised of four commercial banks, eight savings banks and six credit institutions. The financial markets also include eleven securities companies, two securities brokerages and nine management companies of undertakings for collective investment in transferable securities ("UCITS"). The HFF, a fully state-owned mortgage lender, offers financing for residential housing in Iceland (see "*Financial Markets in Iceland - Other Relevant Institutions in the Financial Market*"). There is substantial competition for the types of banking and other products and services the Bank provides. The Bank's main competitors are the other large commercial banks in Iceland, Íslandsbanki and Arion Bank. Competition has been limited in recent years as all three banks have focused on restructuring their loan portfolio and improving internal operations in response to the tightened regulatory framework implemented under Basel II and Basel III. While competition has been limited, it can still be affected by different needs, consumer demand, technological changes and the impact of consolidation, as well as regulatory actions. The Bank expects competition from the other commercial banks and smaller specialised institutions to intensify in the coming years. Possible mergers in the financial services industry and the possible entry into the market of foreign banks able to offer a wider array of products and services could increase the competitive environment further.

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 different consumer demands.

LITIGATION

The Bank is party to litigation cases, which arise due to the nature of its business and are not expected to have material effect on the Bank's financial position. In addition, since the establishment of the Bank, the Bank has engaged in various material litigation cases, most of them related to financial assets and liabilities transferred from Landsbanki Íslands hf. (now LBI hf.) to the Bank. The Bank has formal controls and policies for managing legal claims. After professional advice has been obtained and estimations on any possible amount have been made, the Bank takes the necessary steps to mitigate any adverse effects which the claims may have on its financial standing.

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

Disputes regarding loans indexed to foreign currencies

In 2010 and 2011 the Supreme Court ruled that the principal of a loan agreement denominated in ISK could not be indexed to foreign currencies. Such indexation was deemed contrary to the provisions of the Act on Interest and Price Indexation No. 38/2001. The rulings had the effect that a number of such loans had to be recalculated by the Bank. In accordance with the rulings and applicable law, loans indexed to foreign currencies should bear the lowest interest rates of non-indexed loans denominated in ISK as determined by the Central Bank. An impact of these rulings on the Bank was recognised in the consolidated financial statements of the Bank as of 31 December 2010.

Following further Supreme Court rulings in cases No. 600/2011 and No. 464/2012, there still remains some legal uncertainty regarding the recalculation of loans indexed to foreign currencies and further clarification is expected during the course of 2014. The Bank has accounted for the potential impact of the rulings in cases No. 600/2011 and No. 464/2012 and recognised, respectively, expenses in the amount of ISK 38 billion and ISK 2.1 billion in its consolidated income statement as at 31 December 2012. These expenses are recorded in the income statements under line item “Loss from foreign currency linkage of loans and advances to customers”. The precedents set by these rulings are not entirely clear and further court rulings are needed to clarify the issues regarding loans indexed to foreign currencies. The total amount of the estimated impact may change accordingly.

The specific material litigation in relation to loans indexed to foreign currencies at the date of this Base Prospectus is as follows:

- In December 2012, a company commenced litigation against the Bank demanding, *inter alia*, that a court acknowledge that a loan agreement dating from June 2006 constitutes a loan in ISK, illegally indexed to foreign currencies, and should as such be recalculated in accordance with Act No. 38/2001. The Bank’s view is that the loan agreement is in fact a loan in foreign currencies and should therefore not be recalculated, *inter alia*, due to the fact the loan was repaid in foreign currencies. The Bank’s view is that it is of no relevance that the repayment currencies were not the same as the foreign currencies stipulated in the loan agreement. The case was heard by the District Court of Reykjavik which in its judgment acknowledged the plaintiff’s claims and recalculation method. The case has been appealed to the Supreme Court and it is foreseeable that the court will hear the case in 2014. The Bank has recognised expenses to the amount of around ISK 11.5 billion in its audited consolidated financial statements for 2013 to cover potential costs should the litigation be successful.
- In December 2013, a company commenced litigation against the Bank claiming that previous recalculations of a foreign currency indexed loan should be recalculated in accordance with Supreme Court decisions No. 600/2011 and No. 464/2012 whereby interest rates determined by the Central Bank were considered by the Supreme Court as not being applicable in specified circumstances, *inter alia*, as the lender had issued final receipts for interest payments. One of the conditions established by the Supreme Court for rejecting Central Bank interest rates is that the additional claim, in other words, the difference between the Central Bank’s interest amount and the interest amount appearing on the final receipts, would cause a serious disruption of a company’s financial position. In this case the Bank takes the view that this condition is not met. The case will foreseeably be heard by the District Court of Reykjavik in the coming months.

The results of these cases involving the Bank will clarify matters further and enable the Bank to make an informed decision on which loans should be recalculated and the main issues to be considered as regards the methodology of such recalculations.

Disputes regarding loans indexed to the CPI

A related issue concerns the validity of Icelandic loans indexed to the consumer price index. In January 2013, an individual commenced litigation against the Bank claiming acknowledgement by the court that he is not legally bound by a clause on consumer price indexation in a bond issued by him to the Bank; alternatively, that the court confirms that the Bank is not entitled to revalue the principal amount of the bond on a monthly basis according to changes in the consumer price index. Furthermore, the individual is seeking confirmation from the court that he is not legally bound by a clause in the same bond regarding the Bank's obligation to pay a settlement fee. The individual claims that the bond's clauses are illegal according to the Securities Transaction Act, No. 108/2007, and EU Directive No. 2004/39/EC. In a ruling of 31 October 2013, the District Court of Reykjavik found the Securities Transaction Act No. 108/2007 irrelevant to the case. The court did, however, find that Directive 87/102/EEC, concerning consumer credit, and Directive 93/13/EEC, on unfair terms in consumer contracts, might be of relevance to the case and decided to request an advisory opinion from the EFTA Court on the interpretation of certain provisions of these directives. The District Court will give its final judgment on the case when it has received the advisory opinion. The case was heard by the EFTA Court on 11 June 2014.

Disputes concerning the transfer of assets from LBI hf. to the Bank

A few pending cases relate to the transfer of assets from LBI hf. to the Bank in 2008. One case involves funds received by a foreign bank which acted as a correspondent bank of LBI hf. for international payments. The account had also been used by customers of LBI hf. for international payments. After the establishment of the Bank, the foreign bank was repeatedly notified of the transfer of the business from LBI hf. to the Bank and was instructed not to receive payments into the account as the transferred payments were in fact owned by customers of the Bank. The foreign bank did not act on the instructions and continued to receive payments and crediting the account of LBI hf. The Bank's customers who did not receive their payments due to the actions of the foreign bank were reimbursed by the Bank. Of those customers, 10 individual account holders were selected to commence litigation against the foreign bank. On 23 May 2012 the court ruled in favour of the account holders, ordering the foreign bank to pay the total amount of ISK 341 million. The foreign bank has now appealed the court's decision to a higher court. It is foreseeable that the proceedings will be ongoing at least until 2015. Litigation has now been initiated regarding the remaining account holders to prevent the expiration of the limitation period for the claims. The total claim for those account holders is approximately ISK 140 million.

Investigations regarding alleged breaches of competition law

In March 2013, the Icelandic Competition Authority (the “**Competition Authority**”) submitted to the Bank its preliminary assessment and conclusions in two cases. The first case concerns certain preferential terms and conditions offered during the period from 2004 to 2010 by Landsbanki Íslands hf. (now LBI hf.) and, subsequently, by the Bank to clients for retail banking services, in particular for household mortgage loans. The Bank has refuted allegations of a breach of competition rules. The Bank does not have information as to whether the Competition Authority will take further action in the case, but has expressed willingness to discuss the matter. The second case concerns, in particular, an alleged involvement of Landsbanki Íslands hf. (now LBI hf.) and, subsequently, of the Bank during the period from 2007 to 2009 in the way in which decisions were taken on payment card interchange fees. The Bank has refuted allegations of a breach of competition rules. The Bank and the Competition Authority have entered into discussions regarding the settlement of the case.

Other legal proceedings

In June 2013, a payment card acquirer commenced litigation against the Bank, as well as certain other financial undertakings claiming liability in tort of an amount of around ISK 1.2 billion plus interest. The

plaintiff argues that the defendants, including the Bank, are liable in tort for an alleged violation of competition rules. The Bank refutes the allegations and the claims. The time limit for the Bank to submit its defence has not yet expired.

In November 2012, Landsbankinn Guernsey Ltd. commenced litigation against the Bank, the FME and the Icelandic government. The plaintiff claims that the Bank should pay approximately ISK 2.9 billion plus interest, based on money market loans between the plaintiff and LBI hf. which the plaintiff claims were transferred to the Bank with the FME's decision on 9 October 2008. The Bank's view is that money market loans were not transferred to the Bank on 9 October 2008 in accordance with the FME's decision. It is foreseeable that the case will be heard by the District Court in 2014.

In December 2012, 14 foreign banks commenced litigation against the Bank on the basis of tort liability, claiming that the Bank should pay approximately ISK 317 million altogether. The plaintiffs base their claim on a syndicated loan to a limited liability company that later underwent bankruptcy proceedings. When the plaintiffs submitted their claim to the liquidator of the company's estate, they failed to provide details on pledged assets. As a result of this failure, the previously pledged assets were distributed to claimants of the estate as if they were not pledged assets in accordance with the Act on Bankruptcy, etc. No. 21/1991. The plaintiffs commenced legal action against the liquidator and, in August 2011, the Supreme Court ruled in favour of the liquidator. The plaintiffs now argue that the Bank should not have given the liquidator access to the previously pledged assets and is therefore liable for damages. The Bank argues that it reacted to the liquidator's requests in compliance with the Act on Bankruptcy, etc. No. 21/1991 and that the plaintiffs' failure to correctly submit their claims to the estate cannot create a liability for the Bank. The District Court on 19 November 2013, found in favour of the Bank. The case has been appealed to the Supreme Court and it is foreseeable that the court will hear the case in 2014.

RECENT DEVELOPMENTS

The Bank and LBI reach an agreement on amendments of the terms to the contractual obligations under the bonds issued in December 2009

In May 2014, an agreement between the Bank and LBI hf. regarding changes to the terms and conditions of the bonds issued in December 2009 to LBI hf. was signed. The most significant changes are to the bonds' final maturity date, which will now be in 2026 instead of 2018. Regular instalments will be made between 2014 to 2026 with bond tranches maturing every second year throughout the period. The Bank is authorised to make full or partial prepayment, without cost, at any time during the term. The winding-up board of LBI hf. has made the agreement conditional on certain exemptions being granted under the Foreign Exchange Act (see "*Risk Factors - Factors that may affect the Bank's ability to fulfil its obligations under Notes issued under the Programme - Failure of the Bank to refinance the outstanding bonds between LBI hf. and the Bank could have a negative impact on the Bank's business*").

The Bank sold 9.9 per cent. of its shares in The Iceland Enterprise Investment Fund and 27.6 per cent. of its shares in IEI slhf.

In June 2014 the Bank sold 9.9 per cent. of its shares in The Iceland Enterprise Investment Fund ("FSI") and all of its 27.6 per cent. shareholding in IEI slhf ("IEI"). The total value of the transaction amounted to just over ISK 7 billion and the buyers are amongst the current shareholders of these two companies, who had the right to bid for the shares in accordance with an agreement to that effect.

Prior to the transaction the Bank was the largest shareholder of both FSI and IEI with 27.6 per cent. ownership in each company. The Bank is now the second largest shareholder in FSI with its remaining 17.7 per cent. share, but no longer holds any shares in IEI. Due to the sale the Bank will record a profit of

approximately ISK 4.9 billion in the second quarter of 2014 as a result of both the sale and the fair value change of the Bank's remaining stake in FSI.

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

As at the date of this Base Prospectus, the Senior Management and Directors of the Bank, their functions and their principal outside activities (if any) are as follows:

Name	Function	Principal Outside Activities
Senior Management		
Mr. Steinþór Pálsson	CEO	N/A
Mr. Árni Þór Þorbjörnsson	Managing Director of Corporate Banking	N/A
Mr. Helgi Teitur Helgason	Managing Director of Personal Banking	N/A
Ms. Hrefna Ösp Sigfinnsdóttir	Managing Director of Markets	N/A
Mr. Hreiðar Bjarnason	Managing Director of Finance	N/A
		Represents Landsbankinn on the Board of Framtakssjóður Íslands GP hf. ("FSÍ").
Ms. Jensína Kristín Böðvarsdóttir	Managing Director of Corporate Development & Human Resources	N/A
Ms. Perla Ösp Ásgeirsdóttir	Managing Director of Risk Management	N/A
Ms. Ragnhildur Geirsdóttir	Managing Director of Operations & IT	Chairman of the Board of Directors of RG ehf.
Board of Directors		
Mr. Tryggvi Pálsson	Chairman	N/A
Ms. Eva Sóley Guðbjörnsdóttir	Vice-chairman	Board member of Skeljungur hf.
Ms. Danielle Pamela Neben		N/A
Ms. Helga Björk Eiríksdóttir		Chairman of the Board of Directors of Firkir ehf. Board member of Integrum ehf. Alternate board member of Fösull ehf. and Fenlogi ehf.
Mr. Jón Sigurðsson		Works as Senior Vice President of Procurement at Promens hf. Eignarhaldsfelag Landsbankans ehf., a subsidiary of Landsbankinn. Holds 49.9 per cent. of shares in

Name	Function	Principal Outside Activities
Mr. Kristján Þ. Davíðsson		<p>Promens hf. and FSÍ, holds the remaining shares in Promens hf. Landsbankinn owns a 17.7 per cent. shareholding in FSÍ.</p> <p>Vice Chairman of the Board of Directors of Norwegian fishing and fish processing company Copeinca AsA.</p> <p>Chairman of the Board of Directors of Valka hf., Member of the Board of Directors of Vaki fiskeldiskerfi hf.</p> <p>Member of the Board of Directors of Icelandic seafood industry technology companies, Viðskiptaþróun ehf. and ISDER ehf.</p>
Mr. Jóhann Hjartarson		<p>Chairman of Íslensk erfðagreining ehf., Board member of UVS-Urður, verðandi Skuld ehf. Alternate Board member of Skipti hf.</p>
Dr. Tinna Laufey Ásgeirsdóttir	Alternate	N/A

On 2 July 2014 Mr. Ragnar Lárus Gunnarsson, who has served as alternate to the Board of Directors of Landsbankinn since the last Annual General Meeting, resigned his position with immediate effect due to professional commitments abroad. Mr. Gunnarsson is also a board member on the Board of Directors of Investment fund Dominion Mid-Atlantic Associates, Inc and Capital Inc in Richmond Virginia. A new alternate will be elected at the next shareholder's meeting.

The business address of each of the Senior Management and Directors above is Austurstræti 11, 155 Reykjavík, Iceland.

There are no potential conflicts of interests between any duties of the Senior Management and Directors above and their private interests and/or other duties.

THE REPUBLIC OF ICELAND

GEOGRAPHY AND ENVIRONMENT

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

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

HISTORY

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

EXTERNAL RELATIONS

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

Iceland is also a member of the United Nations, the North Atlantic Treaty Organisation, the International Monetary Fund (“IMF”), the World Bank and the OECD. It is also a party to a number of other multinational organisations, including the Nordic Council and the Council of Europe. The country joined EFTA in 1970 and is a member of the EEA, which is a 28-nation free-trade zone of the EU and the EFTA countries. Iceland is also a contracting party to the General Agreement on Tariffs and Trade and ratified the agreement establishing

the World Trade Organisation in December 1994. Iceland is part of the EU's internal market and the Schengen Area and, in July 2009, Iceland submitted a formal application for accession to the EU. In July 2010, Iceland's accession negotiations with the EU were formally opened and are currently on hold. Just over half the chapters to be negotiated have been opened for formal negotiations and a third had been provisionally closed in October 2012. In 2013 Iceland's major political parties took the position that any future accession to the EU should be subject to a popular referendum. At beginning of 2014 the governing parties agreed to formally withdraw the membership application, without first holding a referendum on the matter and submitted a bill to parliament seeking their approval to do so. This bill has not been approved in the parliament.

THE ICELANDIC ECONOMY

Background

The Icelandic economy is small. In terms of GDP, it is the smallest economy within the OECD with a total GDP of ISK 1,786 billion in 2013. The population is also small, numbering around 325,000. Gross national income per capita measured in terms of purchasing power parity ("PPP"), ranks 18th highest among the OECD countries at USD 34,770 in 2012, on par with the EU average.

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. Services now account for roughly 41 per cent. of total export revenues, while exports of marine products account for 27 per cent. and exports of aluminium and aluminium products account for 21 per cent.

In 2008, the Icelandic economy entered into a deep recession after a five-year period of robust but unsustainable economic growth. The growth was initially spurred by investments in the aluminium and power sectors, followed by a phenomenal 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 30 per cent. from its peak in 2006 to its trough in 2010.

After a period of austerity measures and restructuring of the financial sector, growth resumed in 2011 as GDP grew by 2.9 per cent. and in 2012, growth continued at 1.6 per cent. Unemployment peaked at 11.9 per cent. in early 2010 but was down to 3.9 per cent. in June 2013, well below the EU average. The exchange rate of the Icelandic *króna* 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 March 2014, the *króna* had appreciated by 20 per cent. since its lowest level in the end of 2009.

Despite a significant trade account surplus, 7.4 per cent. of GDP in 2013, the CA balance was only positive by 3.9 per cent. of GDP that year. Following adjustments for calculated income and expenses of deposit money banks ("DMB") in winding-up proceedings and the effects of the settlement of their estates and for the pharmaceutical company Actavis hf. the CA surplus is estimated at 4.1 per cent. of GDP in 2013.

Statistics Iceland publishes an average annual GDP growth of 2.9 per cent. in 2014 to 2018, driven by growing investment and private consumption. Annual CPI inflation in April 2014 measured 2.3 per cent., slightly below the 2.5 per cent. inflation target of the Central Bank of Iceland.

Key Icelandic industries

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

The marine industry

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, as accounting for 42 per cent. of goods exported in the period 2009 to 2013. Marine products accounted for 26 per cent. of goods and services exported in the same period. However, as exports of manufactured goods have been growing rapidly over the past 20 years, the share of the marine sector in goods exports has fallen from around 75 per cent. in the 1990's. The sector's contribution to GDP also fell, from 14 per cent. in the 1990s to 11 per cent. in 2013. The marine sector, including fishing and fish processing, accounted for 10.6 per cent. of GDP in 2011 and, according to preliminary estimates, 10.8 per cent. and 11.5 per cent. of GDP in 2012 and 2013, respectively.

Manufacturing and power intensive industries

The Icelandic manufacturing sector is highly geared towards two sub-sectors, food processing and aluminium production, which together contribute to roughly 80 per cent. of total manufacturing production. In a country rich in natural resources and hydroelectric and geothermal energy resources, the power intensive industry (mainly aluminium) is the largest manufacturing industry in Iceland and produces exclusively for export. Almost all of the electricity consumed in Iceland is produced from indigenous energy resources. The industry is based primarily on competitive energy cost, strategic location and a skilled labour force. Exports of aluminium and aluminium products have increased substantially over the past decade, generating 35 per cent. of goods exports in 2013, from 21 per cent. in 2000. Production has risen sharply in the last 10 years, from 201,000 metric tonnes per year (“mtpy”) in 2000 to 820,000 mtpy in 2012. The other main sub-sector is food production which is directed partly at the domestic market, but a larger share, or two thirds, is in seafood production for export. Exports of other manufactured goods (e.g. excluding aluminium and aluminium products) accounted for 15 per cent. of exports of goods in 2013.

The travel industry

The travel industry has increasingly become a more significant part of Iceland's economy. It is estimated that 807,000 tourists visited the country in 2013, which is a 20 per cent. increase from the previous year. In recent years, this industry has been among the fastest growing industries in Iceland, generating around 26 per cent. of total export revenues in 2013, while foreign exchange revenues generated from foreign tourists amounted to ISK 275 billion.

The agricultural and farming industry

The agricultural industry accounted for 1.0 per cent. of GDP in 2013. Icelandic agriculture is heavily subsidised, with total on-budget transfers to farmers amounting to 0.7 per cent. of GDP in 2011. The total area of Iceland that is arable land or pasture is around 20 per cent. and less than 5 per cent. of this area is cultivated. The remainder is used for grazing or left undeveloped. The principal crops are hay cereal for animal feed, root vegetables and green vegetables which are primarily cultivated in greenhouses heated with geothermal water. Meat and dairy products are mainly for domestic consumption. Imports of meat, dairy products, and some vegetables that compete with domestic production are subject to tariffs, import quotas, and non-tariff import restrictions.

The financial sector

In the first decade of the 21st century, Iceland's financial services sector grew substantially, catalysed by financial globalisation and de-regulation in the 1990s and, in 2003, the privatisation of state-owned banks. Following the privatisation of the three major banks in Iceland, the resulting financial undertakings focused on foreign investments and opened branches abroad and acquired operations in several foreign countries. By the end of 2007, the banking system's assets were roughly 10 times that of the country's GDP. In autumn 2008, the three major banks collapsed and in early 2009, smaller financial institutions also collapsed which resulted in a collapse of roughly 97 per cent. of the banking system (measured by assets).

In the aftermath of the banking crisis, the financial system in Iceland changed radically. Three new banks were established and took over the domestic operations of the collapsed banks. Other smaller financial institutions have undergone financial restructuring and some of them lost their operating licences. The newly restructured banking system is much smaller at approximately 2.2 times Iceland's GDP as of 31 December 2013. There are now four commercial banks and eight savings banks currently operating in Iceland and their main focus is on the domestic market. The state is the major owner of the Issuer and holds a minority stake in two other banks.

The recession in 2008 and the restructuring of the financial sector

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

Landsbankinn issued a bond to Landsbanki Íslands hf. in the amount of USD 2.08 billion. NBI hf. also issued equity securities to Landsbanki Íslands hf. equal to approximately 20 per cent. of Landsbankinn's share capital, while the Icelandic government retained an 80 per cent. equity stake in Landsbankinn. The creditors of Glitnir Bank hf. obtained 95 per cent. of the Issuer's shares. The creditors of Kaupthing Bank hf. obtained 87 per cent. of the shares in New Kaupthing.

The financial crisis had a significant negative impact on the Icelandic economy. The national currency fell sharply in value, and the market capitalisation of the Icelandic stock exchange fell by more than 90 per cent. As a result of the crisis, Iceland underwent a severe economic recession; the nation's gross domestic product dropped by 5.5 per cent. in real terms in the first six months of 2010. The sharp depreciation in the ISK caused significant financial difficulties for Icelandic households and businesses that were heavily indebted and had significant exposure to foreign currency.

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

The Central Bank maintains that the capital controls cannot be lifted at the current time without taking unjustifiable risk with economic and financial stability. Targeted measures need to be undertaken which include: (i) spreading out foreign loan payments, (ii) facilitating solutions concerning the failed banks' ISK assets that do not deplete Iceland's foreign reserves or foreign exchange revenues, and (iii) improving resident entities' access to foreign credit markets.

FINANCIAL MARKETS IN ICELAND

SIZE OF THE BANKING SYSTEM

Total assets of Icelandic credit institutions, including commercial banks, savings banks and credit undertakings, amounted to ISK 3,076 billion as at 31 December 2013 according to the Central Bank, of which foreign assets were ISK 445 billion, or 14 per cent. The Icelandic financial market is therefore highly exposed to the Icelandic economy.

The total assets of the three largest commercial banks, the Bank, Íslandsbanki hf. and Arion Bank hf., comprised around 76 per cent. of the total assets of the Icelandic banking system as at 31 December 2013 according to the Central Bank. The proportion of the HFF was 22 per cent.

MARKET PARTICIPANTS AND SUPERVISION

Icelandic credit institutions are comprised of four commercial banks, eight savings banks and six credit institutions. The financial market also includes eleven securities companies, two securities brokerages and nine management companies of UCITS. The HFF, a fully state-owned institution, operates in Iceland and offers financing for residential housing in Iceland.

One stock exchange is operated in Iceland, the Nasdaq OMX Iceland hf., and one securities depository, Verðbréfaskráning Íslands hf. The Nasdaq OMX Iceland operates under Act No. 110/2007, on Stock Exchanges. In 2000, the Iceland Stock Exchange joined NOREX and in 2006, the Iceland Stock Exchange joined the OMX Nordic Exchange.

Icelandic financial markets are supervised by the FME (www.fme.is). Entities engaging in financial activities which are subject to licence are regulated by the FME, including credit institutions, insurance companies and pension funds. The activities of FME are largely governed by Act No. 87/1998, on the Official Supervision of Financial Operations, and Act No. 98/1999, on the Payment of Cost Due to the Official Supervision of Financial Activities.

The Central Bank of Iceland is in charge of monetary policy implementation in Iceland and performs a wide range of functions to this end. The main objective of monetary policy is price stability. The activities of the Central Bank are largely governed by Act No. 36/2001, on the Central Bank. The Central Bank imposes a reserve requirement on all the commercial and savings banks. The purpose of this limitation is to ensure that credit institutions have sufficient margin to the reserve requirement account to meet fluctuations in their liquidity positions. Foreign exchange transactions have been subject to capital controls since the banking system collapse in 2008. The Central Bank oversees surveillance of the rules on Foreign Exchange.

OTHER RELEVANT INSTITUTIONS IN THE FINANCIAL MARKET

Seven other credit institutions are currently operating in Iceland, one investment bank, two payment card companies, two investment funds and an asset financing company and the state-owned mortgage lender, the HFF.

The establishment of the mortgage lender HFF was approved at the beginning of 1999. The 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 HFF was the largest provider of financing for residential housing until 2004 when the three major banks in Iceland entered the financing sector for residential housing. Pension funds are an important source of long-term finance in the country and are active in the financial market

through their investments activities. These funds invest in domestic bonds, equity capital and in some foreign securities. Membership in a pension fund is obligatory for wage earners and self-employed individuals, in accordance with Act No. 129/1997, on Mandatory Pension Insurance and on the Activities of Pension Funds.

Security houses operate domestically but their operations were limited after the recession in 2008. Many of them operated mutual funds of various kinds.

Three major insurance companies, Tryggingamiðstöðin, Sjóvá and VÍS, which are licensed to operate in Iceland, have been active in the financial market through their investment activities in Iceland.

TAXATION

Iceland

The comments below are of a general nature based on the Bank's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of Notes. They may not apply to certain classes of person such as dealers. 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. It related only to the position of persons who are the absolute beneficial owners of the Notes.

Non-Icelandic Tax Residents

As a general rule, Article 3 (8) of the ITA provides that any interest received from Iceland (outbound payments), such as the interests payable according to the Notes, by any person or entity residing outside of Iceland is taxable income in Iceland. According to Article 70 (8) of the ITA, the current tax rate on taxable income under Article 3 (8) is (a) 10 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 125,000.00); and (b) 10 per cent. for legal entities.

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

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

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

Capital gains on the sale of the Notes are classified as interest under Icelandic tax law. Accordingly, based on the wording of Article 3 (8) of the ITA, cf. Article 3 (3) of Regulation no. 630/2013, capital gains on the sale of the Notes should not be subject to Income tax in Iceland, provided a tax exemption is in place in accordance with the above.

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

Icelandic Tax Residents

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

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

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

FATCA

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (“**FATCA**”) impose a new reporting regime and potentially a 30% withholding tax with respect to (i) certain payments from sources within the United States and gross proceeds from U.S. debt and equities and (ii) “foreign passthru payments” (a term not yet defined) to (x) any non-U.S. financial institution (a “foreign financial institution”, or “**FFI**” (as defined by FATCA)) that neither becomes a “**Participating FFI**” by entering into an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide the IRS with certain information in respect of its account holders and investors nor is otherwise exempt from or in deemed compliance with FATCA and (y) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a “United States Account” of the relevant Participating FFI (a “**Recalcitrant Holder**”). The Bank is classified as an FFI.

The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to “**foreign passthru payments**” (a term not yet defined) by a Participating FFI no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any 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 after the “**grandfathering date**”, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued before the grandfathering date, and additional Notes of the same series are issued

on or after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have negotiated or announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an “**IGA**”). Pursuant to FATCA and the “Model 1” and “Model 2” IGAs released by the United States, an FFI in an IGA signatory country could be treated as a “**Reporting FI**” not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being “**FATCA Withholding**”) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. Iceland has not yet entered into an IGA with the United States.

The Bank and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Bank, any paying agent and the Common Depositary / Common Safekeeper, given that each of the entities in the payment chain between the Bank and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes. The documentation expressly contemplates the possibility that the Notes may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding and may, therefore, receive a lesser amount in respect of any payment under the Notes than would otherwise be the case. However, definitive Notes will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Any tax discussion herein is not intended to be relied upon, and cannot be relied upon, by prospective investors for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code. Prospective investors should consult their tax advisers on how these rules may apply to the Bank and to payments they may receive in connection with the Notes.

The proposed financial transactions tax (“FTT”)

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under current proposals 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 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.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

EU Savings Directive

Under the Savings Directive, EU Member States are required to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid or secured by a person established within its jurisdiction to (or for the benefit of) an individual resident in another EU Member State or certain other types of entities established in another EU Member State.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the “**Programme Agreement**”) dated 27 August 2014, 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 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;
- the expression “**Prospectus Directive**” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and
- the expression “**2010 PD Amending Directive**” means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Bank;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Iceland

The investment described in this Base Prospectus has not been and will not be registered for public distribution in Iceland with the Financial Supervisory Authority pursuant to the Icelandic Act on Securities Transactions No. 108/2007 (as amended) (the “**Icelandic Securities Act**”).

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to acknowledge and agree, that this Base Prospectus may be distributed only to, and may be directed only at, persons who are (i) qualified investors under the private placement exemption of Article 50 (1) Item 1 a) as defined in Article 43 Item 9 of the Icelandic Securities Act or (ii) other persons to whom this Base Prospectus may be communicated lawfully in accordance with the Icelandic Securities Act (all such persons together being referred to as the Relevant Persons). This Base Prospectus must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Base Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Base Prospectus or any of its contents. This Base Prospectus must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other persons.

Japan

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

Hong Kong

Each Dealer has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any of the Notes (except for Notes which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (i) to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

General

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

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

GENERAL INFORMATION

Authorisation

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

Listing of Notes

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

Documents Available

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

- (a) the articles of association and certificate of incorporation (with an English translation thereof) of the Bank;
- (b) the 2012 Financial Statements and the 2013 Financial Statements (with an English translation thereof) in each case together with the audit reports prepared in connection therewith and the 2014 Interim Financial Statements, together with the review report prepared in connection therewith (with an English translation thereof). The Bank currently prepares audited consolidated accounts on an annual basis. The Bank does not currently prepare non-consolidated accounts;
- (c) the most recently published audited annual financial statements of the Bank and the most recently published unaudited interim financial statements (if any) of the Bank (with an English translation thereof), in each case together with any audit or review reports prepared in connection therewith. The Bank currently prepares unaudited consolidated interim accounts on a quarterly basis;
- (d) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (e) a copy of this Base Prospectus; and
- (f) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

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

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

Conditions for determining price

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

Significant or Material Change

There has been no significant change in the financial position of the Group since 30 June 2014 and there has been no material adverse change in the prospects of the Bank since 31 December 2013.

Litigation

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

Auditors

The auditors of the Bank are KPMG ehf., members of The Institute of State Authorised Public Accountants in Iceland, who have audited the Bank’s accounts, without qualification, in accordance with International Standards on Auditing for each of the two financial years ended on 31 December 2012 and 31 December 2013. The auditors of the Bank have no material interest in the Bank.

Dealers Transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer’s affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Availability of Prospectus

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

Listing Agent

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

BANK

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
65 Fleet Street
London EC4Y 1HS
United Kingdom

To the Bank as to Icelandic law

LEX
Borgartúni 26
105 Reykjavík
Iceland

To the Dealers as to Icelandic law

LOGOS
Efstaleiti 5
103 Reykjavík
Iceland

AUDITORS

To the Bank

KPMG ehf.
Borgartun 27
105 Reykjavík
Iceland

ARRANGER

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

DEALERS

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
E14 4QA
United Kingdom

UBS Limited

1 Finsbury Avenue
London EC2M 2PP
United Kingdom

LISTING AGENT

Arthur Cox Listing Services Limited

Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland