



**ÍSLANDBANKI HF.**

(incorporated with limited liability in Iceland)

**€4,000,000,000**

**European Covered Bond (Premium) Programme**

On 4 November 2011, Íslandsbanki hf. (the **Issuer** or the **Bank**) established a covered bond programme which is described in this Base Prospectus, under which the Issuer may from time to time issue European Covered Bonds (Premium) in a continuous and repeated manner (the **Covered Bonds**) in accordance with the Icelandic Act on Covered Bonds, No. 11/2008, as amended (the **Act on Covered Bonds**), any relevant executive orders (Icelandic: *stjórnvaldsákvæðanir*) and appurtenant regulations as may be supplemented, amended, modified or varied from time to time (as well as any judicial decisions and administrative pronouncements, all of which are subject to change, including with retroactive effect), (together the **Covered Bonds Legislation**) denominated in any Specified Currency.

Under the €4,000,000,000 European Covered Bond (Premium) Programme (the **Programme**) described in this base prospectus (the **Base Prospectus**), the Issuer may from time to time issue Covered Bonds denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Covered Bonds may be issued in bearer or registered form (respectively, **Bearer Covered Bonds** and **Registered Covered Bonds**) or in uncertificated and dematerialised book entry form (**CSD Covered Bonds**) and cleared through Nasdaq CSD Iceland or Verðbréfamíðstöð Íslands CSD (together, the **CSD**).

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

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed €4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein. However, pursuant to the existing licence issued by the Financial Supervisory Authority of the Central Bank of Iceland (the **FSA**) the programme shall never exceed a limit approved by the FSA.

The Covered Bonds 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 Issuer (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

## BASE PROSPECTUS

case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

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

This Base Prospectus has been approved as a base prospectus by the Central Bank of Ireland, as competent authority under the **Prospectus Regulation** in respect of the Covered Bonds (other than Exempt Covered Bonds (as defined below)) issued under the Programme as described in this Base Prospectus. The Central Bank of Ireland only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or of the quality of the Covered Bonds that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds. Such approval relates only to the Covered Bonds which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU (as amended) (**MiFID II**) and/or which are to be offered to the public in any Member State of the European Economic Area (**the EEA**) pursuant to an exemption under Article 1(4) and/or Article 3(2) of the Prospectus Regulation from the requirement to publish a prospectus. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (**Euronext Dublin**) for Covered Bonds issued under the Programme (other than Exempt Covered Bonds) to be admitted to the official list of Euronext Dublin (**the Official List**) and to trading on its regulated market (**the Regulated Market**). The Regulated Market is a regulated market for the purposes of MiFID II. Reference in this Base Prospectus to Covered Bonds being "listed" (and all related references) shall mean that such Covered Bonds have been admitted to the Official List and to trading on the Regulated Market.

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue (i) unlisted Covered Bonds, (ii) Covered Bonds admitted to a market in the EEA other than a regulated market for the purposes of MiFID II and/or (iii) Covered Bonds listed on other stock exchanges or markets outside the EEA, in each case, in respect of which no prospectus is required to be published pursuant to the Prospectus Regulation (together, **Exempt Covered Bonds**). Such Exempt Covered Bonds do not form part of the Base Prospectus and the Central Bank of Ireland has neither approved nor reviewed information contained in this Base Prospectus in connection with such Exempt Covered Bonds.

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

The Issuer has senior unsecured debt ratings of BBB+ (long term debt) and A-2 (short term debt) from S&P Global Ratings Europe Limited (**S&P**) and a senior unsecured debt rating of A3 (long term debt) from Moody's Investors Service Limited ("**Moody's**") as at the date of this Base Prospectus. S&P is established in the European Union (**the EU**) and is registered under the Regulation (EC) No.

## BASE PROSPECTUS

1060/2009 (as amended) (the **CRA Regulation**). The rating Moody's has given in relation to the Issuer is endorsed by Moody's Deutschland GmbH. S&P and Moody's Deutschland GmbH are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. Cover Bonds issued under the Programme may be rated or unrated by S&P, Moody's or by another rating agency. Where a Tranche of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. 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.

The Issuer may decide that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds described herein, in which event, a supplement to the Base Prospectus, if appropriate, will be made available which will describe the form of such Covered Bonds.

The Covered Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or with any state securities commission or any other United States regulatory authority and may include Covered Bonds in bearer form that are subject to United States tax law requirements. Accordingly, the Covered Bonds may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

**This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Covered Bonds which are to be admitted to trading on a regulated market in the EEA. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.**

**Arranger and Dealer  
Barclays**

The date of this Base Prospectus is 3 May 2024.

## BASE PROSPECTUS

**This Base Prospectus comprises a base prospectus for the purposes of Article 8 of the Prospectus Regulation.**

**The Issuer accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds issued under the Programme. To the best of the knowledge of the Issuer, the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The information in the sections entitled "*Financial Markets in Iceland*" on pages 170 to 171 has been extracted from publications by the National Economic Institute, the Ministry of Finance and the Central Bank of Iceland, where indicated as such. The Issuer confirms that, in each case, such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.**

**This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus. Other than in relation to the information expressly included in this Base Prospectus or information set out in the documents which are deemed to be incorporated by reference herein (see "*Documents Incorporated by Reference*"), the other information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus. Any information set out on a website referred to in this document does not form part of the Base Prospectus unless such information is incorporated by reference.**

**In relation to any Tranche, the aggregate nominal amount of the Covered Bonds of such Tranche, the interest (if any) payable in respect of the Covered Bonds of such Tranche, the issue price and certain other information which is relevant to such Tranche will be set out in a final terms document (Final Terms) substantially in the form set out under "*Form of Final Terms*" below.**

**In relation to Covered Bonds to be listed on Euronext Dublin, the Final Terms will be filed with the Central Bank of Ireland on or before the date of issue of the Covered Bonds of such Tranche. Copies of Final Terms relating to Covered Bonds listed on Euronext Dublin will be published on the website of Euronext Dublin at <https://live.euronext.com/en/markets/dublin>. Copies of Final Terms will also be available from the registered office of the Issuer and from the offices of the Paying Agent (as defined below).**

**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 by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.**

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

## BASE PROSPECTUS

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

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

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

This Base Prospectus has been prepared on a basis that would permit an offer to the public in the EEA of Covered Bonds with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the requirement under the Prospectus Regulation to publish a prospectus. As a result, any offer of Covered Bonds to the public in any Member State of the EEA must be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly, any person making or intending to make an offer of Covered Bonds to the public in the EEA may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Further, this Base Prospectus has been prepared on the basis that any

## BASE PROSPECTUS

offer of Covered Bonds to the public in the UK with a denomination of less than €100,000 (or equivalent in another currency) will only be made pursuant to an exemption under section 86 of the Financial Services and Markets Act 2000 (as amended) (the FSMA).

Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds to the public in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

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

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the relevant Covered Bonds, the merits and risks of investing in the relevant Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Covered Bonds and the impact such investment will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Covered Bonds where the currency for principal or interest payments is different from the currency in which such investor's financial activities are principally denominated;
- (d) understands thoroughly the terms of the relevant Covered Bonds and is familiar with the behaviour of financial markets; and
- (e) 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 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 (i) Covered Bonds are legal investments for it, (ii) Covered Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

In making an investment decision, investors must rely on their own examination of the Issuer and the terms of the Covered Bonds being offered, including the merits and risks involved. The Covered Bonds have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

None of the Dealers and the Issuer makes any representation to any investor in the Covered Bonds regarding the legality of its investment under any applicable laws. Any investor in the

## BASE PROSPECTUS

Covered Bonds should be able to bear the economic risk of an investment in the Covered Bonds for an indefinite period of time.

None of the Arranger, Dealers nor any of their respective affiliates accepts any responsibility for any environmental or sustainability assessment of any Covered Bonds issued as Green, Social or Sustainability Bonds or makes any representation or warranty or gives any assurance as to whether such Covered Bonds will meet any investor expectations or requirements, any regulatory requirements or industry-body guidance regarding such “green, social, sustainable” or similar labels. None of the Arranger, Dealers nor any of their respective affiliates have undertaken, nor are they responsible for, any assessment of the Green or Social Loans (as defined in the “Use of Proceeds” section of the Base Prospectus), any verification of whether the Green or Social Loans meet any eligibility criteria set out in the Sustainable Funding Framework (as defined in the “Use of Proceeds” section of the Base Prospectus) nor are they responsible for the use of proceeds (or amounts equal thereto) for any Covered Bonds issued as Green, Social or Sustainability Bonds, nor the impact or monitoring of such use of proceeds or the allocation of the proceeds to particular Green or Social Loans. None of the Arranger, Dealers nor any of their respective affiliates is responsible for the establishment or the assessment of the Sustainable Funding Framework including the assessment of the applicable eligibility criteria adopted thereby, nor do any of them undertake to ensure that there are at any time sufficient eligible projects. The Sustainable Funding Framework, the Second Party Opinion (as defined in the “Use of Proceeds” section of the Base Prospectus) and any public reporting by or on behalf of the Issuer in respect of the application of proceeds will be available on the Issuer’s website but, for the avoidance of doubt, will not be incorporated by reference into or form part of the Base Prospectus. None of the Arranger, Dealers nor any of their respective affiliates make any representation as to the suitability or content of such materials. Investors should not rely on such materials and any decision to purchase any Covered Bonds should be based on the Base Prospectus, as supplemented.

### IMPORTANT – EEA RETAIL INVESTORS

If the applicable Final Terms in respect of any Covered Bonds includes a legend entitled “Prohibition of Sales to EEA Retail Investors”, the Covered Bonds are not intended to be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the PRIIPs Regulation) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

### IMPORTANT – UK RETAIL INVESTORS

If the applicable Final Terms in respect of any Covered Bonds includes a legend entitled “Prohibition of Sales to UK Retail Investors”, the Covered Bonds are not intended to be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, the EUWA); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to

implement Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No. 600/2014 as it forms part of domestic law by virtue of the EUWA (UK MiFIR); or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 (as amended) as it forms part of domestic law by virtue of the EUWA (the UK Prospectus Regulation). Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended) as it forms part of domestic law by virtue of the EUWA (the UK PRIIPs Regulation) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

#### MIFID II PRODUCT GOVERNANCE/TARGET MARKET

The applicable Final Terms may include a legend entitled “MiFID II product governance” which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a distributor) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

#### UK MIFIR PRODUCT GOVERNANCE / TARGET MARKET

The applicable Final Terms may include a legend entitled “UK MIFIR product governance” which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. A distributor (as defined above) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the UK MiFIR Product Governance Rules) is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

#### BENCHMARKS REGULATION

Interest and/or other amounts payable under the Covered Bonds may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (as amended, the Benchmarks Regulation). If any such reference rate does constitute such a benchmark, the applicable Final Terms will indicate whether or not



## BASE PROSPECTUS

the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (ESMA) pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the applicable Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the applicable Final Terms to reflect any change in the registration status of the administrator.

### PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE

The applicable Final Terms in respect of any Covered Bonds may include a legend entitled “Singapore Securities and Futures Act Product Classification” which will state the product classification of the Covered Bonds pursuant to section 309B(1) of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the SFA). Any such legend included on the applicable Final Terms will constitute notice to “*relevant persons*” for purposes of section 309B(1)(c) of the SFA. Unless a legend is included in the applicable Final Terms as aforesaid, Covered Bonds issued or to be issued under the Programme shall be capital markets products other than prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Specified Investment Products (as defined in the Monetary Authority of Singapore (the “MAS”) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

### PRESENTATION OF FINANCIAL AND OTHER INFORMATION

#### *Presentation of Financial Information*

Unless otherwise indicated, the consolidated financial information of the Issuer as of and for the years ended 31 December 2023, 2022 and 2021 included in this Base Prospectus has been derived from the audited consolidated annual financial statements of the Issuer as of and for the years ended 31 December 2023, 2022 and 2021 (together, the **Annual Financial Statements**), which have been incorporated by reference in this Base Prospectus.

The Issuer's financial year ends on 31 December, and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union (EU).

#### *Certain Defined Terms and Conventions*

Capitalised terms which are used but not defined in any particular section of this Base Prospectus will have the meaning attributed thereto in “*Terms and Conditions of the Covered Bonds*” or any other section of this Base Prospectus.

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In this Base Prospectus, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

## BASE PROSPECTUS

All references in this document to *U.S. dollars*, *U.S.\$* and *\$* refer to United States dollars; to *Sterling* and *£* refer to pounds sterling; and to *ISK*, *króna* or *krónur* refer to the currency of Iceland. In addition, all references to *euro* 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.

References in this document to "Coupons" and "Couponholders", "Receipts" and "Receiptholders" and "Talons" apply in respect of Bearer Covered Bonds only.

### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Base Prospectus contains forward-looking statements that reflect the Issuer's intentions, beliefs or current expectations and projections about its future business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies and opportunities and the markets in which it operates. They include statements concerning the Issuer's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "projects", "expects", "believes", "hopes", "intends", "plans", "aims", "seeks", "may", "will", "would", "could", "should", and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of the Issuer*" and other sections of this Base Prospectus. The Issuer has based these forward looking statements on the current view of its management with respect to future events and financial performance, taking into account information currently available to the Issuer. Although the Issuer believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer has otherwise identified in this Base Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted. The Issuer's beliefs, assumptions and expectations can change as a result of possible events or factors, not all of which are known to the Issuer or are within its control. If a change occurs, the Issuer's business, results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies or opportunities may vary materially from those expressed in, or suggested by, these forward-looking statements.

**The risks and uncertainties referred to above include:**

- **the Issuer's ability to achieve and manage the growth of its business;**
- **the performance of the markets in Iceland and the wider region in which the Issuer operates;**
- **the Issuer's ability to realise the benefits it expects from existing and future projects and investments it is undertaking or plans to or may undertake;**
- **the Issuer's ability to obtain external financing or maintain sufficient capital to fund its existing and future investments and projects;**
- **changes in political, social, legal or economic conditions in the markets in which the Issuer and its customers operate; and**
- **actions taken by the Issuer's joint venture partners that may not be in accordance with its policies and objectives.**

## **BASE PROSPECTUS**

**Any forward looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.**

**STABILISATION**

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

## Table of Contents

1.	Overview of the Programme .....	2
2.	Risk Factors .....	13
3.	Documents Incorporated by Reference .....	53
4.	Form of the Covered Bonds .....	55
5.	Form of Final Terms .....	59
6.	Terms and Conditions of the Covered Bonds .....	79
7.	Use of Proceeds .....	127
8.	Summary of Icelandic Legislation relating to Covered Bonds .....	132
9.	Description of the Issuer .....	143
10.	Cover Pool .....	160
11.	The Icelandic Economy .....	164
12.	The Icelandic Housing Market .....	166
13.	Financial Markets in Iceland .....	167
14.	Overview of the Transaction Documents .....	169
15.	Book-Entry Clearance systems .....	181
16.	Taxation .....	183
17.	Subscription and sale and Selling Restrictions .....	186

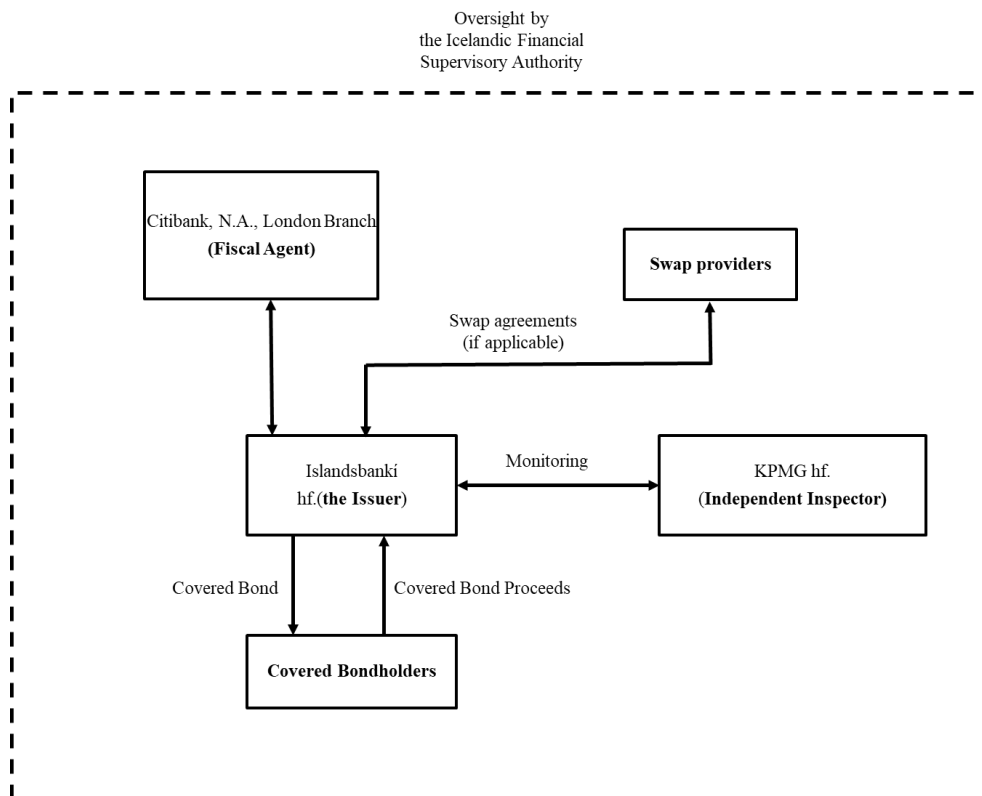
## 1. OVERVIEW OF THE PROGRAMME

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 Covered Bonds, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Covered Bonds shall be issued in a form other than that contemplated in the Terms and Conditions of the Covered Bonds, in which event, in the case of listed Covered Bonds only and if appropriate, a new prospectus or a supplement to this Base Prospectus will be made available which will describe the form of such Covered Bonds.

This Overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No 2019/980.

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

### STRUCTURE OF PROGRAMME



## THE PARTIES

**Legal Entity Identifier (LEI):** 549300PZMFIQR79Q0T97

**Issuer:** Íslandsbanki hf.

The Issuer holds a licence from the Icelandic Financial Supervisory Authority of the Central Bank of Iceland (*Fjármálaeftirlitið*) (the **FSA**) to conduct financing business as a commercial bank and a licence to issue Covered Bonds in accordance with the Icelandic Act on Covered Bonds no. 11/2008, as amended (the **Act on Covered Bonds**).

**Description:** €4,000,000,000 European Covered Bond (Premium) Programme

**Arranger:** Barclays Bank Ireland PLC, acting through its investment bank (**Barclays**).

**Dealers:** Barclays and any other Dealers appointed in accordance with the Programme Agreement.

**Independent Inspector**  
(*Sjálfstæður skoðunarmaður*): The Issuer is required to appoint an independent inspector, and this appointment must be approved by the FSA. The Independent Inspector will monitor the Register in accordance with the Act on Covered Bonds and the Rules and verify that the valuation of collateral for debt instruments in the Cover Pool is based on the prescribed methodology. The Independent Inspector shall report regularly to the FSA on their observations, and immediately inform the FSA of any circumstances he or she becomes aware of, that could affect the FSA's assessment of the Issuer. The initial Independent Inspector has been appointed pursuant to an agreement with KPMG ehf.

**Cover Pool Swap Provider:** The Issuer may enter into swaps from time to time with third party counterparties to convert ISK interest payments received by the Issuer in respect of assets registered to the Cover Pool (other than derivative agreements with qualified counterparties which are registered to the Cover Pool (the **Eligible Swaps**)) into floating payments linked to the rate of interest under the Covered Bonds (the **Cover Pool Swap**).

**Currency Swap Providers:** The Issuer may enter into currency swaps (each a **Currency Swap**) from time to time with third party counterparties (each, a **Currency Swap Provider**), subject to currency restrictions in place at each time, in order to hedge currency risks arising from (a) Covered Bonds which are issued in currencies other than ISK and (b) assets (other than bonds as defined in Article 2 of the Act on Covered Bonds which are issued by borrowers and as described in Article 5 of the Act on Covered Bonds (**Mortgage Bonds**) and Eligible Swaps)

which are registered to the Cover Pool and are denominated in ISK.

**Indexed Currency Swap Providers:** The Issuer may enter into indexed currency swaps (each an **Indexed Currency Swap**) from time to time with third party counterparties (each, an **Indexed Currency Swap Provider**) in order to hedge currency risks arising from (a) Covered Bonds which are issued in currencies other than ISK and (b) assets which are registered to the Cover Pool and are denominated in ISK and inflation linked.

**Interest Rate Swap Providers:** The Issuer may enter into single currency interest rate swaps (each, an **Interest Rate Swap**) from time to time with third party counterparties (each, an **Interest Rate Swap Provider**) in order to hedge the Issuer's interest rate risks in ISK and/or other currencies to the extent that they have not been hedged by the Cover Pool Swap or a Currency Swap.

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

**Fiscal Agent, Paying Agent and Transfer Agent:** Citibank, N.A., London Branch

**Registrar** Citibank Europe PLC

**CSD Agent:** Íslandsbanki hf.

## **KEY FEATURES**

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

The Covered Bonds will be endorsed to show that they have the benefit of priority of claims to the Cover Pool (junior to costs incurred in connection with the operation, management, collection and realisation of the Cover Pool, and claims due to derivative agreements concluded in accordance with the provisions of the Act on Covered Bonds) and have been registered in the Register.

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

**The Register:** The rights of priority that covered bondholders and swap providers have with respect to the Covered Bonds arise from



a registration being made in a register kept by the Issuer, containing details of the Covered Bonds and the assets in the Cover Pool.

**Certain Restrictions:**

Each issue of Covered Bonds in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time.

**Composition of the Cover Pool:**

The Cover Pool will consist primarily of loans which are secured on interests in residential property, claims which the Issuer holds, or may acquire, against providers of Swaps and certain substitute assets. The assets comprising the Cover Pool will comply with requirements set out in the Act on Covered Bonds.

See "*Cover Pool – composition of assets*" below.

**Liquidity buffer:**

Under the Act on Covered Bonds, the Issuer must maintain a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow on the Covered Bonds and related derivative contracts over the next 180 days.

**Relevant Swaps:**

**Reference Currency**

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

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

**Asset Coverage Test:**

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

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

**Establishment of Issuer Accounts**

Upon the Issuer ceasing to be an Eligible Institution it shall, within 90 calendar days (or such longer period as may be agreed by S&P), following the first Business Day on which it ceases to be an Eligible Institution, establish one or more

Issuer Accounts with an Eligible Institution. Further, the Issuer shall, upon the occurrence of such ceasing, *inter alia*, (i) transfer all payments received from the Cover Pool to the relevant Issuer Account (ii) create security over each Issuer Account for the benefit of the Covered Bondholders and (iii) register the Issuer Accounts and amounts standing to the credit thereof in the Register.

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

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

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

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

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

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

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

**Programme Size:**

Up to €4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

**Distribution:**

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

**Currencies:** Subject to any applicable legal or regulatory restrictions including the rules on foreign exchange issued by the Central Bank of Iceland (the **Central Bank**), any currency agreed between the Issuer and the relevant Dealer including but not limited to U.S. Dollars, Euro, Sterling, Japanese Yen, Danish Krone, Norwegian Krone, Swedish Krona, and Icelandic Krona and specified in the applicable Final Terms.

**Form of Covered Bonds:** The Covered Bonds will be issued either (i) in bearer form, (ii) in registered form or (iii) in the case of CSD Covered Bonds, in uncertificated and dematerialised book entry form registered in the CSD.

CSD Covered Bonds will not be evidenced by any physical Covered Bond or document of title. Entitlements to CSD Covered Bonds will be evidenced by registration in the registers between the direct and indirect accountholders at the CSD.

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

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

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

Under the Act on Covered Bonds, a Maturity Extension Approval is subject to the following conditions:

- (a) the deferral is necessary for the purposes of:
  - (i) preventing default on a Covered Bond or a derivative contract without the sale of assets at a substantial discount;
  - (ii) early intervention by the FSA or the resolution of the Issuer achieving the objective of the Act on Resolution of Credit Institutions and Investment Firms; or
  - (iii) optimising the claims of Covered

Bondholders and counterparties of derivative contracts upon the winding-up or liquidation of the Issuer;

- (b) that the deferral is explicitly authorised pursuant to the Terms and Conditions of the Covered Bond, which set out the final maturity date, maturity extension triggers, the consequences that insolvency or resolution of the Issuer may have on the extension and the role of the FSA with regard to such deferral; and
- (c) that the deferral does not affect the maturity schedule of other Covered Bonds collateralised by the same cover pool.

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

**Issue Price:**

Covered Bonds may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

**Interest:**

The following types of Covered Bond may be issued: (a) Covered Bonds which bear interest at a fixed rate or a floating rate; (b) Covered Bonds which do not bear interest; and (c) Covered Bonds the redemption amount of which is calculated by reference to a specified factor such as movements in an index. In addition, Covered Bonds which have any combination of the foregoing features may also be issued.

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

**Fixed Rate Covered Bonds:**

Fixed interest will be payable on such date or dates as may be agreed between the Issuer 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 Issuer and the relevant Dealer.

**Floating Rate Covered Bonds:**

Floating Rate Covered Bonds will bear interest at a rate determined on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or on such other basis as may be agreed between the Issuer and

the relevant Dealer.

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

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

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

**Inflation Linked Annuity Covered Bonds:** Covered Bonds that pay an Annuity Amount on such date or dates as decided by the Issuer and set out in the Final Terms.

**Inflation Linked Equal Principal Payment Covered Bonds:** Covered Bonds that pay an Equal Payment Amount on such date or dates as decided by the Issuer and set out in the Final Terms.

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

**Instalment Covered Bonds:** Instalment Covered Bonds may be issued on an instalment basis in which case such Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.

**Redemption:** The applicable Final Terms will indicate either that the relevant Covered Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons) or that such Covered Bonds will be redeemable at the option of the Issuer and/or the Covered Bondholders. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms.

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

amounts in such currency).

**Taxation:**

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

**Following insolvency of the Issuer:**

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

**Use of Proceeds:**

The net proceeds (in respect of (a) and (c) below) or an amount equal to the net proceeds (in respect of (b) below) from each issue of Covered Bonds will, as specified in the applicable Final Terms be:

- (a) used for the Issuer's general corporate purposes; or
- (b) used to finance or refinance, in whole or in part, Green or Social Loans (as defined in the "Use of Proceeds" section below), as further described in the applicable Final Terms and the Issuer's Sustainable Funding Framework dated January 2024 (as amended or supplemented from time to time) (the **Sustainable Funding Framework**) available on the Issuer's website ([https://cdn.islandsbanki.is/image/upload/v1/documents/ISB\\_2024\\_sjalfbaer-fjarmalarammi.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_2024_sjalfbaer-fjarmalarammi.pdf)); or
- (c) used to finance any other particular identified use of proceeds as stated in the applicable Final Terms.

**Rating:**

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

security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Clearing Systems:**

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

**Approval, Listing and Admission to Trading:**

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

Covered Bonds may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Covered Bonds which are neither listed nor admitted to trading on any market may also be issued. Such Covered Bonds may be Exempt Covered Bonds (as defined in this Base Prospectus).

The applicable Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

**Passporting:**

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

**Governing Law:**

The Covered Bonds and any non-contractual obligations arising out of or in connection with the Covered Bonds will be governed by, and construed in accordance with, English law, except for (i) the provisions of Condition 4 which shall be governed by, and construed in accordance with, Icelandic law and (ii) the registration of CSD Covered Bonds in the CSD and Condition 15.2, which shall, in each case, be governed by, and construed in accordance with, Icelandic law. CSD Covered Bonds must comply with the regulations of the CSD, and the holders of CSD Covered Bonds will be entitled to the rights and are subject to the obligations and liabilities which arise under Icelandic regulations and legislation.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA (including Italy, Iceland and Norway), the People's Republic of China,

Hong Kong, Singapore, Switzerland, the UK and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds, see "*Subscription and sale and Selling Restrictions*".

**United States Selling Restrictions:**

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



## **2. RISK FACTORS**

*In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There is a wide range of risk factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Covered Bonds. It is not possible to identify all such risk factors, as the Issuer may not be aware of all relevant risk factors and certain risk factors which it currently deems to be non-material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of risk factors which could materially adversely affect its business and ability to make payments due under the Covered Bonds. The Issuer has assessed the materiality of the risk factors based on the probability of their occurrence and the expected magnitude of their negative impact and has organised the following risk factors accordingly within each category, beginning with those estimated to be most significant to the Issuer. The order in which the categories of risk factors are presented does not necessarily reflect the probability of their occurrence or the magnitude of their potential impact, as the categories of risk factors mentioned herein could materialise individually or cumulatively. Any quantification of the significance of each individual category for the Issuer could be misleading, as other categories of risks factors may materialise to a greater or lesser degree.*

*In addition, risk factors which are material for the purpose of assessing, and are specific to, the market risks associated with Covered Bonds issued under the Programme are also described below.*

*Prospective investors in the Covered Bonds should also read the detailed information set out elsewhere in (or otherwise incorporated by reference into) this Base Prospectus and reach their own views prior to making any investment decision.*

### **FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER COVERED BONDS ISSUED UNDER THE PROGRAMME**

Set forth below are certain risks that could materially adversely affect the Issuer's future business, operating results or financial condition.

#### **RISKS RELATING TO THE ISSUER'S BUSINESS ACTIVITIES AND INDUSTRY**

*The Issuer is subject to credit risk and may be unable to sufficiently assess credit risk of potential borrowers and may provide advances to customers that increase credit risk exposure*

The Issuer undertakes credit risk by offering loans, guarantees and other credit products. Credit risk is the primary risk factor in the Issuer's operations and taking on credit risk is a core activity of the Issuer. Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's potential failure to meet the terms of any contract with the Issuer. Failure to accurately assess credit risk could increase credit risk exposure which could have a material adverse effect on the Issuer's financial condition.

*Third parties that owe the Issuer money, securities or other assets may be unable to meet their obligations towards the Issuer*

Accurate and comprehensive financial information and other credit information may be limited for certain types of borrowers such as small enterprises or individuals. Despite any credit risk determination procedures the Issuer has in place, the Issuer may be unable to evaluate correctly the current financial condition of each prospective borrower to determine their long-term financial viability. Failure to address any risks associated with any borrower may lead to higher risk and could materially affect the Issuer's business. By the end of 2023, the Issuer's regulatory credit risk exposure amount was ISK 1,622 billion, a rise from ISK 1,501 billion at year-end 2022. This increase is mainly

due to the inclusion of bonds in the liquidity portfolio under the credit risk framework. Credit risk accounted for 89 per cent. of capital requirements under Pillar 1.

*The Issuer is subject to counterparty risk which may have an adverse effect on its cost of funds*

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the Issuer's businesses. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in the Icelandic economy or global economic conditions, or arising from systemic risks in the financial markets, could affect the recoverability and value of the Issuer's assets and require an increase in its provision for bad and doubtful debts and other provisions. To the extent that any of the instruments and strategies the Issuer uses to hedge or otherwise manage its exposure to credit risk are not effective, it may not be able to mitigate effectively its risk exposures in particular market environments or against particular types of risk. The Issuer's earnings will depend upon how its critical accounting estimates prove accurate and upon how effectively it determines and assesses the cost of credit and manages its risk concentrations. To the extent its assessments of migrations in credit quality and of risk concentrations, or its assumptions or estimates used in establishing its valuation models for the fair value of its assets and liabilities or for its loan loss reserves, prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses.

The Issuer's exposures to other financial institutions is substantial, some of which might become unable to satisfy their obligations to the Issuer. Such counterparties might become subject to resolution procedures in their home jurisdictions, such as under Directive 2014/59/EU (the **Bank Recovery and Resolution Directive or BRRD**) for certain EU financial institutions or the United Kingdom Banking Act 2009 for certain UK financial institutions, which procedures might materially negatively impact the amount and/or timing of what the Group would receive from a financial counterparty should it be subject to resolution.

*The Issuer's loan portfolio is concentrated in certain industries and borrowers*

As at 31 December 2023, the Issuer's loan portfolio to customers was exposed to concentration in certain industry sectors, namely individuals (48 per cent.), commerce and services (15 per cent.), real estate (12 per cent.), construction (7 per cent.), industrial and transportation (6 per cent.), the seafood industry (6 per cent.) and other (6 per cent.). The Issuer's financial condition is sensitive to downturns in these industries and the consequent inability of the Issuer's customers to meet their obligations towards the Issuer. Decline in the financial condition of the Issuer's largest borrowers could also materially affect the Issuer's business, financial condition and results of operations. In terms of geographic credit concentration, most of the Issuer's activities are in Iceland but the Issuer maintains a certain amount of international activities. The overseas strategy is built on a heritage of servicing the core industries in Iceland, primarily focusing on the seafood industry. The strategy focuses on the North Atlantic region, including Canada, the United States and Norway. As at 31 December 2023, the Issuer's credit risk and credit concentration risk accounted for 78 per cent. of the total capital requirements.

*Increases in the Issuer's loan losses or allowances for loan losses may have an adverse effect on its results*

The Issuer's banking businesses establish provisions for loan losses, which are reflected in the provision for credit losses on its income statement, in order to maintain its allowance for loan losses at a level which is deemed to be appropriate by management based upon an assessment of prior loss experience, the volume and type of lending being conducted by each entity, industry standards, past due loans, economic conditions and other factors related to the collectability of the loan portfolio. Although the Issuer's management uses its best efforts to establish the provision for loan losses, that determination is subject to significant judgment, and the Issuer's banking businesses may have to

increase or decrease their provisions for loan losses in the future as a result of increases or decreases in non-performing assets or for other reasons. To the extent its assumptions or estimates used in establishing its valuation models for the fair value of its assets and liabilities or for its loan loss reserves prove inaccurate or not predictive of actual results, it could suffer higher than anticipated losses. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have a material effect on the Issuer's results of operations and financial condition.

Additional information regarding the Issuer's credit risk can be found in section 4 of the Issuer's Pillar 3 Report 2023 which is incorporated by reference into this Base Prospectus.

*The Issuer is subject to market risks which may have material adverse effect on the Issuer's results of operations*

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in the level or volatility of prices of market instruments, such as those that arise from changes in interest rates, inflation, equity prices and foreign exchange rates. Market risk is a key risk to the Issuer's operations. The Issuer takes on market risk as a part of its business strategy.

Market risk of the Issuer is split into two categories: risk in the trading book and risk in the banking book. Market risk due to mismatches in assets and liabilities with respect to currencies, interest reset dates and CPI- indexation falls in the banking book. Market risk in the banking book also includes exposures held for long-term investment purposes, in unlisted securities and holdings in subsidiaries or affiliates. Market risk exposures in the trading book arise in relation to short-term and medium-term trading in securities, currencies and other capital market instruments. Market risk in the trading book primarily arises from flow trading and market-making activities in listed securities, mainly equities and government bonds. The Issuer is also exposed to currency risk in the trading book. The Issuer has controls in place to limit its trading book exposure; however, these controls may not be effective in all circumstances and the Issuer could experience material losses in its trading book. The Issuer could also experience significant variations in its consolidated income statement in the Annual Financial Statements due to movements in the market value of marked to market securities. The Issuer's asset management division is also subject to market risk as there could be fluctuations in the markets in which the asset management operations hold assets.

*Changes in interest rates may impact the Issuer's results*

The results of the Issuer's operations are affected by its management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income and investment income. The composition of the Issuer's assets and liabilities, and any gap position resulting from the composition, causes the interest income to vary as interest rates change. In addition, variations in interest rate sensitivity may exist within the re-pricing periods or between the different currencies in which the Issuer holds interest rate positions. A mismatch of interest earning assets and interest bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or results of operations of the Issuer's business. The Issuer might, in some cases, have limited ability to raise interest rates and margins on loans without it resulting in increased impairments at the same time. The Issuer's management of interest rate risk does not completely eliminate the effect of those factors on its performance.

*Price fluctuations of financial investments in the Issuer's portfolio could materially affect the Issuer's results of operations and financial condition*

The Issuer has an investment portfolio that includes mainly debt securities. If the price of these securities declines, this could substantially reduce the value of the Issuer's securities portfolio. These securities are measured at fair value at the end of each financial period, and declines in the market value of the portfolio could accordingly materially affect the Issuer's profitability, even if those declines have not been realised through the sale of the relevant securities. Price fluctuations could also materially affect the Issuer's regulatory capital and the capital ratios that the Issuer is required to maintain under applicable law.

The Issuer is also subject to the equity risk in its trading portfolios and in its banking book. The Issuer's equity risk arises from flow trading, market making, shares acquired through restructuring of companies and strategic investments. Equity exposure in the trading book decreased in 2023 with an average position of ISK 1 billion. Equity exposure in the banking book, including fair value shares and shares held for sale amounted to ISK 6.4 billion at the end of 2023.

*Changes in the inflation rate may negatively affect the profit and loss of the Issuer*

The Issuer is also exposed to inflation risk (CPI risk) since assets linked to the consumer price index, (as calculated by Statistics Iceland in accordance with the Act on Price Indexation No. 12/1995 (Icelandic: *Lög um vísitölu neysluverðs* nr. 12/1995) and published monthly in the Legal Gazette (Icelandic: *Lögbirtingablaðið*) in Iceland (the **Consumer Price Index** or **CPI**)) do not match liabilities linked to the CPI. The value of these assets and liabilities changes according to changes in the CPI at any given time and all changes in the CPI affect the profit and loss of the Issuer. The total CPI-linked imbalance of the Issuer amounted to ISK 129,445 million as at 31 December 2023. Accordingly, changes in the inflation rate may negatively affect the profit and loss of the Issuer and could have a material adverse effect on the Issuer's operations and financial condition.

Additional information regarding the Issuer's market risk can be found in section 5 of the Issuer's Pillar 3 Report 2023 which is incorporated by reference into this Base Prospectus.

*The Issuer is subject to liquidity risk which may have an adverse effect on its results*

The Issuer defines liquidity risk as the risk of not being able to fund its financial obligations or planned growth, or only being able to do so substantially above the prevailing market cost of funds. The Issuer's liquidity risk policy assumes that the Issuer always strives to exceed regulatory liquidity ratio limits. The Issuer's main source of funding is customer deposits, which amounted to ISK 850,709 million as at 31 December 2023. Key measures for the assessment of liquidity risk are the Liquidity Coverage Ratio (**LCR**) and Net Stable Funding Ratio (**NSFR**). At 31 December 2023, the Issuer's LCR was 195 per cent. and the NSFR was 124 per cent. The inability of the Issuer to anticipate and provide for unforeseen decreases or changes in funding sources could have an adverse effect on the Issuer's ability to meet its obligations as and when they fall due, which could have a material adverse effect on the Issuer's results.

Additional information regarding the Issuer's liquidity risk management can be found in section 6 of the Issuer's Pillar 3 Report 2023 which is incorporated by reference into this Base Prospectus.

*There is operational risk associated with the Issuer's industry which, when realised, may have an adverse impact on its results*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Issuer, like all financial institutions, is exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders,

unauthorised transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. The Issuer's definition of operational risk includes reputational risk, legal risk, and model risk among other risk factors. The top priorities of the Issuer in relation to operational risk as at the date of this Base Prospectus are outsourcing risk and information and communication technology risk. According to the Supervisory Review and Evaluation Process (**SREP**) results, operational risk accounted for 0.8 per cent. of total SREP capital requirement of the Issuer and its Subsidiaries (as defined below) (together, the **Group**) in 2023.

*The Issuer is vulnerable to the failure of IT systems and breaches of security systems*

Any significant interruption, degradation, failure or lack of capacity of the Issuer's information technology (**IT**) systems could cause it to fail to complete transactions on a timely basis or at all and materially affect the Issuer. A sustained failure of the Issuer's IT systems, or of critical third-party systems, would have a significant impact on its operations and the confidence its customers have in the reliability and safety of its banking systems and could therefore adversely impact the Issuer's financial position.

The secure transmission of confidential information is a critical element of the Issuer's operations. The Issuer cannot guarantee that existing security measures will prevent security breaches, including break-ins, viruses or disruptions. Persons that circumvent the security measures could use the Issuer's or its customers' confidential information wrongfully, which would expose the Issuer to loss, adverse regulatory consequences or litigation. Unauthorised disclosure of confidential information and personal data whether through cyber security breaches, viruses or otherwise could expose the Issuer to fines, liabilities and costly litigation and damage in reputation.

*The Issuer is vulnerable to disruptions of its operating systems and failures of its vendors*

Given the Issuer's high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, its dependence upon automated systems to record and process its transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The Issuer may also be subject to disruptions of its operating systems, arising from events that are wholly or partially beyond its control (including, for example, computer viruses, cyber-attacks, unsuccessful IT system updates, equipment malfunction or electrical or telecommunication outages), which may give rise to suspension of services to customers and loss to or liability to the Issuer. The Issuer is further exposed to the risk that external vendors may be unable to fulfil their contractual obligations to the Issuer (or will be subject to the same risk of fraud or operational errors by their respective employees as the Issuer), and to the risk that its (or its vendors') business continuity and data security systems prove not to be sufficiently adequate. The Issuer also faces the risk that the design of its controls and procedures prove inadequate, or are circumvented, thereby causing delays in detection of errors in information. Although the Issuer has increased focus on operational risk and operational risk measurement framework, there can be no assurance that it will not suffer losses from operational risks in the future, as it has in the past, which may be material in amount.

*Shortfalls in the Issuer's risk management methods may leave the Issuer exposed to unidentified, unanticipated, or incorrectly quantified risks, which would lead to material losses or material increases in liabilities*

The Issuer will at all times attempt to properly manage risks. The Issuer's risk management may not at all times be able to protect the Issuer against certain risks, especially risks that have not been identified or anticipated. The risk management methods may not take all risks into account, and it is possible that the methods are incorrect or based on wrong information. Unanticipated or incorrectly

quantified risk exposures could materially affect the Issuer's business, financial condition and results of operations.

*The Issuer relies on certain key members of management*

The Issuer is highly dependent on the talent of its key personnel, in particular its Chief Executive Officer and senior management, many of whom have been employed by the Issuer for a substantial period of time. The loss of key members of its senior management or staff may significantly delay the Issuer's ability to implement its business objectives and strategies and could have a material adverse effect on its business, financial condition and results of operations. In addition, there is competition between businesses in Iceland which could hinder the Issuer's ability to recruit and retain new senior managers if competitors of the Issuer are able to offer more competitive salaries and better incentivise individuals.

Additional information regarding the Issuer's operational risk can be found in section 7 of the Issuer's Pillar 3 Report 2023 which is incorporated by reference into this Base Prospectus.

*The Issuer is subject to compliance risk which, if realised, could have an adverse impact on its results or reputation*

The Issuer defines compliance risk as the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Issuer may suffer because of its failure to comply with applicable laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct. In 2023, compliance risk was elevated to being level 1 risk in the Issuer's risk taxonomy. That entailed expanding the scope of compliance risk where financial crime risk, data protection risk, conduct risk and regulatory compliance risk are now level 2 risk factors overseen by the compliance function. In 2023, the Issuer implemented certain remedial measures to its compliance function pursuant to a settlement agreement it entered into with the FSA, concluding the FSA's inspection into the execution of an offering by the Icelandic State of shares of the Issuer that took place in March 2022. See Note 13 to the 2023 Financial Statements, which are incorporated by reference into this Base Prospectus, for further details.

Additional information regarding the Issuer's compliance risk can be found in section 7 of the Issuer's Pillar 3 Report 2023 which is incorporated by reference into this Base Prospectus.

*The Issuer is subject to sustainability risk which may have adverse impact on its results*

The Issuer defines sustainability risk as the risk of being directly or indirectly negatively affected by externalities within the areas of environmental, social, and governance considerations, such as climate change, biodiversity, anti-corruption, human rights, labour conditions, data privacy, or business ethics. Sustainability risk is a part of the Issuer's Risk Taxonomy and entails both physical and transitional climate risk, as well as social and governance risk. Climate-related risks consist of two major categories that are often called transition risks and physical risks. The Issuer's customers are exposed to physical risk related to climate change, for instance in the seafood industry where the availability of fish and shellfish might diminish due to temperature and acidity changes in the ocean around Iceland. Physical risks can have direct financial impact through damaged assets and supply chain disruptions.

Additional information regarding the Issuer's sustainability risk can be found in section 8 of the Issuer's Pillar 3 Report 2023 which is incorporated by reference into this Base Prospectus.

## **RISKS RELATING TO MACROECONOMIC AND OTHER BUSINESS CONDITIONS**

*The Issuer's results may be adversely affected by general economic conditions and other business conditions*

The Issuer's results are affected by general economic and other business conditions. 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.

In particular, the Issuer's business, financial condition and results of operations are affected directly by economic and political conditions in Iceland as almost all of the Issuer's business activities take place in Iceland.

There is great uncertainty concerning economic development in Iceland's main trading partner countries and concerning the downturn in consumption occurring throughout the world. Expected loss rates are, among other factors, dependent upon unemployment, inflation and exchange rates as well as possible changes in legislation and compliance. The recovery rates also depend on asset price evolvment and legislation changes concerning liquidation of assets. Such changes in the general economic conditions and other business conditions may have a material adverse effect on the Issuer's results.

The Russian invasion of Ukraine has created significant uncertainty and financial market volatility and could have adverse effects on the Icelandic, European and global economies

In late February 2022, Russia invaded Ukraine, significantly amplifying already existing geopolitical tensions among Russia, Ukraine and other countries in the region, and the West, including the United States. Russia's invasion, the responses of countries and political bodies, such as the European Union and NATO, to Russia's actions, the larger overarching tensions, and Ukraine's military response and the potential for wider conflict have created significant uncertainty and financial market volatility and could have adverse effects on the Icelandic economy as well as the wider European and global economy, including the markets for commodities such as crude oil and natural gas. Following Russia's actions, many countries, including the United States, the United Kingdom, France, Germany and Canada, as well as the European Union, issued broad-ranging economic sanctions against Russia. Such sanctions included, among other things, a prohibition on doing business with certain Russian companies, large financial institutions, officials and oligarchs; a commitment by certain countries and the European Union to remove selected Russian banks from the Society for Worldwide Interbank Financial Telecommunications (SWIFT), the electronic banking network that connects banks globally; and restrictive measures to prevent the Russian Central Bank from undermining the impact of the sanctions.

The current sanctions (and potential further sanctions in response to continued Russian military activity) and other actions have not only had a significant adverse impact on various sectors of the Russian economy, but have also adversely affected the wider European and global economy as well as financial and energy markets. However, the market impact in Iceland has so far been moderate. GDP growth in 2022 was at a rate of 7.2 per cent. according to Statistics Iceland's preliminary data as the Icelandic economy rebounded from the 2020 recession and the impact of the COVID-19 pandemic (see "*The Icelandic Economy*" on page 164). In 2023, however, the war and its impact through global inflationary pressures, rising interest rates and consumer sentiment on private consumption growth in consumer markets and export growth may have had some impact on the rate of GDP growth.

While diplomatic efforts have been ongoing, the conflict between Russia and Ukraine is currently unpredictable and has the potential to result in broadened military actions. The duration of ongoing

hostilities and such sanctions and related events cannot be predicted. These factors, as well as uncertainty as to future relations between Russia, the European Union, Iceland and other countries in the West, or between Russia and the eastern European countries, may have a negative impact on the Issuer's margins, business, financial condition or results of operations.

*Systemic risk could adversely affect the Issuer's business*

Concerns about, or a default by, one financial institution could lead to significant liquidity problems, losses or defaults by other financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships between these institutions. This risk is sometimes referred to as "systemic risk" and may materially affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Issuer interacts on a daily basis, and could materially affect the Issuer's business operations and results.

## **RISKS RELATING TO THE BUSINESS MODEL AND THE OWNERSHIP STRUCTURE OF THE ISSUER**

*The Issuer, its operations and its management may continue to come under the public spotlight from time to time for as long as the Icelandic state has an ownership interest in the Issuer*

The Icelandic state, through the Icelandic State Financial Investments (**ISFI**), remains, as at the date of this Base Prospectus, a major shareholder of the Issuer and as a result, the Issuer, its operations and its management continue to occupy the public spotlight and be subject to public scrutiny from time to time. It cannot be excluded that in the future, the Issuer will be in the public spotlight and come under pressure to change aspects of its corporate governance, policies and certain operations or to review past practices. This may force the Group to spend potentially significant amounts of management time and incur significant expense.

*Further reductions of the Icelandic state's interest in the Issuer may result in a perception of increased risk by investors and customers, including depositors*

Following the initial public offering of shares of the Issuer in June 2021, the Icelandic state, through the ISFI, held 65 per cent. of the Issuer's share capital. On 22 March 2022, the Icelandic state, through the ISFI, sold a 22.5 per cent. stake in Íslandsbanki via an accelerated book-building offering of existing shares (the **Offering**) to qualified domestic and international investors (the **Transaction**). Following the completion and settlement of the Transaction on 28 March 2022, the Icelandic state, through the ISFI, holds 42.5 per cent. of the Issuer's share capital. According to the Icelandic State Budget for the year 2024 the Icelandic State intends to sell its shares in the Issuer in full over the next two years, the first half in the year 2024 and the remainder in the year 2025. Such sales may result in a perception of increased risk by investors, counterparties and clients, including depositors, with respect to the safety of customer deposits, the Issuer's capital position, risk profile and the Issuer's soundness in general as some investors and customers may have taken comfort from the Icelandic state's shareholding in the Issuer. This could lead to a general decrease in investor, counterparty and customer confidence, which may, for example, result in a reduction of customer deposits. The materialisation of any of these events could materially and adversely affect the market price of the Issuer's securities and its business, financial condition and results of operations.

*Disruptions, dislocations, structural challenges and market volatility in financial markets could materially and adversely affect the Issuer's banking and funding activities and could materially and adversely affect the Group's business, financial condition, results of operations and prospects*

Financial markets can experience sometimes sustained periods of unpredictable movements, severe dislocations, liquidity disruptions and economic shocks. These market conditions could lead to



volatility in the Issuer's profitability and in (the composition of) its balance sheet caused by price changes and changes in the demand for some of the Group's banking services and products. Such conditions could have a material adverse effect on the Issuer's business, results of operations, financial condition and prospects. These market conditions may also impede the Issuer's ability to raise sufficient funding and capital in a timely manner. This could result in, among other things, a delay in raising funding or capital, the issuance of capital and funding of different types or under different terms than otherwise would have been issued or realised, or the incurrence of additional or increased funding and capital costs compared to the costs borne in a more stable market environment. Furthermore, the Issuer's hedging and other risk management strategies, such as balance sheet steering and interest rate management, may not be as effective at mitigating risks as such strategies would be under more normal market conditions. This could potentially lead to a decrease of the Issuer's profitability, financial condition and financial flexibility. Financial markets are susceptible to severe events characterised by rapid depreciation in asset values accompanied by a reduction in liquidity. Under such conditions, market participants are particularly exposed to the market behaviour of market participants simultaneously thereby on a large scale unwinding or adjusting positions, which may even further exacerbate rapid decreases in values of the Issuer's assets or collateral held in its favour and which could cause liquidity tensions and disruptions. These market conditions may cause a decline in the profitability, an increase in unrealised losses in the Group's various asset portfolios, and a reduction in unrealised gains in the Issuer's various asset portfolios.

The economies in which the Group is active may continue to face structural challenges, which could contribute to renewed high volatility in both the debt and the equity markets. Any deterioration of the sovereign debt market in the Eurozone or elsewhere, or other economic shocks could materially and adversely affect the Issuer's results of operations, financial condition and prospects, as well as the Issuer's funding and capital transactions and hedging and other risk management strategies. Other events may also affect the financial markets, such as heightened geopolitical tensions, war, acts of terrorism, natural disasters or other similar events. There is no assurance that market volatility will not result in a prolonged market decline, or that such market declines for other reasons will not occur in the future. Severe market events have historically been proven to be difficult or impossible to predict, and could lead to the Issuer realising significant losses, especially if they were to persist for an extended period of time. Therefore, market volatility, liquidity disruptions, or market dislocations could materially and adversely affect the Issuer's banking, capital and funding activities and could have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects.

*The Issuer's insurance coverage may not adequately cover losses resulting from the risks for which it is insured*

The Issuer maintains customary insurance policies for the Issuer's operations, including insurance for liquid assets, money transport and directors' and officers' liability. The Issuer's business involves risks of liability in relation to litigation from customers, employees, third-party service providers, and action taken by regulatory agencies, and there is a risk that these may not be adequately covered by the insurance or at all. Due to the nature of the Issuer's operations and the nature of the risks that the Issuer faces, there can be no assurance that the coverage that the Issuer maintains is adequate which could have a material adverse effect on the Issuer's operations and financial condition.

## **RISKS RELATING TO CAPITAL AND OTHER REGULATORY REQUIREMENTS OF THE ISSUER**

The Issuer's capital management framework is based on Directive 2013/36/EU (**CRD IV**) and Regulation 575/2013/EU (**CRR**), which have already been implemented into Icelandic legislation. For more information on the Issuer's capital requirements, see "*Business Overview — Regulatory and Tax Environment — Capital Requirements*".

Any failure by the Issuer 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 Issuer's profitability and results and may also have other effects on the Issuer's financial performance and on the pricing of the Covered Bonds, both with or without the intervention by regulators or the imposition of sanctions.

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

In particular, it should be noted that the Basel Committee on Banking Supervision (**BCBS**) has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as **Basel III**). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. In December 2017, BCBS published the final phase of the Basel III framework, which included (i) the standardised approach for credit risk, (ii) internal ratings-based approach for credit risk, (iii) minimum capital requirements for credit valuation adjustment risk, (iv) minimum capital requirements for operational risk, (v) output floor and (vi) leverage ratio. In addition, the BCBS published the revised minimum capital requirements for market risk in January 2019. As part of the European Union's banking package of 2021, and in order to implement the final phase of the Basel III Framework, the European Commission adopted, in October 2021, a proposal to amend Regulation (EU) No 575/2013 (**CRR III Proposal**) and a proposal to amend Directive 2013/36/EU (**CRD VI Proposal**). The CRR III Proposal and CRD VI Proposal include several European Union-specific deviations from the final phase of the Basel III Framework. In December 2023, the final phase of the Basel III implementation, set up in the European Union's banking package in October 2021, was agreed and endorsed by the European Parliament and the Council. As at the date of this Base Prospectus, the legislative package has been submitted to the European Parliament Plenary and the Council for adoption, after which the legal texts will be published in the Official Journal of the EU. As long as the CRR III Proposal and CRD VI Proposal have not been finally adopted as European Union law, the Issuer cannot determine their precise effects on its own financial performance or the impact on the pricing of its Covered Bonds issued under the Programme.

Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

## **LEGAL AND REGULATORY RISK**

### *Regulatory changes in Iceland*

On 1 March 2023 the Icelandic legislature completed the implementation of Directive (EU) 2019/2162 (the **Covered Bond Directive**) and Regulation (EU) 2019/2160 implementing certain

amendments to Article 129 of Regulation (EU) 575/2013 (the **CRR** and together with the Covered Bond Directive, the **EU Covered Bond Rules**) into Icelandic law. Implementation of the EU Covered Bond Rules has imposed certain new requirements on the Issuer, such as a new liquidity buffer requirement of 180 days and objective requirements for exercise of extendable maturity (aka 'soft bullet') rights by the Issuer (see the risk factor entitled "*Extendable obligations under the Covered Bonds*"). The Covered Bonds are expected to be fully compliant with the CRR and therefore qualify for a 20 per cent. risk weighting in eligible European jurisdictions. However, the Issuer cannot be certain as to how any of the regulatory developments described above or other regulatory changes not currently known to the Issuer will impact the treatment of the Covered Bonds for investors. Investors should make their own assessment of the implications of the CRR (and other relevant regulation) on their holding of the Covered Bonds.

*Regulatory changes or enforcement initiatives could adversely affect the Issuer's business*

As a financial institution, the Issuer must comply with a comprehensive set of laws and regulations. The legal and regulatory environment of the Issuer is constantly changing and the Issuer puts substantial resources into monitoring and implementing these changes to ensure full compliance. Regulatory agencies have broad administrative power over many aspects of the financial services business, which may include liquidity, capital adequacy and permitted investments, investor protection, ethical issues, money laundering, privacy, record keeping, and marketing and selling practices. Banking and financial services laws, regulations and policies currently governing the Issuer and its subsidiaries may change at any time in ways which have a material effect on the Issuer's business. Furthermore, the Issuer cannot predict the timing or form of any future regulatory initiatives. Changes in existing banking and financial services laws and regulations may materially affect the way in which the Issuer conducts its business, the products or services it may offer and the value of its assets. If it fails, or appears to fail, to appropriately address these changes or initiatives, its reputation could be harmed and it could be subject to additional legal risk, which could, in turn, increase the size and number of claims and damages asserted against it or subject it to enforcement actions, fines and penalties. Regulatory agencies have the power to bring administrative or judicial proceedings against the Issuer, which could result, among other things, in suspension or revocation of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action which could materially harm its results of operations and financial condition.

The Icelandic government has passed and issued many statutes and regulations affecting the banking and financial services industry since 2008. There can be no assurance that the Icelandic government will not enact new regulations.

*The Issuer has a high proportion of inflation-linked mortgage loans and there is a risk that legislation might be imposed which varies the terms of those loans in a manner that is adverse to the Issuer*

A high proportion of the Issuer's mortgage loans are inflation-linked. Under these loans, the monthly repayment increases if and to the extent that inflation in Iceland increases. Following the financial crisis in 2008, inflation in Iceland increased significantly. This resulted in higher payments falling due under inflation-linked loans at the same time as borrowers faced lower wages and less purchasing power. There was significant debate in Iceland regarding these loans in the period preceding the parliamentary elections in April 2013. The Icelandic government announced at the end of November 2013 an action plan aimed at reducing the country's housing debt. On the basis of the action plan, the Icelandic Parliament passed Act No. 35/2014 and Act No. 40/2014. The objective of Act No. 35/2014 was to write down the principal of indexed residential mortgages. Act No. 40/2014, which amended the Pension Act No. 129/1997, authorised households with residential mortgages, in the period between 1 July 2014 and 30 June 2017, to use payments which would otherwise go to a private pension fund to reduce the principal amount of their mortgages. This option has since been extended until 31 December 2024. This option is open to all residential mortgage holders regardless of the form of their mortgage. This action plan was financed by an increase in the Bank Levy (see "*Business*

*Overview — Regulatory and Tax Environment — Tax Environment*”) that has increased the Issuer’s financial burden and decreased its profitability. There is a risk that additional legislation may be adopted or other government action taken to reduce the payment burden under inflation-linked mortgages. Should this occur, it would have a materially negative impact on the Issuer’s loan portfolio, financial condition and results of operations.

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

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

In addition to the basic corporate income tax rate of 21 per cent. in Iceland for the year 2024, the Icelandic Parliament passed the Act on Special Tax on Financial Undertakings, No. 155/2010, in December 2011 (**Act on Special Tax on Financial Undertakings**), under which certain types of financial institutions, including the Issuer, are required to pay an annual levy of the carrying amount of their liabilities as determined for tax purposes. In 2013 the levy was increased and set at 0.376 per cent. of the total debt of the Issuer excluding tax liabilities in excess of ISK 50 billion at the end of the year. Non-financial subsidiaries are exempt from this tax. The Act on Special Tax on Financial Undertakings was amended in March 2020 with Act No. 25/2020 in relation to measures from the Icelandic government and the Central Bank due to the COVID-19 pandemic reducing the levy to 0.145 per cent. in 2020.

According to the Icelandic Act No. 90/2003 on Income Tax, as amended (**ITA**) payments of Icelandic sourced interest by an Icelandic debtor, such as the Issuer, to a foreign creditor, including holders of bonds, who are not Icelandic are taxable in Iceland and can be subject to withholding tax at the rate of 12.0 per cent. for individuals and 13.0 per cent. for legal entities. This withholding is applicable unless the foreign creditor can demonstrate and obtain approval from the Iceland Internal Revenue that an exemption applies, such as the existence of a relevant double taxation treaty, and in such case the provisions of the double tax treaty will apply. The exemption, subject to certain other requirements, applies to bonds that are held through a clearing system, such as CSD, Euroclear and Clearstream, Luxembourg, within a member state of the Organisation for Economic Co-operation and Development (the **OECD**), the EEA, a founding member state of the European Free Trade Association (the **EFTA**) or the Faroe Islands. Covered Bonds issued by the Issuer are subject to the aforementioned exemption.

According to the Act on Tax on Financial Activities, No. 165/2011, certain types of financial institutions, including the Issuer, are required to pay a special additional tax levied on all remuneration paid to employees. The levy is currently set at 5.5 per cent. of such remuneration. Additionally, according to Article 71 of the ITA, a special additional income tax on legal entities liable for taxation according to Article 2 of Act No. 165/2011, which includes the Issuer is set at 6.0 per cent. on income over ISK 1 billion, disregarding joint taxation and transferable losses. The aforementioned taxes and levies placed on the Issuer increases the cost burden on the Issuer and subjects it to a competitive disadvantage relative to other competitors, which are not subject to such taxes or levies. See further in *“Description of the Issuer – Tax Environment”*. The Issuer may be subject to additional taxes or levies in the future, so there can be no assurance that additional taxes and levies could increase the Issuer’s cost of funding and operating costs generally, reduce the ability of the Issuer to compete effectively with other lenders and/or decrease the Issuer’s lending volumes and margins any of which could have a material adverse effect on the Issuer’s business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds. Any such increase could have a material adverse effect on the financial condition of the Issuer and its ability to make payments in respect of the Covered Bonds.

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

As a member state of the EEA, Iceland is obligated to implement parts of European Union law. A large amount of Icelandic legislation relating to the financial services industry, such as the legislation on financial undertakings, securities transactions and other legislation relating to financial markets, is implemented from EU law. If the state fails to draft national law in a way that conforms with EEA rules, Icelandic citizens may not be able to rely on national laws and the Icelandic courts could be restricted from applying them unless the Icelandic legislation can be interpreted in a way which conforms with EU legislation. As a result, Covered Bondholders may not, in all circumstances, enjoy the same legal protection 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. Moreover, there can be errors in the implementation of EU law and in those cases, Icelandic law will be deemed to prevail in the Icelandic courts. Inconsistencies between EU law and Icelandic law can lead to uncertainty over which rules the Issuer must follow, which can take up a lot of the Issuer's resources and time in trying to identify which rules to follow.

There can be a delay before Icelandic law implements EU legislation, which could also feed into the Issuer's uncertainty as to which rules it must comply with. Icelandic authorities may try to reduce uncertainty by working off requirements under the new EEA rules, which are in the process of being implemented. As a result, the Issuer may be unable to rely on the precise wording of current statutes or draw guidance from legislative preparatory works. Working to comply with regulations which are changing can be resource intensive and exposes the Issuer to a risk of non-compliance.

*There may be circumstances in which courts may give judgments in ISK and/or in which a judgment of courts other than the Icelandic courts may not be enforceable in Iceland (or, if it is enforceable in Iceland, which may result in the judgment creditor receiving ISK)*

There may be circumstances in which a court hearing a dispute arising out of or in connection with the Terms and Conditions of the Covered Bonds may give judgment in ISK. Further, judgments given by courts other than the Icelandic courts may not necessarily be enforceable against the Issuer in Iceland. Even if a judgment is enforceable in Iceland, the enforcement process may result in the judgment creditor receiving ISK.

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

*Following is a list of pending or threatened proceedings against the Issuer which might have significant effects on the Issuer's financial position or profitability if not ruled in favour of the Issuer*

Except as described below under “*General Information – Litigation*”, there are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Base Prospectus, which may have, or have had, a significant effect on the Issuer financial position or profitability.

#### **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH THE COVERED BONDS ISSUED UNDER THE PROGRAMME**

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of certain of such features:

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

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

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

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

### *Extendable obligations under the Covered Bonds*

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

Under the Act on Covered Bonds, a Maturity Extension Approval is subject to the following conditions:

- (a) the deferral is necessary for the purposes of:
  - (i) preventing default on a Covered Bond or a derivative contract without the sale of assets at a substantial discount;
  - (ii) early intervention by the FSA in accordance with the Act on Financial Undertakings or the resolution of the Issuer achieving the objective of the Act on Resolution of Credit Institutions and Investment Firms; or
  - (iii) optimising the claims of Covered Bondholders and counterparties of derivative contracts upon the winding-up or liquidation of the Issuer;
- (b) that the deferral is explicitly authorised pursuant to the Terms and Conditions of the Covered Bond, which set out the final maturity date, the maturity extension triggers, the consequences that insolvency or resolution of the Issuer may have on the extension and the role of the FSA with regard to such deferral; and
- (c) that the deferral does not affect the maturity schedule of other Covered Bonds collateralised by the same cover pool.

The Issuer is required (pursuant to the Act on Covered Bonds) to promptly inform the Covered Bondholders of the deferral of the maturity of the Covered Bonds and the duration of such deferral. Further, under Condition 9.11 (*Extension of Maturity Date*), the Issuer shall promptly inform the Covered Bondholders of a Maturity Extension Approval.

With respect to paragraph (a)(ii) above, the objective of resolution, as set out in Act No. 70/2020 on Resolution of Credit Institutions and Investment Firms (cf. Article 1 of the Act), is to preserve financial stability, inter alia, by ensuring the continuity of essential economic activities and preventing significant adverse impact on the financial system. Further, the objective of the Act is to minimise the risk of reliance on public financial support to private companies, and to protect depositors, investors and client assets.

To the extent that the Issuer has sufficient funds available to pay in part the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds following the deferral of the Maturity Date as described above, the Issuer shall make partial payment of the relevant Final Redemption Amount as described in Condition 9.11(e). Payment of all unpaid amounts shall following the deferral of the Maturity Date as described above, be deferred automatically until the applicable Extended Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Maturity Date.

The Extended Maturity Date and the applicable interest rate will be specified in the relevant Final Terms. Interest will continue to accrue on any unpaid amount and be payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date. In

these circumstances, failure by the Issuer to make payment in respect of the Final Redemption Amount on the Maturity Date shall not constitute a default in payment by the Issuer provided a Maturity Extension Approval has been granted by the FSA. However, failure by the Issuer to pay the Final Redemption Amount or the balance thereof on the Extended Maturity Date and/or interest on such amount on any Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date shall constitute a default in payment by the Issuer.

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

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

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

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

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

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

*Limitation on gross-up obligation under the Covered Bonds*

The Issuer's obligation to pay additional amounts in respect of any withholding or deduction in respect of taxes under the terms of the Covered Bonds applies only to payments of interest in respect of the Covered Bonds, Receipts and Coupons and not to payments of principal. As such, the Issuer would not be required to pay any additional amounts under the terms of the Covered Bonds to the extent any withholding or deduction applied to payments of principal. Accordingly, if any such withholding or deduction were to apply to any payments of principal in respect of the Covered Bonds, Receipts or Coupons, the Covered Bondholders, Receiptholders or Couponholders may receive less than the full amount due under the Covered Bonds, Receipts or Coupons, as the case may be, and the market value of the Covered Bonds may be adversely affected. Covered Bondholders should note that principal for these purposes may include any payments of premium.



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

Interest rates and indices which are deemed to be “benchmarks” (including EURIBOR), are the subject of national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to or referencing such a benchmark.

The Benchmarks Regulation applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of “benchmarks” of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**) among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Floating Rate Covered Bonds linked to or referencing a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark. More broadly, any of the national or international reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to the benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to, referencing, or otherwise dependent, in whole or in part, upon a benchmark.

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

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

To avoid the problems associated with the potential manipulation and financial stability risks of interbank offered rates (**IBORs**), regulatory authorities in a number of key jurisdictions are requiring financial markets to transition away from IBORs to near risk-free rates which exclude the risk-element of interbank lending. Risk-free rates may differ from IBORs in a number of material respects. In particular, in the majority of relevant jurisdictions, the chosen risk-free rate is an overnight rate (for

example, the €STR in respect of Euro), with the interest rate for a relevant period calculated on a backward looking (compounded or simple weighted average) basis, rather than on the basis of a forward-looking term. As such, investors should be aware that risk-free rates may behave materially differently from EURIBOR and other IBORs as Reference Rates for the Covered Bonds.

Investors should also be aware that the market continues to develop in relation to risk free rates such as €STR as reference rates in the capital markets. In particular, market participants and relevant working groups are exploring alternative reference rates based on €STR which seek to measure the market's forward expectation of such rates over a designated term. The market or a significant part thereof (including the Issuer) may adopt an application of €STR and/or any other risk free rate that differs significantly from that set out in the Conditions (including in relation to fallbacks in the event that such rates are discontinued or fundamentally altered) and used in relation to Floating Rate Covered Bonds referencing risk free rates such as €STR issued under this Programme.

Furthermore, the Issuer may, in the future, issue Covered Bonds referencing €STR that differ materially in terms of interest determination when compared with any previous €STR-referenced Covered Bonds issued by it under the Programme. Equally in such circumstances, it may be difficult for the Issuer to find any future required replacement swap counterparty to properly hedge its then interest rate exposure on such a Floating Rate Covered Bonds should a swap counterparty need to be replaced and such Floating Rate Covered Bond at that time uses an application of €STR that then differs from products then prepared to be hedged by such currency swap counterparties.

Furthermore, the Rate of Interest on Covered Bonds which reference €STR is only capable of being determined at the end of the relevant Observation Period and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Covered Bonds which reference €STR to estimate reliably the amount of interest which will be payable on such Covered Bonds, and some investors may be unable or unwilling to trade such Covered Bonds without changes to their IT systems, both of which factors could adversely impact the liquidity of such Covered Bonds.

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

Since risk free rates are relatively new in the market, Covered Bonds referencing such rates may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities linked to €STR and/or any other risk free rate, such as the spread over the rate reflected in interest rate provisions, may evolve over time, and trading prices of the Covered Bonds referencing €STR and/or any other risk free rate may be lower than those of later-issued debt securities linked to the same rate as a result.

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

Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Covered Bonds which are linked to or which reference such benchmark rate will be determined for the relevant period by the fallback provisions applicable to such Covered Bonds. The Terms and Conditions of the Relevant Covered Bonds (as defined below) provide for certain fallback arrangements in the event that a published benchmark, including an interbank offered rate such as EURIBOR or other relevant reference rate (including any page on which such benchmark may be published (or any successor service)) becomes unavailable or if

another Benchmark Event (as defined in the Terms and Conditions and including, for example, if the Original Reference Rate has ceased to be published or if there is a public statement by the supervisor of the administrator of the Original Reference Rate announcing that the Original Reference Rate is no longer representative or may no longer be used) otherwise occurs.

If the circumstances described in the preceding paragraph occur and in the case of Floating Rate Covered Bonds, Screen Rate Determination is specified in the applicable Final Terms as being applicable (any such Covered Bonds, **Relevant Covered Bonds**), such fallback arrangements will include the possibility that:

- (a) the relevant rate of interest (or, as applicable, component thereof) could be set or, as the case may be, determined by reference to a Successor Reference Rate or an Alternative Reference Rate (as applicable) determined by the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner; and
- (b) such Successor Reference Rate or Alternative Reference Rate (as applicable) may be adjusted (if required) by the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant Original Reference Rate with the relevant Successor Reference Rate or Alternative Reference Rate (as applicable),

in any such case, acting in good faith and in a commercially reasonable manner as described more fully in the Terms and Conditions of the Relevant Covered Bonds.

The use of a Successor Reference Rate or an Alternative Reference Rate may result in interest payments that are substantially lower than or that do not otherwise correlate over time with the payments that could have been made on the Relevant Covered Bonds if the Original Reference Rate remained available in its current form. In particular, if a Benchmark Event occurs as a result of a public statement that the relevant Original Reference Rate is no longer representative, the relevant rate of interest on the Relevant Covered Bonds may therefore cease to be determined by reference to that Original Reference Rate, and instead be determined by reference to a Successor Reference Rate or Alternative Reference Rate, even if the Original Reference Rate continues to be published.

Such Successor Reference Rate or Alternative Reference Rate (including with the application of an Adjustment Spread) may be lower than the Original Reference Rate for so long as that Original Reference Rate continues to be published, and the value of and return on the Relevant Covered Bonds may be adversely affected. The application of an Adjustment Spread (which may be zero), as described in the Terms and Conditions of the Relevant Covered Bonds, may result in the Relevant Covered Bonds performing differently (which may include payment of a lower interest rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

In addition, in the case of Relevant Covered Bonds, the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner may also determine that other amendments to the Terms and Conditions of the Relevant Covered Bonds are necessary in order to follow market practice in relation to the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) and to ensure the proper operation of the relevant Successor Reference Rate or Alternative Reference Rate (as applicable).

No consent of the Covered Bondholders shall be required in connection with effecting any relevant Successor Reference Rate or Alternative Reference Rate (as applicable) or any other related adjustments and/or amendments described above.

In certain circumstances, the ultimate fallback for determining the rate of interest for a particular Interest Period of a Series of Covered Bonds may result in the rate of interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate of interest for the relevant Floating Rate Covered Bonds based on the rate which was last observed on the Relevant Screen Page for the purposes of determining the rate of interest in respect of an Interest Period. In addition, in the case of Relevant Covered Bonds, due to the uncertainty concerning the availability of Successor Reference Rates and Alternative Reference Rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Covered Bonds. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Covered Bonds or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Covered Bonds. Investors should note that, in the case of Relevant Covered Bonds, the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, will have discretion to adjust the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) in the circumstances described above. Any such adjustment could have unexpected commercial consequences and there can be no assurance that, due to the particular circumstances of each Covered Bondholder, any such adjustment will be favourable to each Covered Bondholder.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Covered Bonds.

*Covered Bonds issued with a specific use of net proceeds, such as Green, Social or Sustainability Bonds may not be suitable for the investment criteria of an investor*

As described in the section “Use of Proceeds” of this Base Prospectus, the applicable Final Terms in relation to a particular Tranche of Covered Bonds (any such Covered Bonds, **Green, Social or Sustainability Bonds**) may provide that it will be the Issuer’s intention to apply an amount equal to the net proceeds of the issue of such Green, Social or Sustainability Bonds to finance or refinance, in whole or in part, the Green or Social Loans, as further described in the applicable Final Terms and the Sustainable Funding Framework (as defined below). The use of such amount equal to the net proceeds may not satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates (in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, the relevant Green or Social Loans, as further described in the Sustainable Funding Framework).

Furthermore, it should be noted that there is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a “green”, “blue”, “social” or “sustainable” or equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as “green”, “blue”, “social” or “sustainable” or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. A basis for the determination of such a definition has been established in the EU with the publication in the Official Journal of the EU on 22 June 2020 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (the **EU Taxonomy Regulation**) on the establishment of a framework to facilitate sustainable investment (the **EU Taxonomy**), which is subject to phased implementation. The EU Taxonomy Regulation is subject to further development by way of the implementation by the European Commission through delegated regulations of technical screening criteria for the environmental objectives set out in the EU Taxonomy Regulation. On 21 April 2021, the European Commission approved the first delegated act and the Delegated Regulation

supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council (the **EU Taxonomy Climate Delegated Act**) was formally adopted on 4 June 2021 and applied from 1 January 2022. The EU Taxonomy Climate Delegated Act is aimed at supporting sustainable investment by making it clear which economic activities most contribute to the EU's environmental objectives. The EU Taxonomy Climate Delegated Act sets out criteria for economic activities in the sectors that are most relevant for achieving climate neutrality and delivering on climate change adaptation. This includes sectors such as energy, forestry, manufacturing, transport and buildings. On 27 June 2023, the European Commission formally adopted the second Delegated Regulation supplementing the EU Taxonomy Regulation (the **EU Taxonomy Environmental Delegated Act**). The EU Taxonomy Environmental Delegated Act was published in the EU Official Journal on 21 November 2023 and applied from 1 January 2024. The EU Taxonomy Environmental Delegated Act sets out criteria for economic activities making a substantial contribution to one or more of the non-climate environmental objectives.

The Sustainable Funding Framework provides that the designation of the Eligible Project Categories has had and will, on a best efforts basis, have regard to categories of environmental activities that are included in the EU Taxonomy Regulation and that the eligibility criteria for each subcategory of Green Loans has been designed and will be designed, on a best efforts basis, to comply with the technical screening criteria set out in the EU Taxonomy Climate Delegated Act as in effect at the date of the Sustainable Funding Framework, provided, in each case, that there are feasible practical Eligible Project Categories meeting these requirements in the geographies in which the Issuer's assets are located as a matter of local regulation. Because all criteria for such objectives have not yet been developed and disclosed, no assurance or representation is or can be given that any Green or Social Loans or any Green, Social or Sustainability Bonds will be compliant with the EU Taxonomy Regulation.

In addition, no assurance or representation is or can be given that any Green, Social or Sustainability Bonds issued under the Programme will be compliant with the Regulation (EU) 2023/2631 of the European Parliament and of the Council on European Green Bonds (the **EU Green Bond Regulation**) or will meet any of the requirements of market participants subject to Regulation (EU) 2019/2088 of the European Parliament and of the Council on Sustainability-Related Disclosure in the Financial Services Sector (the **SFDR**), and any delegated or other implementing regulations and guidelines, or any similar legislation in the United Kingdom. The EU Green Bond Regulation was published in the Official Journal of the EU on 30 November 2023 and will start applying from 21 December 2024. Accordingly, alignment with the EU Taxonomy Regulation, once the technical screening criteria are established, the EU Green Bond Regulation and/or the SFDR is not certain and no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Green or Social Loans will meet or continue to meet on an ongoing basis any or all investor expectations regarding such "green", "blue", "social" or "sustainable" or other equivalently-labelled performance objectives, or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Green or Social Loans.

In addition, the requirements of any such definition may evolve from time to time, and, as such, the use of the proceeds of Green, Social or Sustainability Bonds may not meet any or all Covered Bondholders' expectations regarding such "green", "blue", "social", "sustainable" or other equivalently-labelled performance objectives or any investment criteria or guidelines with which an investor or its investments are required to comply, whether by any present or future applicable law, regulations or standards or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any of the Green or Social Loans funded with an amount at least equivalent to the net proceeds from Green, Social or Sustainability Bonds or that the Sustainable Funding Framework will be aligned with the EU Taxonomy Regulation or any other applicable laws, regulations or standards.

Any opinion or certification by a third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Green, Social or Sustainability Bonds and in particular with any project to fulfil any environmental, and/or other criteria may not be suitable for Covered Bondholders' purposes. For the avoidance of doubt, the Sustainable Funding Framework and any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer, the Dealers or any other person to buy, sell or hold any such Green, Social or Sustainability Bonds. Any such opinion or certification is only current as of the date that opinion was issued. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any Green, Social or Sustainability Bonds are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), such listing or admission may not satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any eligible projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Such listing or admission to trading obtained in respect of any such Green, Social or Sustainability Bonds may not be maintained during the life of the Green, Social or Sustainability Bonds.

Whilst it is the intention of the Issuer to apply an amount equal to the net proceeds of the Green, Social or Sustainability Bonds in, or substantially in, the manner described in the Sustainable Funding Framework, the related projects may not be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and accordingly such proceeds may not be totally or partially disbursed for such projects. Such projects may not be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. None of the Dealers will assess, verify or monitor the application of the amount equal to the net proceeds of any such Green, Social or Sustainability Bonds issued under the Programme. For the avoidance of doubt, neither the proceeds of any Green, Social or Sustainability Bonds nor any amount equal to such proceeds will be segregated by the Issuer from its capital and other assets, and there will be no direct or contractual link between any Green, Social or Sustainability Bonds and any Green or Social Loans (or any other environmental or similar targets set by the Issuer) and consequently neither payments of principal and interest (as the case may be) on, nor an investor's right to accelerate repayment of, the Green, Social or Sustainability Bonds shall depend on the performance of the relevant Green or Social Loans or the performance of the Issuer in respect of any such environmental or similar targets.

Any event or failure by the Issuer to apply an amount equal to the net proceeds of any issue of Green, Social or Sustainability Bonds, withdrawal of any opinion or certification relating to the allocation of such amount, publication of any opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on, failure to obtain and publish any reports, assessments, opinions and certifications, any Green, Social or Sustainability Bonds no longer being listed or admitted to trading or displayed on any stock exchange or securities market as aforesaid, the fact that the maturity of an Green or Social Loan may not match the minimum duration of any Green, Social or Sustainability Bonds and/or or the failure by the Issuer to meet any other environmental or sustainability targets, will not, in any such case (i) give rise to any claim of a Covered Bondholder against the Issuer; (ii) constitute a default of the Issuer for any purpose; or (iii) lead to an obligation of the Issuer to redeem such Green, Social or Sustainability

Bonds or be a relevant factor for the Issuer in determining whether or not to exercise any optional redemption rights in respect of any Green, Social or Sustainability Bonds.

Any such event or failure and/or withdrawal of any opinion or certification as described above or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Covered Bonds no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value and marketability of the Green, Social or Sustainability Bonds and/or result in adverse consequences for Covered Bondholders with portfolio mandates to invest in securities to be used for a particular purpose. For the avoidance of doubt, it is however specified that payments of principal and interest (as the case may be) on the Green, Social or Sustainability Bonds shall not depend on the performance of the relevant project.

Investors should be aware that Green, Social or Sustainability Bonds may also be subject to the resolution tools granted to the competent authority under the BRRD in circumstances where the Issuer fails or is likely to fail. For more information on the Issuer Recovery and Resolution Directive, see "*Business Overview — Regulatory and Tax Environment — Capital Requirements and European Bank Recovery and Resolution Directive*".

*If an investor holds Covered Bonds 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 Covered Bonds could result in the investor not receiving payments on those Covered Bonds*

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

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

*The value of Fixed Rate Covered Bonds may be adversely affected by movements in market interest rates*

Investment in Fixed Rate Covered Bonds involves the risk that subsequent increases in market interest rates above the rate paid on the relevant Fixed Rate Covered Bonds will adversely affect the value of the Fixed Rate Covered Bonds.

*Credit ratings assigned to the Issuer or any Covered Bonds may not reflect all the risks associated with an investment in those Covered Bonds*

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Covered Bonds. 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 Covered Bonds.

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 addition, rating agencies may assign unsolicited ratings to the Covered Bonds. In such circumstances there can be no assurance that the unsolicited rating(s) will not be lower than the comparable solicited ratings assigned to the Covered Bonds, which could adversely affect the market value and liquidity of the Covered Bonds.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes in the EEA, unless such ratings are issued by a credit rating agency established in the EEA 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 third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country 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 (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) 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.

Investors regulated in the UK are subject to similar restrictions under the Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the **UK CRA Regulation**). As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances.

If the status of the rating agency rating the Covered Bonds changes for the purposes of the CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Covered Bonds may have a different regulatory treatment, which may impact the value of the Covered Bonds and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

## **RISKS RELATING TO THE COVERED BONDS ISSUED BY THE ISSUER**

The Covered Bonds are governed by law and regulations. The Act on Covered Bonds provides that the FSA may issue rules providing for, inter alia, the types of assets in a cover pool, methods for appraisal of collateral of bonds, terms and conditions for derivative agreements, assets that may be considered for the liquidity buffer, the register and conditions for the calculation of risk and interest payments. FSA has issued such rules, i.e. Rules No. 190/2023, on Covered Bonds (the **Rules on Covered Bonds** or the **Rules**) that concern, among other things, the conditions for being granted a licence to issue Covered Bonds, appraisal and revaluation of the assets in the cover pool, coverage requirements, derivative agreements, the covered bonds register and the eligibility and reporting of the cover pool monitor and reporting to the FSA. Effective 1 January 2020, after the merger of the FSA and the Central Bank, the Central Bank is now responsible for the task entrusted by law and governmental directives to the FSA, in accordance with article 25 of the Icelandic Act on Covered Bonds, as amended. Any changes to the Act on Covered Bonds and/or the Rules on Covered Bonds as



well as other current legislation might affect the legal and regulatory risks relating to the Covered Bonds.

The Act on Covered Bonds entered into force on 20 March 2008. To date only a few licenses to issue covered bonds have been granted under the Act on Covered Bonds and there are limited precedents on how its provisions will be interpreted or applied by Icelandic courts or administrative authorities. The preparatory works to the Act on Covered Bonds give limited guidance and the system of covered bonds secured by the cover pool lacks any clear analogues in Icelandic law that would allow for clear conclusions in respect of the Act on Covered Bonds, the covered bonds or the cover pool. It is uncertain how the Icelandic Act on Covered Bonds and/or Rules on Covered Bonds will be interpreted by the courts or whether changes or amendments will be made to it which will affect Covered Bonds issued under the Programme. See further in section entitled “*Summary of Icelandic Legislation relating to Covered Bonds*”.

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

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

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

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

*No events of default*

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

### *Maintenance of the Register*

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

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

### *Conflicting interests of other creditors*

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

To the extent that Covered Bondholders are not fully paid from the proceeds of the liquidation of the assets comprising the Cover Pool, they will be able to apply for the balance of their claims as unsecured creditors of the Issuer and will be entitled to receive payment from the proceeds of the liquidation of the other assets of the Issuer not comprising the Cover Pool. The Covered Bondholders would in such case rank *pari passu* with the other unsecured, unsubordinated creditors of the Issuer and, as a result, may not receive all amounts owed by the Issuer to such Covered Bondholders. Article 102 of the Act on Financial Undertakings No. 161/2002 (the **Act on Financial Undertakings**) provides that, should the Issuer enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, such claims of Covered Bondholders would be subordinated to the claims of the Issuer's depositors. If this were to occur, there may not be sufficient assets in the resulting estate to pay such claims after the claims of depositors have been paid.

### *Restriction on ability to petition for bankruptcy*

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

### *Liquidity*

If the Issuer is wound up, neither the Issuer nor its estate would be authorised to issue further Covered Bonds. It would therefore not be possible for a winding-up committee to raise finance in the market

by the issuance of further Covered Bonds following the winding-up of the Issuer. Further, neither the Act on Covered Bonds nor the Rules on Covered Bonds stipulate that the winding-up committee or the Issuer's estate may contract debt obligations of any kind in order to service timely payment under the terms of the Covered Bonds. There is no legislation in effect which states that the winding-up committee managing the Issuer's estate can raise loans or enter into any such agreements in order to service the timely payment of interest and principal on the Covered Bonds. Article 17(1) of the Act on Covered Bonds states that the winding-up committee shall fulfil an issuer's commitments under covered bonds and derivative agreements using the mortgage bonds and other assets in the cover pool and payments received on such assets, provided that the assets are listed in the register. However, neither the Act on Covered Bonds nor the Rules on Covered Bonds provide any guidelines as to whether liquidity can be raised by selling the mortgage bonds and other assets registered to the cover pool in the market.

The Issuer is subject to liquidity requirements in its capacity as a commercial bank supervised by the FSA, including a statutory requirement to maintain sufficient liquidity to enable it to discharge its obligations as they fall due. The Issuer is also subject to the Central Bank's Rules no. 1520/2022, on Liquidity Ratios. The FSA has issued guidelines on liquidity, which are not binding on the Issuer. However, any serious or systematic deviations from such guidelines may lead to the FSA determining that the Issuer's business does not fulfil the statutory soundness requirement for commercial banks and result in the FSA imposing sanctions against the Issuer. If this were to occur, there may not be sufficient assets in the resulting estate to pay such claims after the claims of depositors have been paid.

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

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

The Terms and Conditions of the Covered Bonds contain provisions for calling meetings of Covered Bondholders (including by way of conference call or by use of a videoconference platform, in whole or in part) to consider and vote upon matters affecting their interests generally, or to pass resolutions in writing or through the use of electronic consents. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who did not attend and vote at the relevant meeting or, as the case may be, did not sign the written resolution or give their consent electronically, and including those Covered Bondholders who voted in a manner contrary to the majority.

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

- (a) any modification to any Series of the Covered Bonds, the terms and conditions of the Covered Bonds of one or more Series, the Coupons, the Receipts, the Deed of Covenant, the Agency Agreement (as defined under "Terms and Conditions of the Covered Bonds") or any other document that has been entered into by the Issuer in relation to the Programme which (i) the Issuer in its sole discretion determines is not prejudicial to the interests of the Covered Bondholders and (ii) will not cause a downgrade in the rating of the Covered Bonds; or
- (b) any modification to any Series of the Covered Bonds, the terms and conditions of the Covered Bonds of one or more Series, the Coupons, the Receipts, the Deed of Covenant, the Agency Agreement or any other document that has been entered into by the Issuer in relation to the Programme, which, in the opinion of the Issuer, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law or to comply with the provisions of Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160, each as implemented into Icelandic law and/or to comply with the Act on Covered Bonds.

In addition to paragraph (a) above, the Issuer shall be entitled to determine in its sole discretion that any modification required in order to accommodate the substitution of a Rating Agency with respect to any Series of Covered Bonds will not be prejudicial to the interests of the Covered Bondholders provided that the relevant modifications are required to accommodate an equivalent or higher rating of the replacement Rating Agency. In such case, the related ratings requirements specified by and/or relating to such Rating Agency to be substituted (including those specified in the Deed of Covenant) may be amended, without the consent of the Covered Bondholders, to refer to the respective requirements of the replacement Rating Agency, without the consent of the relevant Covered Bondholders, Couponholders or Receiptholders, as applicable.

Any such modification shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Covered Bondholders in accordance with Condition 15 (Notices) as soon as practicable after it has been agreed.

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

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

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

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

In the case of CSD Covered Bonds, the Fiscal Agent (insofar as the relevant modification relates to the Agency Agreement) and the Issuer may agree, without the consent of any of the Covered Bondholders, to any modification of the CSD Covered Bonds (as defined under "*Terms and*

*Conditions of the Covered Bonds*”) or the Agency Agreement (insofar as the relevant modification to the Agency Agreement relates to the CSD Covered Bonds) on the same basis.

Any such modification will be binding on all the Covered Bondholders of the relevant Series of Covered Bonds.

*The value of the Covered Bonds could be adversely affected by a change in English law or administrative practice or, as the case may be, Icelandic law or administrative practice*

Except for (i) the provisions of Condition 4 (Status of the Covered Bonds); and (ii) the provisions relating to registration of the CSD Covered Bonds in the CSD and Condition 15.2, the Terms and Conditions of the Covered Bonds are based on English law in effect as at the date of issue of the relevant Covered Bonds. Condition 4 shall be governed by, and construed in accordance with, Icelandic law. The registration of CSD Covered Bonds in the CSD and Condition 15.2 shall be governed by, and construed in accordance with, Icelandic (in the case of Covered Bonds registered with the CSD) law. No assurance can be given as to the impact of any possible judicial decision or change to English or Icelandic law, as the case may be, or administrative practice after the date of issue of the relevant Covered Bonds and any such change could materially adversely impact the value of any Covered Bonds affected by it.

In particular, there is limited available case law relating to the Act on Covered Bonds, be it the initial Act adopted by the Icelandic Parliament on 4 March 2008 or the amended and restated Act adopted by the Parliament on 21 February 2023. It is uncertain how the Act on Covered Bonds will be interpreted.

*There are circumstances in which a court may apply Icelandic laws (or the laws of other jurisdictions) notwithstanding the choice of English law or Icelandic law, as the case may be, to govern the Terms and Conditions of the Covered Bonds (or part thereof)*

Whilst the choice of English law or Icelandic law, as the case may be, as the governing law of parts of the Terms and Conditions of the Covered Bonds described above will generally be upheld as a valid choice by many courts, there will be circumstances in which the relevant choice may not be upheld or may, at least partially, be displaced. There may, therefore, be circumstances in which Icelandic laws (for example capital or exchange control laws) or indeed the laws of another jurisdiction may be applied by a court notwithstanding the choice of English law to govern parts of the Terms and Conditions of the Covered Bonds.

In particular (a) the English courts may give effect to the “overriding mandatory provisions” of the law of the country where the obligations arising out of the Terms and Conditions of the Covered Bonds have to be or have been performed, “insofar as those overriding mandatory provisions render the performance of the contract unlawful” (Article 9(3) of Regulation (EC) No. 593/2008 of the European Parliament and of the Council of 17 June 2008, as it forms part of domestic law by virtue of the EUWA (**Rome I**)); and (b) there are circumstances in which reorganisation measures adopted by certain states in respect of credit institutions must be given effect to in other states pursuant to Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions (this directive is incorporated into English law by the Credit Institutions (Reorganisation and Winding Up) Regulations 2004).

As a result, there are circumstances in which a law other than English law or Icelandic law, as the case may be, may determine whether certain Terms and Conditions of the Covered Bonds are enforceable against the Issuer. It should be noted in this context that there may be circumstances in which proceedings arising out of or in connection with the Terms and Conditions of the Covered Bonds may be brought in courts other than the English courts and/or in which the English courts may refuse to hear proceedings brought before them.

*Investors who hold less than the minimum Specified Denomination may be unable to sell their Covered Bonds and may be adversely affected if definitive Covered Bonds are subsequently required to be issued*

In relation to any issue of Covered Bonds which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Covered Bonds may be traded in amounts 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 would not be able to sell the remainder of such holding without first purchasing a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, 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 Covered Bond in respect of such holding (should such Covered Bonds be printed) or issued and would need to purchase a principal amount of Covered Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

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

## **RISKS RELATING TO PROGRAMME STRUCTURE AND TRANSACTION DOCUMENTATION**

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

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

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

The Issuer will also maintain the overcollateralisation of the Cover Pool in accordance with the overcollateralisation committed to under the terms and conditions of its existing Covered Bonds, this being at least 25 per cent. until March 2024 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 25 per cent. are redeemed in full), at least 20 per cent. from March 2024 until May 2026 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full), at least 10 per cent. from May 2026 until May 2030 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 10 per cent. are redeemed in full) and thereafter the level of overcollateralisation required to be maintained will be as required under Condition 5.2.

If the Issuer does not originate or acquire new mortgage loans to replace the assets which were included in the Cover Pool but which were repaid, it is possible that the Issuer will not satisfy the requirements with respect to the Asset Coverage Test in accordance with the Deed of Covenant and also the statutory requirements of the Act on Covered Bonds.

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

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

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

*Security and insolvency considerations*

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

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

## **RISKS RELATING TO RELIANCE ON COUNTERPARTIES**

*The Issuer relies on third party service providers*

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

In addition, no assurance can be given that the third party service providers selected by the Issuer will be able to provide the products and services for which they have been contracted, for example, as a result of failing to have the relevant capabilities, products or services or due to changed regulatory requirements. Any failure of third party service providers to deliver the contracted products and services in a timely manner or at all or to deliver products and services in compliance with applicable laws and regulations and at an adequate and acceptable level could result in reputational damage, claims, losses and damages and have a material adverse effect on the Issuer's business, prospects,

financial position and/or results of operations, and its ability to make payments in respect of the Covered Bonds.

#### *The Issuer may cease to be an Eligible Institution*

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

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

#### ***Reliance on Swap Providers***

A brief description of certain risks relating to any potential derivative contracts (**Swaps**) entered into by the Issuer in connection with an issue of a Tranche of Covered Bonds is set out below. As of the date of this Base Prospectus, the Issuer has not entered into any Swaps in connection with this programme and any issuances thereunder.

#### *Reliance on Currency Swaps*

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



swap is entered into, the Issuer may, despite any Overcollateralisation (as defined below) of the Cover Pool, have insufficient funds to make payments due on the Covered Bonds.

#### *Relevant Reference Currency Swaps*

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

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

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

There can be no assurance that on a bankruptcy of the Issuer amounts standing to the credit of the Collateral Reserve Account or Swap Collateral Account (as applicable) will be available exclusively for the benefit of the Covered Bondholders of the relevant Series of Covered Bonds in connection with which such Collateral Reserve Account or Swap Collateral Account (as applicable) was established.

#### *Reliance on Interest Rate Swaps*

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

#### *Reliance on Indexed Currency Swaps*

Subject to currency restrictions in place at each time, the Issuer may rely on the Indexed Currency Swap Providers under the Currency Swaps to provide payments on Covered Bonds denominated in currencies other than ISK and not indexed linked. If the Issuer fails to make timely payments of amounts due or certain other events occur in relation to the Issuer under an Indexed Currency Swap

and any applicable grace period has expired, then the Issuer will have defaulted under that Indexed Currency Swap. If the Issuer defaults under an Indexed Currency Swap due to non-payment or otherwise, the relevant Indexed Currency Swap Provider will not be obliged to make further payments under that Indexed Currency Swap and may terminate that Indexed Currency Swap. If an Indexed Currency Swap Provider is not obliged to make payments, or if it exercises any right of termination it may have under the relevant Indexed Currency Swap Agreement, or if it defaults in its obligations to make payments under an Indexed Currency Swap, the Issuer will be exposed to changes in currency exchange rates, the associated interest rates on the currencies and inflation. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments due on the Covered Bonds.

#### *Reliance on Cover Pool Swap*

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

#### *Termination payments for Swaps*

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

#### *Potential amendments to the swap agreements*

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

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

Covered Bonds (other than the CSD Covered Bonds) issued under the Programme will be represented on issue by one or more Global Covered Bonds that may be deposited with a common depositary or common safekeeper for Euroclear and Clearstream, Luxembourg (each as defined under "*Form of the Covered Bonds*"). Except in the circumstances described in each Global Covered Bond, investors will not be entitled to receive Covered Bonds in definitive form. Each of Euroclear and Clearstream,

Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Covered Bond held through it. While the Covered Bonds (other than the CSD Covered Bonds) are represented by Global Covered Bonds, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

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

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

## **RISKS RELATED TO THE COVER POOL**

### *Default by borrowers in paying amounts due on their loan*

There are many circumstances that affect the level of credit loss, early repayments, withdrawals and final payments of interest and principal amounts, such as changes in the economic climate, both nationally and internationally, and changes regarding taxation, interest rate developments, level of unemployment, inflation and/or the political environment. Borrowers may default as a result of interest rate increases or as a result of adverse developments in their own personal circumstances (for example, in respect of residential mortgages following redundancy or divorce, insolvency of the borrower and/or insolvency of the tenant of the relevant property and/or failure (for any reason) by such tenant to make rental payments in respect of such property). In addition, the ability of a borrower to sell a property pledged as security for a mortgage loan at a price sufficient to repay the amounts outstanding under that mortgage loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time. The Act on Covered Bonds provides that no mortgage loan may be registered in the Cover Pool if payment on it is in arrears 90 days or more.

Default in respect of the Issuer's assets comprised in the Cover Pool could jeopardise the Issuer's ability to make payments in full or on a timely basis on the Covered Bonds. Risks attaching to the Covered Bonds as a result of default in respect of the assets in the Cover Pool are reduced by a number of features of the Covered Bonds, including the ability of the Issuer to substitute assets to and from the Cover Pool. However, if a material amount of assets in the Cover Pool were to default, there is no guarantee that the required level of assets within the Cover Pool could be maintained or that the Issuer would be in a position to substitute non-defaulting assets for the defaulting assets.

### *Non-compliance with coverage requirements*

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

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

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

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

#### *Overcollateralisation*

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

The Issuer will also maintain the overcollateralisation of the Cover Pool in accordance with the overcollateralisation committed to under the terms and conditions of its existing Covered Bonds, this being at least 25 per cent. (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 25 per cent. are redeemed in full), at least 20 per cent. from March 2024 until May 2026 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full), at least 10 per cent. from May 2026 until May 2030 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 10 per cent. are redeemed in full) and, from thereon, at least 5 per cent. overcollateralisation of the Cover Pool.

According to the Issuer's license to issue the Covered Bonds the aggregated total amount of the Cover Pool shall not exceed a level of 30 per cent. above the issued Covered Bonds at any time unless increased demand has developed due to other provisions of the Act on Covered Bonds, such as due to stress test present value calculations. If overcollateralisation exceeds this limit, the Issuer shall notify the FSA and the Independent Inspector immediately. The Issuer will have 14 days to remedy the level. See the sections "*Cover Pool – composition of assets*" and "*The Rules on Covered Bonds*" in the section *Summary of Icelandic Legislation relating to Covered Bonds*.

### *The Cover Pool consists of limited assets*

All assets in the Cover Pool (including any derivative agreement) must comply with the Act on Covered Bonds and the Rules on Covered Bonds. Mortgaged real estate in respect of residential properties securing the Covered Bonds issued under this Base Prospectus will be located in Iceland. Such real estate properties may be concentrated in certain locations and any deterioration in prices in the residential real estate markets and any deterioration in the economic conditions in such areas may adversely affect the ability of the borrowers to make payments on the loans. The concentration of loans secured by residential properties, therefore, result in a greater risk of non-payment than if such concentration had not been present.

Moreover, such factors may have an impact on the value of the properties. If the residential real estate markets in Iceland experience an overall decline in property values, the value of the Cover Pool could be significantly reduced and, may ultimately, result in losses allocable to the Covered Bonds should it be necessary to enforce the security granted in respect of such properties.

In order for the Covered Bonds to be issued with the “Premium” label under the Covered Bond Directive, the assets in the Cover Pool must (and are expected to) comply with the CRR.

### *Limited description of the Cover Pool*

Covered Bondholders will not receive detailed statistics or information in relation to the bonds or other assets contained or to be contained in the Cover Pool, as it is expected that the constitution of the Cover Pool may change from time to time. However, an Independent Inspector appointed under the Independent Inspector Agreement and in accordance with the Act on Covered Bonds, and appurtenant regulations, shall monitor the Issuer’s compliance with the requirements of the Act on Covered Bonds. A regular report on the Cover Pool will be published by the Issuer on the Issuer’s homepage: <https://www.islandsbanki.is/en/landing/about/investor-relations>.

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

### *Economic Conditions*

As the assets which make up the Cover Pool will include loans secured by mortgages over residential properties, then the values of the assets and the ability of the Issuer to continue to make timely payments on the Covered Bonds could be adversely affected by, among other things, adverse developments in the Icelandic economy and/or residential and/or, the real estate markets.

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

### *Appraisals*

In accordance with the Act on Covered Bonds, appraisals or valuation of the properties securing the mortgage loans may be undertaken by the Issuer, and take account of the following: (a) The selling price of a property on the day the transaction is made; or (b) an independent appraisal conducted by a licensed realtor; or (c) an acquisition offer, signed on behalf of both the seller and the buyer; or (d) the

rateable value of the property, made by the Housing and Construction Authority. Appraisals based on the selling price of a property shall be valid for a period of 3 months from the day the transaction was made.

No assurance can be given that values of the properties underlying the mortgage loans have remained or will remain at the levels which existed on the dates of appraisal (or, where applicable, on the dates of appraisal updates) of the related mortgage loans.

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

#### *No due diligence*

Covered Bondholders will not have the ability to investigate the Cover Pool but will instead rely on the obligations of the Issuer under the Act on Covered Bonds and the investigations of the Independent Inspector.

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

The Issuer will not undertake any investigations, searches or other actions in respect of the assets in the Cover Pool.

#### *Changes to the lending criteria of the Issuer*

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

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

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

The registration of assets in the Cover Pool will not affect rights of borrowers of certain loans contained in the Cover Pool. For example, such borrowers will continue to have independent set-off rights against the Issuer (such as, for example, set-off rights associated with such borrowers holding deposits with the Issuer).

The Issuer currently intends to mitigate this risk with Overcollateralisation. However, the exercise of set-off rights by such borrowers may nevertheless adversely affect the realisable value of the Cover Pool and/or the ability of the winding up committee to meet in full the Issuer's obligation under the Covered Bonds.

*Liquidity Risk relating to the Cover Pool upon insolvency of the Issuer*

According to the Act on Covered Bonds, upon an insolvency event of the Issuer, the court appointed administrator shall fulfil the commitments of the Issuer under the Programme. However, there are no assurances that the Cover Pool can sustain the Covered Bonds payments post insolvency which could force the administrator to liquidate the Cover Pool. In such an event there could potentially be no market, or a limited market, for the Cover Pool assets.

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

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

*Enforcement Risk*

When a mortgage loan is enforced, a court order may be needed to establish the borrower's obligation to pay and to enable a sale by executive measures. The Issuer's ability to make use of the collateral after enforcement can be limited and the collateral could decline in value when trying to sell the collateral in the market.

## **RISKS RELATING TO COVERED BONDS GENERALLY**

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

*Covered Bonds issued under the Programme*

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds issued from time to time will rank *pari passu* with each other.

*Obligations under the Covered Bonds*

The Covered Bonds will constitute obligations of the Issuer which have the benefit of a statutory preference under the Act on Covered Bonds in respect of the relevant pool of assets maintained by the

Issuer being the Cover Pool. An investment in the Covered Bonds involves a reliance on the assets of the Cover Pool and the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any third party. In addition, an investment in the Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the Covered Bonds.

The Covered Bonds will not represent an obligation or be the responsibility of any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of their respective officers, members, directors, employees, security holders or incorporators. There can be no assurance that the Cover Pool will be sufficient to pay in full the amounts payable under the Covered Bonds programme.

## **RISK RELATED TO THE MARKET GENERALLY**

### *Interest rate risks*

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

The Issuer may enter into Cover Pool Swaps and Interest Rate Swaps to ensure that the risks do not exceed the limit values approved by its Board of Directors and to ensure that coverage requirements are maintained in accordance with the Act on Covered Bonds.

### *Competition*

The banking sector in Iceland is largely dominated by the Issuer, Arion Bank and Landsbankinn (Landsbankinn being wholly owned by the Icelandic state, and each of which is classified as a systemically important financial institution). In addition, with the merger of Kvika Bank hf., an investment bank, TM hf., one of the largest insurance companies in Iceland, and Lykill fjármögnun hf., an asset leasing entity, the merged company provides these three large Icelandic banks with increased competition. Moreover, there are other players in the industry, such as pension funds, commercial banks, savings banks and the Housing and Construction Authority (formerly the Housing Financing Fund), whose role in the market as a lender has been reduced and is now responsible for implementation of government housing policies and acting as an intermediary for social housing funding, all of which the Issuer competes with and which can impose a degree of pressure on the Issuer's net interest margin. Moreover, as additional channels arise for new lending and other banking products, particularly in the online space, the Issuer faces increasing competition from these market participants.

While the Issuer believes it is positioned to compete effectively with these competitors, there can be no assurance that existing or increased competition will not adversely affect the Issuer. The demand for the Issuer's products is also dependant on levels of customer confidence, prevailing market rates and other factors that have an influence on the customers' economic situation.

### *Absence of secondary market*

While the Covered Bonds have been traded, and to some extent, a secondary market has developed, there can be no assurance that an active and liquid secondary market for the Covered Bonds will continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bond holder to realise a desired yield.



### 3. DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Base Prospectus:

- (i) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2021 (including the auditors' report thereon) set out on pages 8 to 86 (inclusive) of the Consolidated Financial Statements 2021 (the **2021 Financial Statements**) which can be viewed online at [https://cdn.islandsbanki.is/image/upload/v1/documents/islandsbanki\\_hf\\_Consolidated\\_Financial\\_Statements\\_2021.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/islandsbanki_hf_Consolidated_Financial_Statements_2021.pdf);
- (ii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2022 (including the auditors' report thereon) set out on pages 9 to 87 (inclusive) of the Consolidated Financial Statements 2022 (the **2022 Financial Statements**) which can be viewed online at <https://storage.mfn.se/43a9455a-9eb9-4ee6-9c48-2c93fea71b20/isb-consolidated-financial-statements-2022.pdf>;
- (iii) the audited consolidated financial statements of the Issuer for the financial year ended 31 December 2023 (including the auditors' report thereon) set out on pages 10 to 86 (inclusive) of the Consolidated Financial Statements 2023 (the **2023 Financial Statements**) which can be viewed online at [https://cdn.islandsbanki.is/image/upload/v1/documents/ISB\\_Consolidated\\_Financial\\_Statements\\_2023.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Consolidated_Financial_Statements_2023.pdf);
- (iv) the unaudited consolidated financial statements of the Issuer for the three months ended 31 March 2024 which are provided on pages 6 to 56 (inclusive) of the Condensed Consolidated Interim Financial Statements – First quarter 2024 which can be viewed online at [https://cdn.islandsbanki.is/image/upload/v1/documents/ISB\\_Condensed\\_Consolidated\\_Interim\\_Financial\\_Statements\\_first\\_quarter\\_2024.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_Condensed_Consolidated_Interim_Financial_Statements_first_quarter_2024.pdf);
- (v) sections 4, 5, 6, 7 and 8 of the Issuer's Pillar 3 Report 2023 which can be viewed online at <https://cdn.islandsbanki.is/image/upload/v1/documents/Pillar3Report2023.pdf>;
- (vi) the section "Terms and Conditions of the Covered Bonds" (pages 88 to 135 inclusive) set out in the base prospectus relating to the Programme dated 8 April 2022 which can be viewed online at [https://cdn.islandsbanki.is/image/upload/v1/documents/Islandsbanki\\_Covered\\_Bond\\_Base\\_Prospectus\\_Final\\_2022.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/Islandsbanki_Covered_Bond_Base_Prospectus_Final_2022.pdf); and
- (vii) the section "Terms and Conditions of the Covered Bonds" (pages 79 to 126 inclusive) set out in the base prospectus relating to the Programme dated 11 April 2023 which can be viewed online at <https://cdn.islandsbanki.is/image/upload/v1/documents/2023-Covered-Bond-Base-Prospectus.pdf>.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 23 of the Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of 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.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

The Issuer will, in the event of any significant new factor, material mistake or material inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds, prepare a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Covered Bonds.

#### 4. FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be in (i) bearer form, with or without interest coupons attached, (ii) registered form, without interest coupons attached or (iii) uncertificated and dematerialised book entry form and cleared through the CSD.

##### **Bearer Covered Bonds**

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

- (a) if the Bearer Global Covered Bonds are intended to be issued in a new global covered bond (**NGCB**) form, as specified in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A., (**Clearstream, Luxembourg**) and, together with Euroclear, the **ICSDs**); or
- (b) if the Bearer Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the original issue date of the Tranche to a common depository for Euroclear and Clearstream, Luxembourg.

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

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

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Bearer Global Covered Bond is issued, interests in such Temporary Bearer Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Covered Bond of the same Series or (ii) for definitive Bearer Covered Bonds of the same Series with, where applicable, Receipts, Coupons and Talons attached (as indicated in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Covered Bonds. The holder of a

Temporary Bearer Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for definitive Bearer Covered Bonds is improperly withheld or refused.

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

A Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Covered Bonds with, where applicable, Receipts, Coupons and Talons attached upon the occurrence of an Exchange Event as described therein. **Exchange Event** means (i) the Issuer has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of at least 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Issuer, the Fiscal Agent, the other Paying Agents and the Covered Bondholders is available or, (ii) the Issuer has or will become subject to adverse tax consequences (including, without limitation, an obligation to pay additional amounts as provided for or referred to in Condition 10 (Taxation)) which would not be suffered were the Covered Bonds represented by the Permanent Bearer Global Covered Bond in definitive bearer form and a certificate to such effect signed by two Directors of the Issuer has been given to the Fiscal Agent. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event as described in (i) above, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Bearer Covered Bonds, Coupons, Receipts and Talons which have an original maturity of more than 365 days:

“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 in the legend above provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on bearer Covered Bonds, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of Bearer Covered Bonds, Receipts or Coupons.*

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

### **Registered Covered Bonds**

The Registered Covered Bonds of each Tranche will initially be represented by a Global Covered Bond in registered form (a **Registered Global Covered Bond**) which will be deposited with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream,

Luxembourg, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Covered Bonds in fully registered form.

The applicable Final Terms will specify whether or not such Registered Global Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility and therefore whether such Registered Global Covered Bonds are intended to be held under the New Safekeeping Structure (the NSS). Any indication that the Registered Global Covered Bonds are to be so held does not necessarily mean that the Covered Bonds of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. Covered Bonds intended to be held under the NSS will be deposited with, and registered in the name of a common nominee of, one of the ICSDs acting as common safekeeper. The common safekeeper for Covered Bonds held under the NSS will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Bond Register (as defined in Condition 8.5 (*Payments in respect of Registered Covered Bonds*)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, any Paying Agent and the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

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

Interests in a Registered Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Registered Covered Bonds without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of at least 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (ii) the Issuer has or will become subject to adverse tax consequences (including, without limitation, an obligation to pay additional amounts as provided for or referred to in Condition 10 (Taxation)) which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form and a certificate to such effect signed by two Directors of the Issuer has been given to the Fiscal Agent. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event as described in (i) above, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

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

### *CSD Covered Bonds*

Each Tranche of CSD Covered Bonds will be issued in uncertificated and dematerialised book entry form. Legal title to the CSD Covered Bonds will be evidenced by book entries in the records of the CSD. Settlement of sale and purchase transactions in respect of CSD Covered Bonds in the CSD will take place in accordance with market practice at the time of the relevant transaction. Transfers of interests in the relevant CSD Covered Bonds will take place in accordance with the rules and procedures for the time being of the CSD.

CSD Covered Bonds will not be exchangeable for any physical Covered Bond or document of title other than statements of account made by CSD.

### **General**

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

For so long as any of the Covered Bonds are deposited with a common depositary or common safekeeper for Euroclear and/or Clearstream, Luxembourg and represented by a Bearer Global Covered Bond held on behalf of Euroclear and/or Clearstream, Luxembourg, or so long as a nominee of a common depositary or common safekeeper for Euroclear and/or Clearstream, Luxembourg is the registered holder of a Registered Global Covered Bond or so long as any Covered Bond is a CSD Covered Bond, each person who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg or the CSD, as the case may be, as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or the CSD as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes, save in the case of manifest error) shall be treated by the Issuer, the Fiscal Agent and any other Paying Agent as the holder of such nominal amount of such Covered Bonds for all purposes other than (in the case only of Covered Bonds not being CSD Covered Bonds) with respect to the payment of principal or interest on the Covered Bonds, for which purpose, in the case of Covered Bonds represented by a Bearer Global Covered Bond, the bearer of the relevant Bearer Global Covered Bond, or in the case of Covered Bonds where a nominee for a common depositary or common safekeeper for Euroclear or Clearstream, Luxembourg is the registered holder of a Registered Global Covered Bond, such nominee of the common depositary or, as the case may be, common safekeeper shall be treated by the Issuer, the Fiscal Agent and any other Paying Agent as the holder of such Covered Bonds in accordance with and subject to the terms of the relevant global Covered Bond (and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly).

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or the CSD 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.

## 5. FORM OF FINAL TERMS

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

[Date]

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended) (the **PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]<sup>1</sup> [*Include unless the Final Terms specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”*]

**[PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, the **EUWA**); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act, 2000 (as amended, **FSMA**) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 (as amended) as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended) as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]<sup>2</sup> [*Include unless the Final Terms specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”*]

**[<sup>3</sup>MiFID II product governance / Professional investors and eligible counterparties only target market** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market

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<sup>1</sup> Legend to be included on front of the Final Terms if the Covered Bonds potentially constitute "packaged" products and no key information document will be prepared in the EEA or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

<sup>2</sup> Legend to be included on the front of the Final Terms if the Covered Bonds potentially constitute "packaged" products and no key information document will be prepared in the UK or the issuer wishes to prohibit offers to UK retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable".

<sup>3</sup> Legend to be included on front of the Final Terms if following the ICMA 1 "all bonds to all professionals" target market approach.

for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [MiFID II/Directive 2014/65/EU (as amended) (**MiFID II**)]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Details of any negative target market to be included if applicable*]. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[<sup>4</sup>**UK MiFIR product governance / Professional investors and eligible counterparties only target market** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended (**UK MiFIR**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Details of any negative target market to be included if applicable*]. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[**NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE, AS MODIFIED OR AMENDED FROM TIME TO TIME (the SFA)** – *to insert notice if product classification is other than “capital markets products other than prescribed capital markets products” pursuant to Section 309B of the SFA or Specified Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-n16: Notice on Recommendations on Investment Products).*]<sup>5</sup>

[Date]

**ÍSLANDBANKI HF.**

**Legal entity identifier (LEI): 549300PZMFIQR79Q0T97**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]  
under the €4,000,000,000**

**European Covered Bond (Premium) Programme**

## **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 3 May 2024 (the **Base Prospectus**) [as supplemented by the supplement[s] to it dated [date] [and [date]]] [which [together] constitute[s] a base prospectus for the purposes of [Regulation (EU) 2017/1129 (as amended, the **Prospectus Regulation**)]][the Prospectus

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<sup>4</sup> Legend to be included on front of the Final Terms if following the ICMA 1 “all bonds to all professionals” target market approach.

<sup>5</sup> Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA.



Regulation]]. This document constitutes the Final Terms of the Covered Bonds described herein [for the purpose of the Prospectus Regulation] and must be read in conjunction with the Base Prospectus [as so supplemented] in order to obtain all the relevant information. The Base Prospectus [and the supplement[s]] [has] [have] been published on the website [of [the Issuer] at [●] [and on the website of Euronext Dublin at <https://live.euronext.com/en/markets/dublin>]] and copies may be obtained during normal business hours from the registered office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland and from the offices of the Fiscal Agent at [Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England].

*[The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Covered Bonds (the **Terms and Conditions**) set forth in the Base Prospectus dated [8 April 2022]/[11 April 2023] which are incorporated by reference in the Base Prospectus dated 3 May 2024. This document constitutes the Final Terms of the Covered Bonds described herein [for the purposes of Article 8(2) of the Prospectus Regulation] and must be read in conjunction with the Base Prospectus and any supplements if applicable which constitute a base prospectus [for the purposes of the Prospectus Regulation]. Full information on the Issuer, and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms, the Base Prospectus and any supplements, if applicable. Copies of said Base Prospectus and any supplements, if applicable, are available for viewing on the Issuer’s webpage, <https://www.islandsbanki.is/en/landing/about/investor-relations> and at the office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland.

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

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

*[All references to the Prospectus Regulation and approval thereunder to be deleted in Final Terms prepared in connection with Exempt Covered Bonds. N.B. references to be retained in circumstances where a supplemental prospectus incorporating necessary category A and B information has been approved.]*

- |    |         |   |
|----|---------|---|
| 1. | Issuer: | Íslandsbanki hf.  |
| 2. | i       | Series Number: [●]  |
|    | ii      | Tranche Number: [●]   |
|    |         | <i>(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)</i> |
|    | iii     | [Series which Covered Bonds will be consolidated and form a single Series with: [●]/Not Applicable]                                 |
|    | iv      | [Date on which the Covered [●]/Not Applicable]  |

Bonds will be consolidated and form a single Series with the Series specified above:

- v Trade Date: [●]
- 3. **Specified Currency or Currencies:** [●]
- 4. **Aggregate Nominal Amount:**
  - i Series: [●]
  - ii Tranche: [●]
- 5. **Issue Price:** [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
- 6. **Specified Denominations:** [●]
- 7.
  - i Issue Date: [●]
  - ii Interest Commencement Date: [●]
- 8.
  - i Maturity Date: [*Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year]*]
  - ii Extended Maturity Date: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sections of this subparagraph)*  
 Subject to Condition 9.11, the Extended Maturity Date is [*specify date or Interest Payment Date falling in or nearest to the relevant month and year*]  
*[If applicable, complete relevant sections regarding interest, etc.]*
- 9.
  - i Interest Basis to Maturity Date: [Inflation Linked Interest]  
 [[ ] per cent. Fixed Rate]  
 [[●] month [EURIBOR/NIBOR/STIBOR/REIBOR/€STR] +/-[●] per cent. Floating Rate]  
 [Zero Coupon]  
*(see paragraph [15][16][17][18][19] below)*
  - ii Interest Basis from Maturity [Inflation Linked Interest]

Date to Extended Maturity  per cent. Fixed Rate]  
Date:  month [EURIBOR/NIBOR/STIBOR/  
REIBOR/€STR] +/- per cent. Floating Rate]  
[Zero Coupon]

*(see paragraph [15][16][17][18][19] below)*

10. **Redemption/Payment Basis:**  Annuity]  
 Redemption at par]  
 Equal principal payments]  
 Instalment]

- i Payment Basis:   
ii Instalment Amounts:   
iii Instalment Dates:

11. **Change of Interest Basis or Redemption/Payment Basis:** *[(see paragraph [15][16][17][18][19] below / Not Applicable]*

12. **Call Option:**  Issuer Call/ Not Applicable]  
*[(further particulars specified in paragraph [20] below)]*

13. **Approval for issuance of the Covered Bonds:**  
[Date of [Board] approval for issuance of Covered Bonds obtained]:  Date/ Not Applicable] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Covered Bonds)*

14. **Method of distribution:**  Syndicated/Non-syndicated]

#### **Provisions relating to Inflation Linked Annuity Covered Bonds**

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

- iii Number of Interest Payment Dates: [ ]
- iv Interest Payment Date(s): [The [●] day in the months of [●] and [●] in each year up to and including the Maturity Date]. First Interest Payment Date being [ ].
- v Day Count Fraction: [30/360]

vi Principal Repayment(s): An amount calculated by the Issuer on each Interest Payment Date by multiplying the nominal amount on the Issue Date with the Index Ratio and with the factor A, which is calculated according to the following formula:

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

Where

A = Principal repayment factor;

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

c = The rate of interest of the relevant bond

f = The number of interest payments per year

n = Number of Interest Payment Dates

k = the number of payments that have already been made (k=0 on the Issue Date, k=1 on the first Interest Payment Date, k=n on the last Interest Payment Date, etc.)

vii Interest Payment(s): Interest is calculated on each Interest Payment date as the nominal amount on the Issue Date multiplied with the Index Ratio and with the factor I, which is calculated according to the following formula:

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

Where

I<sub>k</sub> = Interest repayment factor for period k

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

c = The rate of interest of the relevant bond

f = The number of interest payments per year

n = Number of Interest Payment Dates

k = the number of payments that have already been made (k=0 on the Issue Date, k=1 on the first Interest Payment Date, k=n on the last Interest Payment Date, etc.)

- viii Payment(s): On each Interest Payment Date the sum of the relevant principal repayment and the Interest Payment.
- ix Calculation Agent: [Issuer] [*specify other*]
- x Index Ratio: The value of the Index Ratio (**IR**) on the relevant Interest Payment Date shall be the value of the Reference Index (**RI**) applicable to the relevant Interest Payment Date divided by the value of the Base Index (**BI**) as calculated by the Issuer:

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

where:

**Reference Index** or **RI<sub>t</sub>** means on each Interest Payment Date:

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

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

where:

**CP<sub>M-1</sub>** = CPI value published by Statistic Iceland in the month preceding month M

**CP<sub>M-2</sub>** = CPI value published by Statistic Iceland 2 months prior to month M

**d** = the relevant calendar date

**D** = number of calendar days in the relevant calendar month

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

And

**Base Index** means [*to be inserted*], being the value of the CPI on [*to be inserted*].

If at any time a new index is substituted for the CPI,

as of the calendar month from and including that in which such substitution takes effect:

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

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

16. **Inflation Linked Equal Principal Payment Covered Bonds:** [Applicable/Not Applicable]
- (if not applicable, delete the remaining subparagraphs of this paragraph)*
- i Rate(s) of Interest to Maturity Date: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
  - ii Rate(s) of Interest from Maturity Date to Extended Maturity Date: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
  - iii Number of Interest Payment Dates: [number of dates]
  - iv Interest Payment Date(s): [The [ ] day in the months of [] and [] in each year up to and including the Maturity Date]. First Interest Payment Date being [].
  - v Number of Principal Payment Dates: [Number of Interest Payment Dates/1]
  - vi Principal Payment Date(s): [On each Interest Payment Date/Maturity Date]
  - vii Day Count Fraction: [Actual/Actual (ICMA)]
  - viii Principal Repayment(s): An amount calculated by the Issuer on each Principal Payment Date by multiplying the Principal Amount Outstanding on the Issue Date with the Index Ratio and dividing with the number of Principal Payment Dates.
  - ix Interest Payment(s): Interest is calculated on each Interest Payment date as the Principal Amount Outstanding on each Interest Payment Date multiplied with the Rate of Interest and, the appropriate Day Count Fraction.

- x Payments(s): On each Interest Payment Date the sum of the relevant principal repayment and the Interest Payment.
- xi Calculation Agent: [Issuer] [*specify other*]
- xii Principal Amount Outstanding: On the relevant Interest Payment Date, the Principal Amount Outstanding is calculated based on the following formula:

$$PAO_t = (PAO_{t-1} - PR_{t-1}) \frac{IR_t}{IR_{t-1}}$$

where:

**PAO<sub>t</sub>** means the Principal Amount Outstanding on the relevant Interest Payment Date.

**PAO<sub>t-1</sub>** means the Principal Amount Outstanding on the preceding Interest Payment Date.

**PR<sub>t-1</sub>** means the principal repayment on the preceding Interest Payment Date.

**IR<sub>t</sub>** means the Index Ratio on the relevant Interest Payment Date.

**IR<sub>t-1</sub>** means the Index Ratio on the preceding Interest Payment Date (Issue Date for the first Interest Payment Date).

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

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

where:

**Reference Index** or **RI<sub>t</sub>** means on each Interest Payment Date:

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

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

where:

**CP<sub>M-1</sub>** = CPI value published by Statistic Iceland in the month preceding month M;

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

**d** = the relevant calendar date; and

**D** = number of calendar days in the relevant calendar month,

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

**Base Index** means [*to be inserted*], being the value of the CPI on [*to be inserted*].

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

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

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

17. **Fixed Rate Covered Bond** [Applicable/Not Applicable]  
**Provisions:**

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

- i Rate(s) of Interest to Maturity Date: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
- ii Rate(s) of Interest from Maturity Date to Extended Maturity Date: [ ] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
- iii Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]

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

- iv Day Count Fraction: [Actual/Actual (ICMA)]
- v Determination Date(s) [●] in each year / [Not Applicable]

18. **Floating Rate Covered Bond** [Applicable/Not Applicable]



**Provisions:**

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

- i Specified Period(s)/Specified Interest Payment Dates: [ ]
- ii Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- iii Additional Business Centre(s): [Specify/None ]
- iv Party responsible for calculating the Rate of Interest and Interest Amount: [Issuer] [Fiscal Agent] [Calculation Agent] [Other]
- v Screen Rate Determination:
- Reference Rate, Relevant Time and Relevant Financial Centre: Reference Rate: [●] month [EURIBOR/NIBOR/STIBOR/REIBOR/€STR]  
Relevant Time: [●] in the Relevant Financial Centre  
Relevant Financial Centre: [London/Brussels/Oslo/Stockholm/Reykjavík]
  - Interest Determination Date(s): [●]  
*(Second day on which the T2 is open prior to the start of each Interest Period if EURIBOR or €STR. For NIBOR, STIBOR and REIBOR, insert second [Oslo/Stockholm/Reykjavík] business day prior to the start of each Interest Period)*
  - Relevant Screen Page: [●]
  - Calculation Method: [Weighted Average/Compounded Daily/Not Applicable]
  - Observation Method: [Lag/Lock-Out/Observation Shift/Not Applicable]
  - Observation Look-back Period: [Lag/Lock-Out/Observation Shift/Not Applicable]
  - D: [365/360/[●]/[Not Applicable]]
- vi Margin(s) to Maturity Date: [+/-] [●] per cent. per annum
- vii Margin(s) from Maturity Date to Extended Maturity Date: [+/-] [●] per cent. per annum

- viii Minimum Rate of Interest: [[●] per cent. per annum/Not Applicable]
- ix Maximum Rate of Interest: [[●] per cent. per annum/Not Applicable]
- x Day Count Fraction: [[Actual/Actual (ISDA)]]  
 [Actual/Actual]  
 Actual/365  
 Actual/365 (Fixed)  
 Actual/360  
 30/360  
 30E/360  
 [30E/360 (ISDA)]

*(See Condition [7.8(c)] for alternatives)*

**19. Zero Coupon Covered Bond Provisions:**

[Applicable/Not Applicable]

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

- i Accrual Yield: [●] per cent. per annum
- ii Reference Price: [●]
- iii Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 9.6(b) and 9.10 apply]

**PROVISIONS RELATING TO REDEMPTION**

**20. Issuer Call:**

[Applicable/Not Applicable]

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

*(N.B. For Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, select “Applicable”)*

- i Optional Redemption Date(s): [●]

*(N.B. For Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, select “Each Interest Payment Date”)*

- ii Optional Redemption Amount of each Covered Bond and method, if any, of calculation of such amount(s):  per Covered Bond of  Specified Denomination] / [Condition 9.6(a) applies]  
*(N.B. For Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, select “Condition 9.6(a) applies”)*
- iii Early Redemption Amount: [As set out in Condition 9.6 ]
- iv If redeemable in part:
- (i) Minimum Redemption Amount:
- (ii) Maximum Redemption Amount:
- v Notice period: Minimum period: [15 days / days]  
Maximum period: [30 days / days]  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply)*
21. **Notice period for Condition 9.12** Minimum period: [15 days / days]  
*(Redemption for tax reasons):* Maximum period: [30 days / days]  
*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply)*
22. **Final Redemption Amount of each Covered Bond:**  per Covered Bond of  Specified Denomination/see Appendix] [Not Applicable]  
*(N.B. For Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, select “Not Applicable”)*  
*(N.B. In relation to any issue of Covered Bonds which are expressed at paragraph 6 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it the following wording should be added: “For the avoidance of doubt, in the case of a holding of Covered Bonds in an integral multiple of [ ] in excess of [ ] as envisaged in paragraph 6 above, such holding will be redeemed at its nominal*

amount.”.)

## GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

23. **New Global Covered Bond:** [Yes/No]
24. **Form of Covered Bonds:** [CSD Covered Bonds]
- [Temporary Bearer Global Covered Bond exchangeable for a Permanent Bearer Global Covered Bond which is exchangeable for definitive Covered Bonds upon an Exchange Event]
- [Temporary Bearer Global Covered Bond exchangeable for definitive Covered Bonds on and after the Exchange Date]
- [Permanent Bearer Global Covered Bond exchangeable for definitive Covered Bonds upon an Exchange Event]
- [Registered Covered Bond:
- [Global Covered Bond registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]
25. **Additional Financial Centre(s) or other special provisions relating to Payment Days:** [Not Applicable/*give details*]
- (Covered Bond that this item relates to the place of payment and not Interest Period end dates)*
26. **Talons for future Coupons or Receipts to be attached to definitive Covered Bonds (and dates on which such Talons mature):** [Yes/No. *(If yes, give details)*]
27. **Details relating to partly paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment:** [Not Applicable/*give details*. N.B. a new form of Temporary Bearer Global Covered Bond and/or Permanent Bearer Global Covered Bond may be required for partly paid issues]
28. **Details relating to Instalment Covered Bonds:**
- i Instalment Amount(s): [Not Applicable/*give details*]

ii Instalment Date(s): [Not Applicable/give details]

### DISTRIBUTION

29.

i If syndicated, names of Managers: [Not Applicable/give names ]

ii [Date of [Subscription] Agreement [●]/[Not Applicable]]

iii Stabilisation Manager (if any): [Not applicable/give name]

30. **If non-syndicated, name of relevant Dealer:** [●]

31. **[U.S. Selling Restrictions:** [Reg S Category 1/2/3; TEFRA D/TEFRA C/TEFRA not applicable]]

32. **[Prohibition of Sales to EEA Retail Investors]** [Applicable/Not Applicable]

33. **[Prohibition of Sales to UK Retail Investors]** [Applicable/Not Applicable]

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

35. **European Covered Bonds (Premium)** [Yes][No]

### [LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Covered Bonds described herein pursuant to the €4,000,000,000 European Covered Bond (Premium) Programme of Íslandsbanki hf.]

## **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer:

By:

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING

- i Listing: [Official List of Euronext Dublin] / [other (specify) (unless the Issuer has made a notification to the Central Bank of Ireland under Article 25 of the Prospectus Regulation, this can only be a listing on a market that is not a regulated market (for the purposes of MiFID II) / None]
- ii Admission to trading: [Application has been made for the Covered Bonds to be admitted to trading on [the Regulated Market of Euronext Dublin] [other] (specify) with effect from [●].] [Not Applicable.]

### 2. RATINGS

[Not Applicable/The Covered Bonds to be issued [have been][are expected to be] rated:

[S & P: [●]]

[Other: [●]]

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

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

[Each of [defined term for relevant rating agency to be inserted here] is established in the EEA and [is/are] registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]/[Each of [defined term for relevant rating agency to be inserted here] [is/are] established in the United Kingdom and is registered under Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **UK CRA Regulation**).]

*[[defined term for relevant rating agency to be inserted here] [is/are] established in the EEA and certified under Regulation (EC) No. 1060/2009, as amended (the **CRA Regulation**).]*

[[defined term for relevant rating agency to be inserted here] [is/are] not established in the EEA but the rating it has given to the Covered Bonds are endorsed by [●], which is established in the EEA and certified under Regulation (EC) No. 1060/2009, as amended (the **CRA Regulation**).]

[[defined term for relevant rating agency to be inserted here] [is/are] not established in the EEA but [is/are] certified under Regulation (EC) No. 1060/2009, as amended (the **CRA Regulation**).]

[Include alternative disclosure on Regulation (EC) No. 1060/2009]

3. **[NOTIFICATION]**

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

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

[Save for any fees payable to the [Managers/Dealer/Advisor], so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the issue. – Amend as appropriate if there are other interests]

5. **USE OF PROCEEDS, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

- i Use of proceeds: [General corporate purposes]  
  
[The Covered Bonds constitute [Green]/[Social]/[Sustainability] Bonds and an amount equal to the net proceeds of the issue of the Covered Bonds will be used to finance or refinance, in whole or in part, the Eligible Assets (being [Green] [and/or] [Blue] [and/or] [Social] Project[s]), as further described in the Issuer’s Sustainable Financing Framework dated January 2024 (as amended or supplemented from time to time) available on the Issuer’s website] [For [Green]/[Social]/[Sustainability] Bonds only, include weblink for relevant framework and any other relevant information]  
  
[Specify other]
- ii Estimated net proceeds: [●]
- iii Estimated total expenses: [●]

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



Indication of yield: [●]

[Calculated as on the Issue Date.

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

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

Details of historic [EURIBOR/REIBOR/NIBOR/STIBOR/€STR] rates can be obtained from [Telerate].

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

The general cash-flow of the Covered Bonds is determined in real terms on the Issue Date. The nominal value of each future payment depends on the development of the CPI as demonstrated by the formula in paragraph 15 and 16 of Part A of this Final Terms.

Information about the CPI can be accessed free of charge on the website of Statistics of Iceland, <https://www.statice.is/statistics/economy/prices/consumer-price-index/>.

## 9. OPERATIONAL INFORMATION

i ISIN Code: [●]

ii Common Code: [●]

iii CFI Code: [[See/[*include code*], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]

iv FISN Code: [[See/[*include code*], as updated, as set out on] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable]

*(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*

v Any clearing system(s) other [Not Applicable/give name(s) and number(s)]

than Euroclear Bank S.A./N.V. or Clearstream Banking, société anonyme and the relevant identification number(s):

- vi Delivery: Delivery [against/free of] payment
- vii Names and addresses of additional Paying Agent(s) (if any): [●]
- viii [CSD Agent [Íslandsbanki/Not Applicable/give name]  
*(N.B. CSD Covered Bonds only)*
- ix Intended to be held in a manner which would allow Eurosystem eligibility: [Yes, Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] *[include this text for Registered Covered Bonds which are to be held under the NSS]* and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.]
- [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper *[include this text for Registered Covered Bonds which are to be held under the NSS]*]. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.]

## 6. TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds which will be incorporated by reference into each Covered Bond (as defined below). The applicable Final Terms in relation to any Tranche of Covered Bonds may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Covered Bonds. Reference should be made to "Form of the Covered Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

This Covered Bond is one of a Series (as defined below) of Covered Bonds issued by Íslandsbanki hf. (the **Issuer**).

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

- (a) in relation to any Covered Bonds represented by a global Covered Bond (a **Global Covered Bond**), units of each Specified Denomination in the Specified Currency; and
- (b) any Global Covered Bond; and
- (c) any definitive Covered Bonds in bearer form (**Bearer Covered Bonds**) issued in exchange for a Global Covered Bond in bearer form; and
- (d) any definitive Covered Bonds in registered form (**Registered Covered Bonds**) (whether or not issued in exchange for a Global Covered Bond in registered form); and
- (e) any Covered Bonds issued in uncertificated book entry form cleared through the CSD (the **CSD Covered Bonds**). CSD Covered Bonds are in dematerialised form.

Any references in these Terms and Conditions (the **Conditions**) to Receipts, Coupons and Talons shall not apply to Registered Covered Bonds and CSD Covered Bonds and no global or definitive Covered Bonds will be issued in respect of CSD Covered Bonds.

In the case of Covered Bonds other than CSD Covered Bonds, the Covered Bonds 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 3 May 2024 and made between the Issuer and Citibank, N.A., London Branch in its capacity as fiscal agent, paying agent and transfer agent (the **Fiscal Agent, Paying Agent and Transfer Agent** respectively which expressions shall include any successor fiscal agent, paying agent and transfer agent (as applicable), each as appointed in accordance with the Agency Agreement) and Citibank Europe plc in its capacity as registrar (the **Registrar**, which expression shall include any successor registrar appointed in accordance with the Agency Agreement). In relation to the CSD Covered Bonds, Íslandsbanki hf. will act as the CSD system account manager (the **CSD Agent**, which expression shall include any additional agent appointed by the Issuer from time to time in relation to the CSD Covered Bonds). The Fiscal Agent, the Paying Agent, the Transfer Agent, the Registrar and the CSD Agent are together referred to as the **Agents**.

The final terms for this Covered Bond (or the relevant provisions thereof), as set out in Part A of the Final Terms which are (except in the case of CSD Covered Bonds) attached to or endorsed on this Covered Bond and complete (or in the case of an Exempt Covered Bond, modify and complete) the Conditions for the purposes of this Covered Bond. The Final Terms (or such relevant provisions thereof) must be read in conjunction with these Terms and Conditions may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Terms and Conditions, replace or modify the Terms and Conditions for the purposes of this Covered Bond. References to the applicable Final Terms are to Part A of the Final Terms (or the relevant provisions thereof) which are (except in the case of CSD Covered Bonds) attached to or endorsed on this Covered Bond and (in the case of the CSD Covered Bonds) which are deposited with the CSD and the CSD Agent. The expression **Prospectus Regulation** means Regulation (EU) 2017/1129 (as amended).

Any reference to **Covered Bondholders** or **holders** in relation to any Covered Bonds shall mean (in the case of Bearer Covered Bonds) the holders of the Covered Bonds, (in the case of Registered Covered Bonds) the persons in whose name the Covered Bonds are registered and shall, in relation to any Covered Bonds represented by a Global Covered Bond or in relation to any CSD Covered Bonds, 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. Any reference herein to the **Receiptholders** shall mean the holders Receipts.

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Covered Bondholders (except in the case of CSD Covered Bonds), the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (subject to the terms of such Deed of Covenant) dated 3 May 2024 (such Deed of Covenant as amended and/or supplemented and/or restated from time to time, the **Deed of Covenant**) made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear and Clearstream, Luxembourg (each 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 Agents.

Copies of the Final Terms will, in the case of Covered Bonds admitted to trading on the regulated market of Euronext Dublin, be published on the website of Euronext Dublin at <https://live.euronext.com/en/markets/dublin>. If the Covered Bonds are to be admitted to trading on any other regulated market in the European Economic Area (the **EEA**), the applicable Final Terms will be published in accordance with the rules and regulations of the relevant listing authority or stock exchange and otherwise in accordance with the Prospectus Regulation.

Copies of the applicable Final Terms are also available for viewing at the office of the Issuer at Hagasmári 3, 201 Kópavogur, Iceland and on the Issuer's website: <https://www.islandsbanki.is/en/landing/about/investor-relations>. Copies may be obtained from the Issuer. In the case of Covered Bonds that are not admitted to trading on a regulated market in the EEA in circumstances requiring publication of a prospectus in accordance with the Prospectus Regulation, copies of the Final Terms will only be available on request to the Issuer for inspection by a Covered Bondholder in respect of such Covered Bonds.

The Covered Bondholders 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.

## 1. DEFINITIONS AND ABBREVIATIONS

Interpretation: In these Conditions:

- (a) Covered Bonds and Covered Bondholder shall be deemed to include references to Coupons and Couponholders, respectively, where relevant;
- (b) If Talons are specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (c) If Talons are not specified in the relevant Final Terms as being attached to the Covered Bonds at the time of issue, references to Talons are not applicable;
- (d) Any reference to principal shall be deemed to include Final Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 10 (Taxation), any premium payable in respect of a Covered Bond and any other amount in the nature of principal payable pursuant to these Conditions;
- (e) Any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 10 (Taxation) and any other amount in the nature of interest payable pursuant to these Conditions;
- (f) If an expression is stated in Condition 1 (Definitions and Abbreviations) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to Covered Bonds;
- (g) CSD Covered Bonds are in dematerialised form, and any references in these Terms and Conditions to Coupons and Talons shall not apply to CSD Covered Bonds and no global or definitive Covered Bonds will be issued in respect thereof; and
- (h) If the Covered Bonds are Zero Coupon Covered Bonds, references to Coupons and Couponholders are not applicable.

### *Definitions*

#### **Accrual Period**

The meaning given in Condition 7.8(c)(i).

#### **Accrual Yield**

In relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.

<b>Act on Covered Bonds</b>	Icelandic Act on Covered Bonds, No. 11/2008, as amended.
<b>Additional Business Centre</b>	The meaning (if any) given in the applicable Final Terms.
<b>Additional Financial Centre</b>	The meaning (if any) given in the applicable Final Terms.
<b>Amortised Face Amount</b>	The meaning given in Condition 9.6(b).
<b>Annuity Amount</b>	The meaning given in Condition 8.1(a).
<b>Bankruptcy Act</b>	The Icelandic Act on Bankruptcy etc., No. 21/1991, as amended (Icelandic: <i>lög um gjaldprotaskipti o.fl. nr. 21/1991</i> ).
<b>Base Prospectus</b>	This Base Prospectus dated 3 May 2024 (as supplemented) or such base prospectus as is referenced in the applicable Final Terms of the relevant Series of Covered Bonds.
<b>BRRD</b>	EU Bank Recovery and Resolution Directive No. 59/2014 (as amended).
<b>Business Day</b>	The meaning given in Condition 7.8(a).
<b>Business Day Convention</b>	In respect of a Tranche of Covered Bonds, the business day convention specified in the applicable Final Terms and determined in accordance with Condition 7.8(b).
<b>Calculation Agent</b>	The meaning (if any) given in the applicable Final Terms.
<b>Clearstream, Luxembourg</b>	Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855, Luxembourg, or its successors.
<b>CPI</b>	The consumer price indexation, as calculated by Statistics Iceland in accordance with the Act on Price Indexation No. 12/1995 (Icelandic: <i>Lög um vísitölu neysluverðs nr. 12/1995</i> ) and published monthly in the Legal Gazette (Icelandic: <i>Lögbirtingablaðið</i> ) in Iceland.
<b>Cover Pool</b>	The pool of eligible assets recorded in the Register maintained by the Issuer in accordance with the Act on Covered Bonds.
<b>Cover Pool Member States</b>	A state which is a party to the Agreement on the European Economic Area or the European Free Trade Association Treaty, or the Faroe Islands.
<b>CRA Regulation</b>	Regulation (EC) No. 1060/2009 on Credit Rating Agencies (as amended).
<b>CRR</b>	EU regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (amending Regulation (EU) No 648/2012).
<b>CSD</b>	Either Nasdaq CSD Iceland, with its registered office at Laugavegur 182, 105 Reykjavík, Iceland, or

	Verðbréfamiðstöð Íslands CSD, with its registered office at Fiskislóð 31 A, 101 Reykjavík, as specified in the applicable Final Terms.
<b>Dealer</b>	Any dealer appointed by the Issuer (if any).
<b>Determination Date</b>	The meaning given in the applicable Final Terms.
<b>Determination Period</b>	The meaning given in Condition 7.8(d).
<b>Directors</b>	The directors for the time being of the Issuer as defined in the Icelandic Act No. 2/1995, on Limited Liability Companies (Icelandic: <i>lög um hlutafélög nr. 2/1995</i> ).
<b>Early Redemption Amount</b>	The amount calculated in accordance with Condition 9.6.
<b>EEA</b>	European Economic Area.
<b>Equal Payment Amount</b>	The meaning given in Condition 8.1(b).
<b>EU</b>	The European Union.
<b>EURIBOR</b>	Eurozone inter-bank offered rate.
<b>Euroclear</b>	Euroclear Bank SA/NV, 1, Boulevard du Roi Albert II B - 1210 Brussels, or its successor.
<b>Extended Maturity Date</b>	Means the date falling no later than thirty-six months from the Maturity Date of the Covered Bonds.
<b>Exempt Covered Bonds</b>	Means (i) unlisted Covered Bonds, (ii) Covered Bonds admitted to a market in the EEA other than a regulated market for the purposes of MiFID II and/or (iii) Covered Bonds listed on other stock exchanges or markets outside the EEA, in each case, in respect of which no prospectus is required to be published pursuant to Regulation (EU) 2017/1129 (as amended, the <b>Prospectus Regulation</b> )
<b>Final Redemption Amount</b>	The amount specified in the applicable Final Terms.
<b>Final Terms</b>	Each Tranche will be the subject to the Final Terms which, for the purposes of that Tranche only, completes the Terms and Conditions of the Covered Bonds and the Base Prospectus and must be read in conjunction with the Base Prospectus.
<b>Fixed Rate Covered Bonds</b>	Covered Bonds that pay a fixed rate of interest on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
<b>Floating Rate</b>	The meaning given in the ISDA Definitions.
<b>Floating Rate Convention</b>	The meaning given in Condition 7.8(b)(i).

<b>Floating Rate Covered Bonds</b>	Covered Bonds which bear interest at a rate determined: <ul style="list-style-type: none"> <li>(a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions;</li> <li>(b) or on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li> <li>(c) on such other basis as may be agreed between the Issuer and the relevant Dealer, or</li> <li>(d) as set out in the applicable Final Terms.</li> </ul>
<b>Following Business Day Convention</b>	The meaning given in Condition 7.8(b)(ii).
<b>FSA</b>	The Financial Supervisory Authority of the Central Bank of Iceland.
<b>Group</b>	The Issuer and its Subsidiaries.
<b>Inflation Linked Covered Bonds</b>	Inflation Linked Annuity Covered Bonds or Inflation Linked Equal Principal Payment Covered Bonds.
<b>Inflation Linked Annuity Covered Bonds</b>	Covered Bonds that pay an Annuity Amount on such date or dates as decided by the Issuer and set out in the Final Terms.
<b>Inflation Linked Equal Principal Payment Covered Bonds</b>	Covered Bonds that pay an Equal Payment Amount on such date or dates as decided by the Issuer and set out in the Final Terms.
<b>Instalment Amounts</b>	In respect of Instalment Covered Bonds, each amount specified as such in the applicable Final Terms.
<b>Instalment Covered Bonds</b>	Covered Bonds which will be redeemed in Instalment Amounts and on the Instalment Dates specified in the applicable Final Terms.
<b>Instalment Dates</b>	In respect of Instalment Covered Bonds, each date specified as such in the applicable Final Terms.
<b>Interest Amount</b>	The amount of interest payable on the Floating Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Condition 7.4(d) or the amount of interest payable on Inflation Linked Annuity Covered Bonds or Inflation Linked Equal Principal Payment Covered Bonds in respect of each Specified Denomination for the relevant Interest Period, as calculated in accordance with Conditions 7.1 and 7.2 respectively.
<b>Interest Commencement Date</b>	In the case of interest-bearing Covered Bonds, the date



	specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest
<b>Interest Determination Date</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination is applicable, the meaning given in the applicable Final Terms.
<b>Interest Payment Date</b>	In respect of Fixed Rate Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds, the meaning given in the applicable Final Terms and in respect of Floating Rate Covered Bonds the meaning given in Condition 7.4(a).
<b>Interest Period</b>	The meaning given in Condition 7.8(e).
<b>ISDA</b>	International Swaps and Derivatives Association, Inc.
<b>ISK or Icelandic Krona or krónur</b>	The lawful currency of the Republic of Iceland.
<b>Issue Date</b>	Each date on which the Issuer issues a Tranche of Covered Bonds under the Programme, as specified in the applicable Final Terms.
<b>Issue Price</b>	The price, generally expressed as a percentage of the nominal amount of the Covered Bonds, at which a Tranche of Covered Bonds will be issued.
<b>Issuer</b>	Íslandsbanki hf., ID.No. 491008-0160 and LEI code 549300PZMFIQR79Q0T97, having its registered office at Hagasmári 3, 201 Kópavogur, Iceland.
<b>Issuer Call</b>	If specified as applicable in the applicable Final Terms, the provision by which the Issuer may redeem a Series of Covered Bonds in accordance with Condition 9.3.
<b>Margin</b>	As specified in the applicable Final Terms (if any).
<b>Maturity Date</b>	As specified in the applicable Final Terms.
<b>Maximum Rate of Interest</b>	In respect of a Floating Rate Covered Bond, the percentage rate per annum (if any) specified in the applicable Final Terms.
<b>Maximum Redemption Amount</b>	The amount specified as such in the applicable Final Terms.
<b>Member State</b>	A state which is a member of the European Economic Area.
<b>Minimum Rate of Interest</b>	In respect of Floating Rate Covered Bonds, the percentage rate per annum (if any) specified in the applicable Final Terms
<b>Minimum Redemption Amount</b>	The amount specified as such in the applicable Final Terms
<b>Modified Following Business Day Convention</b>	The meaning given in Condition 7.8(b)(iii).

<b>MiFID II</b>	Markets in Financial Instruments Directive 2014/65/EC, published in the Icelandic EEA Government Gazette (ice. Stjórnartíðindi).
<b>NIBOR</b>	The Norwegian inter-bank offered rate.
<b>Optional Redemption Amount</b>	The meaning (if any) given in the applicable Final Terms
<b>Optional Redemption Date</b>	The meaning (if any) given in the applicable Final Terms
<b>Overcollateralisation</b>	The certain percentage level by which the Value of the Cover Pool will exceed the nominal value of the liabilities, relating to the issued Covered Bonds, along with all accrued interests.
<b>Payment Day</b>	The meaning given in Condition 8.7.
<b>Preceding Business Day Convention</b>	The meaning given in Condition 7.8(b)(iv).
<b>Principal Amount Outstanding</b>	The meaning given in Condition 7.8(f).
<b>Programme</b>	€4,000,000,000 European Covered Bond (Premium) Programme established by the Issuer. Any increases of the Programme shall be subject to the FSA confirmation.
<b>Rate of Interest</b>	In respect of a Series of interest-bearing Covered Bonds, the rate of interest payable from time to time in respect of such Covered Bonds determined in accordance with the Terms and Conditions and the applicable Final Terms.
<b>Rating Agency</b>	Means any rating agency engaged by the Issuer to assign a rating to a Series of Covered Bonds including any successor to any such rating agency's rating business, and Rating Agencies shall be construed accordingly;
<b>Redeemed Covered Bonds</b>	The meaning given in Condition 9.3.
<b>Reference Price</b>	In respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.
<b>Reference Rate</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the meaning given in the applicable Final Terms.
<b>Relevant Subsidiary</b>	Means any Subsidiary other than (i) a Subsidiary acquired, formed or operated in relation to the merger and acquisitions services provided to a customer of the Issuer for the purpose of completing a transaction or restructuring a company or (ii) any Subsidiary acquired or formed as a result of the Issuer's foreclosure activities in relation to its general banking business.
<b>Registrar</b>	Any registrar appointed in accordance with the Agency Agreement.

<b>Register</b>	Has the meaning given to it in the Act on Covered Bonds.
<b>Regulation S</b>	Regulation S under the US Securities Act.
<b>REIBOR</b>	Reykjavík inter-bank offered rate.
<b>Relevant Screen Page</b>	In respect of Floating Rate Covered Bonds to which Screen Rate Determination applies, the screen page specified in the applicable Final Terms or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.
<b>Screen Rate Determination</b>	If specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 7.4(b).
<b>Security Interest</b>	The meaning given in Condition 5.1.
<b>Selection Date</b>	The meaning given in Condition 9.3.
<b>Series</b>	A Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.
<b>Specified Currency</b>	Subject to any applicable legal or regulatory restrictions including the rules on foreign exchange issued by the Central Bank of Iceland (the <b>Central Bank</b> ), any currency agreed between the Issuer and the relevant Dealer including but not limited to U.S. Dollars, Euro, Sterling, Japanese Yen, Danish Krone, Norwegian Krone, Swedish Krona, and Icelandic Krona and specified in the applicable Final Terms.
<b>Specified Denomination</b>	In respect of a Series of Covered Bonds, the denomination or denominations of such Covered Bonds as specified in the applicable Final Terms.
<b>Specified Interest Payment Date</b>	In respect of Floating Rate Covered Bonds, the meaning (if any) given in the applicable Final Terms.
<b>STIBOR</b>	The Stockholm inter-bank offered rate.
<b>Subsidiary</b>	Means an entity from time to time of which the Issuer (a) has direct or indirect control or (b) owns directly or indirectly more than 50 per cent of the share capital or similar ownership; "control" for this purpose means the power to direct the management and the policies of the entity, whether

	through the ownership of voting capital, by contract or otherwise.
<b>sub-unit</b>	The meaning given in Condition 7.8(g).
<b>T2</b>	The meaning given in Condition 7.8(a).
<b>Temporary Bearer Global Covered Bond</b>	The temporary global covered bond in bearer form which will initially represent the Bearer Covered Bonds of each Tranche.
<b>Terms and Conditions or Conditions</b>	The terms and conditions of the Covered Bonds.
<b>US Securities Act</b>	U.S. Securities Act of 1933, as amended.
<b>Value</b>	The nominal par value of the Cover Pool along with all accrued interest (but excluding the nominal par value of each mortgage within the Cover Pool which is in arrears for 90 days or longer at the relevant time).
<b>Yen or JPY</b>	The lawful currency for the time being of Japan
<b>Zero Coupon Covered Bonds</b>	Covered Bonds which will be offered and sold at a discount to their nominal amount and which will not bear interest
<b>€, Euro or euro</b>	The currency introduced at the start of the third stage of European economic monetary union pursuant to the Treaty
<b>€STR</b>	Euro Short-Term Rate
<b>£ or Sterling</b>	The lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>\$, U.S.\$ or U.S. Dollars or US Dollars</b>	The lawful currency for the time being of the United States of America

## **2. FORM, DENOMINATION AND TITLE**

### **2.1 Form and denomination**

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

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

Interest bearing definitive Bearer Covered Bonds have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Covered Bonds repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue.

## 2.2 Title

Subject as set out below, title to the Bearer Covered Bonds, Receipts and Coupons will pass by delivery, title to the Registered Covered Bonds will pass upon registration of transfers in accordance with the provisions of the Agency Agreement and title to CSD Covered Bonds will pass by registration in the registers between the direct or indirect accountholders at the CSD in accordance with the rules and procedures of the CSD. The Issuer and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Covered Bond, Receipt or Coupon and the registered holder of any Registered Covered Bond or CSD Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Covered Bond, without prejudice to the provisions set out in the next succeeding paragraph, and the expressions **Covered Bondholders** or **holders of Covered Bonds** and related expressions shall be construed accordingly.

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of Euroclear and/or Clearstream, Luxembourg or so long as any of the Covered Bonds is an CSD Covered Bond each person (other than Euroclear, Clearstream, Luxembourg or the CSD) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or the CSD, as the case may be, as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or the CSD, as the case may be, as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the relevant Agents as the holder of such nominal amount of such Covered Bonds for all purposes other than (in the case only of Covered Bonds not being CSD Covered Bonds) with respect to the payment of principal or interest on such nominal amount of such Covered Bonds, for which purpose, in the case of Covered Bonds represented by a bearer Global Covered Bond, the bearer of the relevant Global Covered Bond, or, in the case of Covered Bonds represented by Registered Global Covered Bonds, the registered holder shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly. Covered Bonds which are represented by a Global Covered Bond 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.

The Issuer shall be entitled to obtain certain information from the register maintained by the CSD for the purpose of performing its obligations under the issue of CSD Covered Bonds. The CSD Agent shall be entitled to obtain such information as is required to perform its duties under the Terms and Conditions of the Covered Bonds and rules and regulations of, and applicable to, the CSD.

References to the CSD, 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 or as may otherwise be approved by the Issuer.

### **3. TRANSFERS OF REGISTERED COVERED BONDS**

#### **3.1 Transfers of interests in Registered Global Covered Bonds**

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

#### **3.2 Transfers of Registered Covered Bonds in definitive form**

Subject as provided in Conditions 3.3 and 3.5 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 6 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three Business Days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

#### **3.3 Registration of transfer upon partial redemption**

In the event of a partial redemption of Covered Bond under Condition 9, the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

#### **3.4 Costs of registration**

Covered Bondholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum

sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

### **3.5 Exchanges and transfers of Registered Covered Bonds generally**

Holders of Registered Covered Bonds in definitive form may exchange such Covered Bonds for interests in a Registered Global Covered Bonds of the same type at any time.

## **4. STATUS OF THE COVERED BONDS**

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

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

## **5. ISSUER COVENANTS**

### **5.1 Negative Pledge**

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

### **5.2 Maintenance of the Cover Pool**

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

Without prejudice to the generality of the foregoing, the Issuer will maintain an Overcollateralisation of (a) at least 25 per cent. until March 2024 (or, if earlier, the date on which any Covered Bonds with a committed overcollateralisation of 25 per cent. are redeemed in full), (b) at least 20 per cent. from March 2024 until May 2026 (or, if earlier, the date on which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full) and (c) at least 10 per cent. from May 2026 until May 2030 (or, if earlier, the date on which any Covered Bonds with a committed overcollateralisation of 10 per cent. are redeemed in full).

### **5.3 Composition of the Cover Pool**

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

For so long as any of the Covered Bonds are outstanding the Issuer covenants that no Mortgages in commercial real estate will be contained in the Cover Pool.

### **5.4 Interest Cover**

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

### **6. [NOT USED]**

### **7. INTEREST**

#### **7.1 Interest on Inflation Linked Annuity Covered Bonds**

Each Inflation Linked Annuity Covered Bond bears interest on its nominal amount outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest shall be calculated as defined under Interest Payment(s) in the applicable Final Terms and rounding the resultant figure to the nearest amount in the Specified Currency. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by using the same methodology as described for Interest Payment(s) in the applicable Final Terms.

#### **7.2 Interest on Inflation Linked Equal Principal Payment Covered Bonds**

Each Inflation Linked Equal Principal Payment Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest shall be calculated as defined under Interest Payment(s) in the applicable Final Terms and rounding the resultant figure to the nearest amount in the Specified Currency. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by using the same methodology as described for Interest Payment(s) in the applicable Final Terms.

#### **7.3 Interest on Fixed Rate Covered Bonds**

Each Fixed Rate Covered Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest.

Interest shall be calculated as defined under Interest Payment(s) in the applicable Final Terms and rounding the resultant figure to the nearest amount in the Specified Currency. Interest will



be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

The Issuer will calculate the amount of interest (each an **Interest Amount**) payable on the Fixed Rate Covered Bonds in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, 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.

#### **7.4 Interest on Floating Rate Covered Bonds**

##### **(a) Interest Payment Dates**

Each Floating Rate Covered Bond bears interest on its Principal Amount Outstanding 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** (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

##### **(b) Rate of Interest**

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

- (i) ***Screen Rate Determination for Floating Rate Covered Bonds where the Reference Rate is other than €STR***

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

- (i) the offered quotation (if there is only one quotation on the Relevant Screen Page); or

- (ii) if there is more than one quotation on the Relevant Screen Page, 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 which appears or appear, as the case may be, on the Relevant Screen Page as at the Relevant Time 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 Issuer (or, in the case of CSD Covered Bonds, the CSD 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 Issuer or the CSD Agent (as applicable) 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 paragraph (i), no offered quotation appears or, in the case of paragraph (ii), fewer than three offered quotations appear, in each case as at the Relevant Time on the Interest Determination Date in question, (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD Agent, shall request each of the Reference Banks to provide (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Relevant Time on the Interest Determination Date in question. If two or more of the Reference Banks provide (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD 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 (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD 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 (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD 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) (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Relevant Time 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 Eurozone inter-bank market (if the Reference Rate is EURIBOR) or the inter-bank market of the Relevant Financial Centre (if any other Reference Rate is used) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD 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 the Relevant Time 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 (in the case of Covered Bonds other than CSD Covered Bonds) the Issuer or (in the case of CSD Covered Bonds) the CSD Agent it is quoting to leading banks in the Eurozone inter-bank market (if the Reference Rate is EURIBOR) or the inter-bank market of the Relevant Financial Centre (if any other Reference Rate is used) 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).

Where:

**Reference Banks** means, in the case of a determination of EURIBOR, the principal Eurozone office of four major banks in the Eurozone inter-bank market; and, in the case of a determination of a Reference Rate that is not EURIBOR, the principal office in the Relevant Financial Centre of four major banks in the inter-bank market of the Relevant Financial Centre, in each case selected by the Issuer.

**Reference Rate** shall mean (i) the Eurozone interbank offered rate (**EURIBOR**), (ii) the Reykjavík interbank offered rate (**REIBOR**), (iii) the Norwegian interbank offered rate (**NIBOR**), (iv) the Stockholm interbank offered rate (**STIBOR**) or (v) in the case of Exempt Covered Bonds, such other interbank offered rate or reference rate as specified in the applicable Final Terms, in each case for the relevant period, as specified in the applicable Final Terms, subject as provided in Condition 7.5.

**Relevant Financial Centre** shall mean (i) Brussels, in the case of a determination of EURIBOR, (ii) Reykjavík, in the case of a determination of REIBOR, (iii) Oslo, in the case of a determination of NIBOR, (iv) Stockholm in the case of a determination of STIBOR, as specified in the applicable Final Terms or (iv) in the case of Exempt Covered Bonds, such other principal financial centre as is specified in the applicable Final Terms.

**Relevant Screen Page** shall mean the screen page specified in the applicable Final Terms or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

**Relevant Time** shall mean the time specified in the applicable Final Terms.

(ii) ***Screen Rate Determination for Floating Rate Covered Bonds where the Reference Rate is €STR***

If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined and the Reference Rate specified in the relevant Final Terms is €STR:

- (A) where the Calculation Method in respect of the relevant Series of Covered Bonds is specified in the relevant Final Terms as being "Compounded Daily", the Rate of Interest applicable to the Covered Bonds for each Interest Period will (subject to this Condition 7.4(b)(ii) (*Screen Rate Determination for Floating Rate Covered Bonds where the Reference Rate is €STR*) and Condition 7.4(c) (*Minimum Rate of Interest and/or Maximum Rate of Interest*) and subject as provided below) be Compounded Daily €STR plus or minus (as indicated in the relevant Final Terms) the Margin, all

as determined by the Fiscal Agent on the Interest Determination Date and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards; and

- (B) where the Calculation Method in respect of the relevant Series of Covered Bonds is specified in the relevant Final Terms as being "Weighted Average", the Rate of Interest applicable to the Covered Bonds for each Interest Period will (subject to this Condition 7.4(b)(ii) (*Screen Rate Determination for Floating Rate Covered Bonds where the Reference Rate is €STR*) and Condition 7.4(c) (*Minimum Rate of Interest and/or Maximum Rate of Interest*) and subject as provided below) be the Weighted Average Reference Rate plus or minus (as indicated in the relevant Final Terms) the Margin all as determined by the Fiscal Agent on the Interest Determination Date and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards.

If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined and the Reference Rate specified in the relevant Final Terms is €STR then, subject to Condition 7.5 and unless the Issuer determines that both an €STR Index Cessation Event and €STR Index Cessation Effective Date have occurred (as to which, see below), if, in respect of any Business Day the Fiscal Agent determines that the Reference Rate does not appear on the Relevant Screen Page, such Reference Rate shall be a rate equal to €STR in respect of the first preceding Business Day on which the €STR was published on the ECB's Website (and "r" shall be interpreted accordingly).

If the Issuer determines that further to foregoing both an €STR Index Cessation Event and an €STR Index Cessation Effective Date have occurred, the rate for each Business Day in the relevant Interest Period occurring on or after such €STR Index Cessation Effective Date will be determined as if references to "€STR" were references to the rate (inclusive of any spreads or adjustments) that was recommended as the replacement for €STR by the European Central Bank (or any successor administrator of €STR) and/or by a committee officially endorsed or convened by (i) the European Central Bank (or any successor administrator of €STR) and/or (ii) the European Securities and Markets Authority, in each case for the purpose of recommending a replacement for €STR (which rate may be produced by the European Central Bank or another administrator) and as provided by the administrator of that rate or, if that rate is not provided by the administrator thereof (or a successor administrator), published by an authorised distributor (the **ECB Recommended Rate**), provided that, if no such rate has been recommended before the end of the first Business Day following the €STR Index Cessation Effective Date, then the rate for each Business Day in the relevant Interest Period occurring on or after such €STR Index Cessation Effective Date will be determined as if references to €STR were references to the Eurosystem Deposit Facility Rate, the rate on the deposit facility that banks may use to make overnight deposits with the Eurosystem, as published on the European Central Bank's Website (the **EDFR**) on such Business Day plus the arithmetic mean of the daily difference between the €STR and the EDFR over an observation period of 30 Business Days starting 30 Business Days prior to the day on which the €STR Index Cessation Event occurs and ending on the Business Day immediately preceding the day on which the €STR Index Cessation Event occurs (the **EDFR Spread**); provided further that, if both an ECB Recommended Rate Index Cessation Event and an ECB Recommended Rate Index Cessation Effective Date subsequently occur, then the rate for each Business Day in the relevant Interest Period occurring on or after that ECB Recommended Rate Index Cessation Effective Date will be determined as if references to "€STR" were references to the EDFR on such Business Day plus the arithmetic mean of the daily difference between the ECB Recommended Rate and the EDFR over an observation period of 30 Business Days starting 30 Business Days prior to the day on which the ECB Recommended Rate Index Cessation

Event occurs and ending on the Business Day immediately preceding the day on which the ECB Recommended Rate Index Cessation Event occurs.

In the event that the Rate of Interest for the relevant Interest Period cannot be determined in accordance with the foregoing provisions by the Fiscal Agent, subject to Condition 7.5), the Rate of Interest for such Interest Period shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest (as specified in the relevant Final Terms) is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period) or (ii) if there is no such preceding Interest Determination Date, determined as if references to €STR for each Business Day in the relevant Interest Period occurring on or after the €STR Index Cessation Effective Date were references to the latest published ECB Recommended Rate or, if the EDFR is published on a later date than the latest published ECB Recommended Rate, the latest published EDFR plus the EDFR Spread (but applying the Margin and any Maximum Rate of Interest or Minimum Rate of Interest applicable to the first Interest Period).

If a €STR Index Cessation Event occurs, the Issuer will promptly notify the Fiscal Agent of such occurrence.

If the Covered Bonds become due and payable in accordance with Condition 9, the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the relevant Final Terms, be deemed to be the date on which the Covered Bonds became due and payable with corresponding adjustments being deemed to be made to the Compounded Daily €STR formula) and the Rate of Interest on the Covered Bonds shall, for so long as any such Covered Bonds remain outstanding, be the Rate of Interest determined on such date.

For the purposes of this Condition 7.4(b)(ii):

**Applicable Period** means:

- (a) where "Lag" or "Lock-Out" is specified as the Observation Method in the relevant Final Terms, the Interest Period; and
- (b) where "Observation Shift" is specified as the Observation Method in the relevant Final Terms, the Observation Period;

**Compounded Daily €STR** means, with respect to an Interest Period, the rate of return of a daily compound interest investment (with the daily euro short-term rate as the reference rate of the calculation of interest) and will be calculated by the Fiscal Agent as at the relevant Interest Determination Date as follows, and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards:

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

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

**d** means, for the relevant Applicable Period, (i) where "Lag" or "Lock-Out" is specified in the relevant Final Terms as the Observation Method, the number of calendar days in the relevant Applicable Period and (ii) where "Observation Shift" is specified in the relevant Final Terms as the Observation Method, the number of calendar days in the relevant Observation Period;

**d<sub>o</sub>** means, for the relevant Applicable Period, (i) where "Lag" or "Lock-Out" is specified in the relevant Final Terms as the Observation Method, the number of Business Days in the relevant Applicable Period and (ii) where "Observation Shift" is specified in the relevant Final Terms as the Observation Method, for any Observation Period, the number of Business Days in the relevant Observation Period;

**€STR** means, in respect of any Business Day, a reference rate equal to the daily euro short-term rate for such euro Business Day as provided by the European Central Bank, as administrator of such rate (or any successor administrator of such rate), on the website of the European Central Bank currently at <http://www.ecb.europa.eu>, or any successor website officially designated by the European Central Bank (the **ECB's Website**) in each case, on or before 9.00 a.m. (Central European Time) on the euro Business Day immediately following such Business Day;

**€STR Index Cessation Event** means the occurrence of one or more of the following events:

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

**€STR Index Cessation Effective Date** means, in respect of €STR and an €STR Index Cessation Event, the first date on which €STR would ordinarily have been provided and is no longer provided;

**ECB Recommended Rate Index Cessation Event** means the occurrence of one or more of the following events:

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

Recommended Rate, which states that the administrator of the ECB Recommended Rate has ceased or will cease to provide the ECB Recommended Rate permanently or indefinitely, provided that, at the time of the statement or publication, there is no successor administrator that will continue to provide the ECB Recommended Rate;

**ECB Recommended Rate Index Cessation Effective Date** means, in respect of an ECB Recommended Rate Index Cessation Event, the first date on which the ECB Recommended Rate would ordinarily have been provided and is no longer provided;

**i** means, for the relevant Applicable Period, a series of whole numbers from one to  $d_o$ , each representing the relevant Business Day in chronological order from, and including, the first Business Day (i) where "Lag" or "Lock-Out" is specified in the relevant Final Terms as the Observation Method, in such Applicable Period and (ii) where "Observation Shift" is specified in the relevant Final Terms as the Observation Method, in the relevant Observation Period;

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

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

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

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

- (a) where "Lag" is specified as the Observation Method in the relevant Final Terms, the number of Business Days included in the Observation Look-back Period specified in the relevant Final Terms (or, if no such number is specified, five Business Days);
- (b) where "Lock-Out" or "Observation Shift" is specified as the Observation Method in the relevant Final Terms, zero;

**r** means:

- (a) where in the relevant Final Terms either "Lag" or "Observation Shift" is specified as the Observation Method, in respect of any Business Day, the €STR in respect of such Business Day;
- (b) where in the relevant Final Terms "Lock-Out" is specified as the Observation Method:

(i) in respect of any Business Day "i" that is a Reference Day, the €STR in respect of the Business Day immediately preceding such Reference Day; and

(ii) in respect of any Business Day "i" that is not a Reference Day (being a Business Day in the Lock-Out Period), the €STR in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date);

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

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

**Weighted Average Reference Rate** means:

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

If the Reference Rate from time to time in respect of Floating Rate Covered Bonds is specified in the applicable Final Terms as being other than EURIBOR, REIBOR, NIBOR, STIBOR or €STR the Rate of Interest in respect of such Covered Bonds will be determined as provided in the applicable Final Terms.

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

If the applicable Final Terms for a Floating Rate Covered Bond specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 7.4(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, which may not be less than zero.

If the applicable Final Terms for a Floating Rate Covered Bond specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 7.4(b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

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



The Fiscal Agent (in the case of Covered Bonds other than CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds) will at, or as soon as practicable after, each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period (and the Rate of Interest in the case of CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds will be determined by the Issuer).

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

(e) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7.4, shall (in the absence of wilful default, bad faith or manifest error as aforesaid) be binding on the Issuer and all Covered Bondholders, Receiptholders and Couponholders.

**7.5 Reference Rate Replacement**

If the Covered Bonds are Floating Rate Covered Bonds and Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, then the provisions of this Condition 7.5 shall apply.

Notwithstanding the provisions of Condition 7.4, if the Issuer determines that a Benchmark Event has occurred when any Rate of Interest (or any component thereof) remains to be determined by reference to the Original Reference Rate, then the following provisions shall apply:

(i) the Issuer shall use reasonable endeavours to appoint and consult with an Independent Adviser with a view to the Issuer determining:

(A) a Successor Reference Rate; or

(B) failing which, an Alternative Reference Rate,

and, in each case, an Adjustment Spread (if any) (in any such case, acting in good faith and in a commercially reasonable manner) no later than the relevant IA Determination Cut-off Date, for the purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Covered Bonds for such next Interest Period and for all other future Interest Periods (subject to the subsequent operation of this Condition 7.5 during any other future Interest Period(s));

(ii) if a Successor Reference Rate or, failing which, an Alternative Reference Rate (as applicable) is determined by the Issuer in accordance with this Condition 7.5:

- (A) such Successor Reference Rate or Alternative Reference Rate (as applicable) shall be the Original Reference Rate for all future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 7.5);
- (B) if the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner:
  - (x) determines that an Adjustment Spread is required to be applied to the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) for all future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 7.5); or
  - (y) is unable to determine the quantum of, or a formula or methodology for determining, an Adjustment Spread, then the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread for all future Interest Periods (subject to the subsequent operation of, and adjustment as provided in, this Condition 7.5); and
- (C) the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner may in its discretion specify:
  - (x) other changes to these Conditions which it determines are reasonably necessary in order to follow market practice in relation to the relevant Successor Reference Rate or Alternative Reference Rate and/or any Adjustment Spread (as applicable), including, but not limited to, (1) the Additional Business Centre(s), Business Day, Business Day Convention, Day Count Fraction, Interest Determination Date, Reference Banks, Relevant Financial Centre, Relevant Screen Page, Relevant Time (as applicable) applicable to the Covered Bonds and (2) the method for determining the fallback to the Rate of Interest in relation to the Covered Bonds if such Successor Reference Rate or Alternative Reference Rate (as applicable) is not available; and
  - (y) any other changes which the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines are reasonably necessary to ensure the proper operation and comparability to the Original Reference Rate of such Successor Reference Rate or Alternative Reference Rate (as applicable),which changes shall apply to the Covered Bonds for all future Interest Periods (subject to the subsequent operation of this Condition 7.5); and
- (D) promptly following the determination of (x) any Successor Reference Rate or Alternative Reference Rate (as applicable) and (y) if applicable, any Adjustment Spread, the Issuer shall give notice thereof and of any changes

(and the effective date thereof) pursuant to Condition 7.5(ii)(C) to the Fiscal Agent (in the case of Covered Bonds other than CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds) and, in all cases, to each stock exchange or other relevant authority on which the Covered Bonds are for the time being listed or by which they have been admitted to listing and to the Covered Bondholders in accordance with Condition 15 (Notices).

No consent of the Covered Bondholders shall be required in connection with effecting the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) described in this Condition 7.5 or such other relevant changes pursuant to Condition 7.5(ii), including for the execution of any documents or the taking of other steps by the Issuer or any of the parties to the Agency Agreement.

For the avoidance of doubt, if a Successor Reference Rate or an Alternative Reference Rate is not determined pursuant to the operation of this Condition 7.5 prior to the relevant IA Determination Cut-off Date, then the Rate of Interest for the next Interest Period shall be determined by reference to the fallback provisions of Condition 7.4(b).

An Independent Adviser appointed pursuant to this Condition 7.5 shall act in good faith and in a commercially reasonable manner and (in the absence of bad faith or fraud) shall have no liability whatsoever to the Issuer, the Fiscal Agent, the Paying Agents, the Covered Bondholders or the Couponholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 7.5.

For the purposes of the Conditions:

**Adjustment Spread** means a spread (which may be positive or negative) or formula or methodology for calculating a spread, which the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines is required to be applied to the relevant Successor Reference Rate or Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (i) in the case of a Successor Reference Rate, is formally recommended in relation to the replacement of the Original Reference Rate with such Successor Reference Rate by any Relevant Nominating Body; or
- (ii) in the case of a Successor Reference Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Original Reference Rate, where such rate has been replaced by such Successor Reference Rate or the Alternative Reference Rate (as applicable); or
- (iii) if neither (i) nor (ii) above applies, the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner determines to be appropriate;

**Alternative Reference Rate** means an alternative benchmark or screen rate that the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines has replaced the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of

determining rates of interest (or the component part thereof) in respect of debt securities denominated in the Specified Currency and of a comparable duration, in the case of Floating Rate Covered Bonds, to the relevant Interest Periods, or, if the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines that there is no such rate, such other rate as it determines in its discretion is most comparable to the Original Reference Rate;

**Benchmark Event** means:

- (i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist or be published; or
- (ii) the making of a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate will be prohibited from being used either generally or in respect of the Covered Bonds; or
- (v) the making of a public statement by the supervisor or the administrator of the Original Reference Rate that the Original Reference Rate is or will be (or is deemed by such supervisor to be) no longer representative of its relevant underlying market; or
- (vi) it has become unlawful for the Fiscal Agent (in the case of Covered Bonds other than CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds) or the Issuer (in the case of CSD Covered Bonds, Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds) or any Calculation Agent (as specified in the relevant Final Terms) or any of the parties to the Agency Agreement to calculate any payments due to be made to any Covered Bondholder using the Original Reference Rate (including, without limitation, under Regulation (EU) 2016/1011 (as amended from time to time), if applicable);

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

**IA Determination Cut-off Date** means the date that is no later than five Business Days prior to the Interest Determination Date relating to the immediately following Interest Period;

**Independent Adviser** means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Issuer at its own expense;

**Original Reference Rate** means:

- (i) the benchmark or screen rate (as applicable) originally specified for the purpose of determining the relevant Rate of Interest (or any relevant component part(s) thereof) of the Covered Bonds; or
- (ii) any Successor Reference Rate or Alternative Reference Rate which has been determined in relation to such benchmark or screen rate (as applicable) pursuant to the operation of this Condition 7.5;

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

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

**Successor Reference Rate** means the rate that the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines is a successor to or replacement of the Original Reference Rate, which successor or replacement is formally recommended by any Relevant Nominating Body.

## **7.6 Accrual of interest**

- (a) Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date of its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue in accordance with these Terms and Conditions. In the event of non-payment of a Zero Coupon Covered Bond, interest will accrue as provided in Condition 9.10.
- (b) The Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed or the Extended Maturity Date, subject to this Condition 7. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 7.7(b) on the Principal Amount Outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;
- (c) The rate of interest payable from time to time under Condition 7.6(b) will be as specified in the applicable Final Terms and, where applicable, determined by the Calculation Agent so specified, three Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and
- (d) In the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 7.6 the principal amount outstanding shall be the total amount otherwise payable

by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

#### **7.7 Interest Payments up to the Extended Maturity Date.**

If an Extended Maturity Date is specified in the applicable Final Terms as applying to a Series of Covered Bonds and the maturity of those Covered Bonds is extended beyond the Maturity Date in accordance with Condition 9.11:

- (a) the Covered Bonds shall bear interest from (and including) the Maturity Date to (but excluding) the earlier of the relevant Interest Payment Date after the Maturity Date on which the Covered Bonds are redeemed or the Extended Maturity Date. In that event, interest shall be payable on those Covered Bonds at the rate determined in accordance with Condition 7.7(b) on the Principal Amount Outstanding of the Covered Bonds on each Interest Payment Date after the Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Maturity Date;
- (b) the rate of interest payable from time to time under Condition 7.7(a) will be as specified in the applicable Final Terms and, where applicable, determined by the Issuer so specified, three Business Days after the Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and
- (c) in the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 7.7 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Conditions.

#### **7.8 Business Day, Business Day Convention, Day Count Fraction and other adjustments**

- (a) In these Terms and Conditions, **Business Day** means:
  - (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre (other than T2) specified in the applicable Final Terms;
  - (ii) if T2 is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System or any successor or replacement for that system (the **T2**) is open; and
  - (iii) 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 or (B) in relation to any sum payable in euro, a day on which the T2 is open.
- (b) If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) in any case where Specified Periods are specified in accordance with Condition 7.4(a)(ii), the **Floating Rate Convention**, such Interest Payment Date (1) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (2) below shall apply mutatis mutandis, or (2) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (I) such Interest Payment Date shall be brought forward to the immediately preceding Business Day, and (II) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
  - (ii) the **Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
  - (iii) the **Modified Following Business Day Convention**, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
  - (iv) the **Preceding Business Day Convention**, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.
- (c) **Day Count Fraction** means, in respect of the calculation of an amount of interest for any Interest Period:
- (i) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
    - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period (as defined in Condition 7.8(d)) during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year assuming that interest was to be payable in respect of the whole of that year; or
    - (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
  - (ii) 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);

- (iii) if **Actual/365** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366, and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (iv) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (v) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (vi) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless, in the case of Floating Rate Covered Bonds only, (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (vii) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);
- (viii) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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



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

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

- (ix) such other Day Count Fraction as may be specified in the applicable Final Terms.
- (d) **Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).
- (e) **Interest Period** means the period from (and including) an Interest Payment Date to (but excluding) the next (or first) Interest Payment Date provided, in each case, that the first Interest Period shall commence on and include the Interest Commencement Date and the final Interest Period shall end on but exclude the Maturity Date (or Extended Maturity Date, if applicable).
- (f) **Principal Amount Outstanding** means, in respect of a Covered Bond, except an Inflation Linked Annuity Covered Bond and an Inflation Linked Equal Principal Payment Covered Bond, on any day the principal amount of that Covered Bond on the Issue Date less principal amounts (if any) received by the holder of such Covered Bond in respect thereof on or prior to that day. In respect of an Inflation Linked Annuity Covered Bond and an Inflation Linked Equal Principal Payment Covered Bond, Principal Amount Outstanding shall have the meaning given in the applicable Final Terms.
- (g) **sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, euro 0.01.

## 8. PAYMENTS

### 8.1 Payments in respect of Inflation Linked Covered Bonds

- (a) Payments in respect of Inflation Linked Annuity Covered Bonds

In case of an Inflation Linked Annuity Covered Bond, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, and interest due (together, the **Annuity Amount**) as calculated by the Issuer in accordance with the formula specified in the applicable Final Terms.

- (b) Payments in respect of Inflation Linked Equal Principal Payment Covered Bonds

In case of an Inflation Linked Equal Principal Payment Covered Bond, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal, and interest due (together, the **Equal Payment Amount**) as calculated by the Issuer in accordance with the formula specified in the applicable Final Terms.

## 8.2 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency; and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment or other laws and regulations to which the Issuer or its Agents are subject, but without prejudice to the provisions of Condition 10 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto (**FATCA**).

## 8.3 Presentation of Covered Bonds and Coupons

- (a) Payments of principal in respect of definitive Bearer Covered Bonds will (subject as provided below) be made in the manner provided in Condition 8.2 (Method of payment) above only against presentation and surrender (or in the case of part payment of any sum due only, endorsement) of definitive Bearer Covered Bonds, and payment of interest in respect of definitive Bearer Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or in the case of part payment of any sum due only, 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, its territories, its possessions and other areas subject to its jurisdiction)).
- (b) Fixed Rate Covered Bonds in definitive bearer form (other than Inflation Linked Covered Bonds) 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 ten years after the Relevant Date (as defined in Condition 10 (Taxation) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11 (Prescription)). Upon any Fixed Rate Covered Bond in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.
- (c) *Coupons for Floating Rate, Inflation Linked Covered Bonds:* Upon the date on which any Floating Rate Covered Bond or Inflation Linked Covered Bond in definitive bearer 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.

- (d) *Payments other than in respect of Matured Coupons*: If the due date for redemption of any definitive Bearer Covered Bond is not an Interest Payment Date, interest (if any) accrued in respect of such definitive Bearer Covered Bond from (and including) the preceding Interest Payment Date or Interest Commencement Date, as the case may be, shall be payable only against surrender of the relevant definitive Bearer Covered Bond.
- (e) *CSD Covered Bonds*: Payments of principal and interest in respect of CSD Covered Bonds will be made to the Covered Bondholders shown in the relevant records of the CSD in accordance with and subject to the rules and regulations from time to time governing the CSD.

#### **8.4 Payments in respect of Bearer Global Covered Bonds**

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

#### **8.5 Payments in respect of Registered Covered Bonds**

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Covered Bond Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Covered Bond Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by transfer on the due date to the Designated Account of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Covered Bond Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**). Payment of the interest due in respect of each Registered Covered Bond on redemption and the final

instalment of principal will be made in the same manner as payment of the principal amount of such Registered Covered Bond.

No commissions or expenses shall be charged to the holders by the Registrar in respect of any payments of principal or interest in respect of Registered Covered Bonds.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## **8.6 General provisions applicable to payments**

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

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

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

## **8.7 Payment Day**

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other sum in respect of any such delay. For these purposes, **Payment Day** means any day which (subject to Condition 11) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

- (i) in the case of Covered Bonds in definitive form only, in the relevant place of presentation;
  - (ii) in each Additional Financial Centre (other than T2) specified in the applicable Final Terms;
- (b) if T2 is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the T2 is open; and
- (c) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency or (ii) in relation to any sum payable in euro, a day on which the T2 is open.

## **8.8 Interpretation of principal**

Any reference in these Terms and Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) the Final Redemption Amount of the Covered Bonds;
- (b) the Early Redemption Amount of the Covered Bonds;
- (c) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (d) in relation to Covered Bonds (other than Inflation Linked Annuity Covered Bonds or Inflation Linked Equal Principal Payment Covered Bonds) redeemable in instalments, the Instalment Amounts;
- (e) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 9.6(b)); and
- (f) any premium and any other amounts (other than interest) which may be payable under or in respect of the Covered Bonds.

## **9. REDEMPTION AND PURCHASE**

### **9.1 Redemption of Inflation Linked Annuity Covered Bonds and Inflation Linked Equal Principal Payment Covered Bonds**

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

### **9.2 Final Redemption**

Unless previously redeemed or purchased and cancelled, each Covered Bond will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

### **9.3 Redemption at the option of the Issuer (Issuer Call)**

If an Issuer Call is specified in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Covered Bondholders in accordance with Condition 15 (which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount (if any) and not more than the Maximum Redemption Amount (if any), in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (**Redeemed Covered Bonds**) will be selected (i) in the case of definitive Covered Bonds, individually by lot without involving any part only of a Bearer Covered Bond and not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**), (ii) in the case of Global Covered Bonds, in accordance with the rules of Euroclear and/or Clearstream, (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in nominal amount, at their discretion) and (iii) in the case of CSD Covered Bonds, in accordance with the rules of the CSD. In the case of Redeemed Covered Bonds represented by definite Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Covered Bonds represented by definitive Covered Bonds shall bear the same portion to the aggregate nominal amount of all Redeemed Covered Bonds as the aggregate nominal amount of definite Covered Bond outstanding bears to the aggregate nominal amount of the Covered Bonds outstanding, in each case on the Selection Date. No exchange of the relevant definitive Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 9.3 and notice to that effect shall be given by the Issuer to the relevant Covered Bondholders in accordance with Condition 15 at least five days prior to the Selection Date.

### **9.4 Redemption due to illegality or invalidity**

If the Covered Bonds become illegal and/or invalid, the Covered Bonds of all Series may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 or more than 60 days' notice to all Covered Bondholders (which notice shall be irrevocable).

Covered Bonds redeemed pursuant to this Condition 9.4 will be redeemed at their Early Redemption Amount referred to in Condition 9.6 together (if appropriate) with interest accrued (and, if this is an Inflation Linked Annuity Covered Bond or an Inflation Linked Equal Principal Payment Covered Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms) to (but excluding) the date of redemption.

### **9.5 Certification**

The publication of any notice of redemption pursuant to Condition 9.6 shall include a certificate signed by two Directors of the Issuer stating that the Issuer is entitled or required to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and the certificate shall be sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on all Covered Bondholders, (if applicable) Receiptholders and Couponholders.

## 9.6 Early Redemption Amounts

For the purpose of Conditions 9.4, 9.7, 9.10 and 9.12, each Covered Bond will be redeemed at its Early Redemption Amount calculated as follows:

- (a) in the case of a Covered Bond (other than a Zero Coupon Covered Bond but including an Instalment Covered Bond), at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its Principal Amount Outstanding (and, in the case of an Inflation Linked Annuity Covered Bond or an Inflation Linked Equal Principal Payment Covered Bond, adjusted for indexation in accordance with the provisions set out in the applicable Final Terms); or
- (b) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

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

where:

**RP** means the Reference Price;

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

**y** is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360, or on such other calculation basis as may be specified in the applicable Final Terms.

## 9.7 Instalments

Instalment Covered Bonds will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 9.6.

## 9.8 Purchases

The Issuer or any of its Subsidiaries may at any time purchase Covered Bonds at any price in the open market or otherwise. Subject to the provision below, such Covered Bonds may be held, reissued, resold or, at the option of the Issuer, surrendered to the Issuer for cancellation.

## 9.9 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled (together with all unmatured Receipts and Coupons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled and any Covered Bonds purchased and surrendered for cancellation pursuant to Condition 9.8 and cancelled (together with all unmatured Receipts and Coupons cancelled therewith) shall be forwarded to the Fiscal Agent and in the case of CSD Covered Bonds shall be deleted from the records of the CSD and cannot be reissued or resold.

## 9.10 Late Payment on Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Conditions 9.2, 9.3 or 9.4 above, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 9.6(a) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by (in the case of Covered Bonds other than CSD Covered Bond) the Fiscal Agent or, in the case of Registered Covered Bonds, the Registrar or (in the case of CSD Covered Bonds) the CSD Agent and notice to that effect has been given to the Covered Bondholders in accordance with Condition 15.

## 9.11 Extension of Maturity Date

- (a) Extension of Maturity Date:
  - (i) If an Extended Maturity Date is specified in the applicable Final Terms for a Series of Covered Bonds and the Issuer (i) has received approval from the FSA to extend the maturity of the Covered Bonds (a **Maturity Extension Approval**) and (ii) fails to pay the Final Redemption Amount on the Maturity Date specified in the Final Terms, the maturity of the outstanding Covered Bonds not so redeemed and the date on which such Covered Bonds will, notwithstanding any insolvency, bankruptcy or resolution in respect of the Issuer at the relevant time, be due and repayable for the purposes of these Terms and Conditions will be extended up to and including (but no later than) the Extended Maturity Date. In that event, the Issuer may redeem all or any part of the Principal Amount Outstanding of the Covered Bonds on any Interest Payment Date falling in any month after the Maturity Date up to and including the Extended Maturity Date.
  - (ii) Interest will continue to accrue on any unpaid amount and will be payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Maturity Date.
  - (iii) The Issuer shall promptly give notice to the Fiscal Agent and the Covered Bondholders (in accordance with Condition 15 (Notices)) of such Maturity Extension Approval (provided, however, that any failure by the Issuer to give such notice shall not in any event affect the validity or effectiveness of the extension of maturity or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise with respect to the relevant Covered Bonds other than as provided for in these Conditions).
  - (iv) The Issuer shall give the Fiscal Agent not less than five Business Days' notice (in accordance with Condition 15 (Notices)) prior to the Maturity Date whether (a) payment will be made of the Final Redemption Amount of the applicable Series of Covered Bonds in full on their Maturity Date or (b) the obligation to pay the Final Redemption Amount of the applicable Series of Covered Bonds on their Maturity Date shall be deferred until the Extended Maturity Date (the **Extension Notice**).



- (v) Any failure by the Issuer to notify such persons shall not affect the validity or effectiveness of any redemption by the Issuer on the relevant Interest Payment Date, or give rise to rights to any such person.

(b) Zero Coupon Bonds:

In the case of Covered Bonds which are Zero Coupon Covered Bonds to which an Extended Maturity Date is specified under the applicable Final Terms, for the purposes of this Condition 9.11 the principal amount outstanding shall be the total amount otherwise payable by the Issuer on the Maturity Date less any payments made by the Issuer in respect of such amount in accordance with these Terms and Conditions.

(c) Extension Irrevocable:

Any extension of the maturity of Covered Bonds under this Condition 9.11 shall be irrevocable. Where this Condition 9.11 applies, any failure to redeem the Covered Bonds on the Maturity Date or any extension of the maturity of Covered Bonds under this Condition 9.11 shall not constitute an event of default or acceleration of payment for any purpose or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise on the relevant Covered Bonds other than as expressly set out in these Terms and Conditions.

(d) Payments:

In the event of the extension of the maturity of Covered Bonds under this Condition 9.11 Interest Rates, Interest Periods and Interest Payment Dates on the Covered Bonds from (and including) the Maturity Date to (but excluding) the Extended Maturity Date shall be determined in accordance with the applicable Final Terms.

(e) Partial Redemption after Maturity Date:

If the Issuer redeems part and not all of the principal amount outstanding of Covered Bonds on any Interest Payment Date falling after the Maturity Date, the redemption proceeds shall be applied rateably across the Covered Bonds and the principal amount outstanding on the Covered Bonds shall be reduced by the level of that redemption. If any partial redemption after the Maturity Date is not sufficient to redeem all outstanding Interest Payments, then the remainder of any Interest Payment shall be added to the principal amount of the Covered Bonds.

(f) Restriction on Further Issues:

If the maturity of any Covered Bonds is extended up to the Extended Maturity Date in accordance with this Condition 9.11, then, subject as otherwise provided for in the applicable Final Terms, for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further Covered Bonds, unless the proceeds of issue of such further Covered Bonds are applied by the Issuer on issue to redeem in whole or in part the relevant Covered Bonds in accordance with the terms thereof.

## **9.12 Redemption for Tax Reasons**

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Covered Bondholders (which notice shall be irrevocable) and, in the case of CSD Covered Bonds, the CSD if:

- (a) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the Tax Jurisdiction (as defined in Condition 10), or any change in the application or official interpretation of such laws or regulation, which change or amendment becomes effective on or after the Issue Date of the first Tranche of the Covered Bonds; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

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

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

Covered Bonds redeemed pursuant to this Condition 9.12 will be redeemed at their Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

## **10. TAXATION**

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

- (a) in respect of any demand made for payment in Iceland;
- (b) the holder of which is liable for such taxes, duties, assessments or government charges of whatever nature in respect of such Covered Bond or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond or Coupon; or
- (c) in respect of any demand for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on making such demand on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 8.4); or

- (d) on account of any tax, assessment or other governmental charge that is imposed or withheld by reason of the application of Section 1471 through 1474 of the Code (or any successor provisions), any regulation, pronouncement or agreement thereunder, official interpretations thereof, or any intergovernmental agreement or any law implementing an intergovernmental approach thereto, whether currently in effect or as published and amended from time to time.

As used herein:

**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 (in the case of Bearer Covered Bonds) the Fiscal Agent or (in the case of Registered Covered Bonds) the Registrar or (in the case of CSD Covered Bonds) the CSD Agent, in each case, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 12; and

**Tax Jurisdiction** means Iceland or any political subdivision or any authority thereof or therein having power to tax.

Pursuant to point 8 of the first Paragraph of Article 3 of Icelandic Act No. 90/2003 on Income Tax, as amended (the **ITA**), non-Icelandic residents are not subject to tax on any interest income derived by them from the Covered Bonds and Coupons provided the Covered Bonds are registered with a securities depository within the Organisation for Economic Co-operation and Development, the European Economic Area or a member of the European Free Trade Association or the Faroe Islands (any such securities depository, an **Eligible Securities Depository**) and the Issuer registers the Covered Bonds with the Directorate of Internal Revenue in Iceland. The Issuer undertakes to ensure that any Covered Bonds are registered and accepted for clearance with an Eligible Securities Depository (which would include Euroclear and Clearstream, Luxembourg) and to register any Covered Bonds with the Directorate of Internal Revenue in Iceland on or prior to the Issue Date of the Covered Bonds and to obtain a certificate of exemption in respect thereof. In the event that such exemption to the ITA is forfeited, suspended or revoked as a result of the Issuer failing to register the Covered Bonds as aforesaid or the Covered Bonds being in definitive form and held outside an Eligible Securities Depository or the Covered Bonds otherwise ceasing to be registered with an Eligible Securities Depository or for any other reason and any payment in respect of the Covered Bonds is accordingly subject to withholding or deduction pursuant to the ITA, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds or Coupons after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Covered Bonds or Coupons, as the case may be, in the absence of such withholding or deduction (and the exceptions set out in paragraphs (a) to (f) above shall not be applicable).

## 11. PRESCRIPTION

The Covered Bonds, Receipts and Coupons will become void in accordance with Act on the Expiration of Debt and other Obligations No. 150/2007 unless presented for payment within 10 years after the Relevant Date (as defined above).

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 8.3 or any Talon which would be void pursuant to Condition 8.3.

## **12. REPLACEMENT OF COVERED BONDS, RECEIPTS COUPONS AND TALONS**

This Condition 12 only applies to Covered Bonds other than CSD Covered Bonds.

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Covered Bonds, Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **13. AGENTS**

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

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents provided that:

- (a) there will at all times be a Fiscal Agent and, in the case of a Series of Registered Covered Bonds, a Registrar;
- (b) so long as the Covered Bonds are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated; and
- (d) in the case of CSD Covered Bonds, there will always be a CSD Agent authorised to act as an account holding institution with the CSD and one or more calculation agent(s) where the applicable Final Terms of the relevant CSD Covered Bonds so require.

In addition, in the case of Covered Bonds other than CSD Covered Bonds, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 8.6 (*General provisions applicable to payments*). Notice of any variation, termination, appointment or change in Agents will be given to the Covered Bondholders promptly by the Issuer in accordance with Condition 15.

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

## **14. EXCHANGE OF TALONS**

This Condition 14 only applies to Covered Bonds other than CSD Covered Bonds.

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 11 (*Prescription*).

## **15. NOTICES**

### **15.1 Covered Bonds other than CSD Covered Bonds**

This Condition 15.1 only applies to Covered Bonds other than CSD Covered Bonds.

All notices regarding the Bearer Covered Bonds will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication in a daily newspaper.

All notices regarding the Registered Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Covered Bond Register and will be deemed to have been given on the second day after mailing and, in addition, for so long as any Registered Covered Bonds are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

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

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

## **15.2 CSD Covered Bonds**

This Condition 15.2 only applies to CSD Covered Bonds.

All notices regarding the CSD Covered Bonds will be deemed to be validly given if published in accordance with the procedures of the CSD. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the CSD Covered Bonds are for the time being listed or by which they have been admitted to trading. The Issuer can additionally at its own discretion obtain information from the CSD on the Covered Bondholders in order to send notices to each Covered Bondholder directly.

Any such notice will be deemed to have been given to the holders of the CSD Covered Bonds on the date it is published in accordance with the procedures of the CSD.

Notices to be given by any holder of CSD Covered Bonds may be given by such holder through the CSD in such manner as the CSD Agent and the CSD may approve for this purpose.

## **16. MEETINGS OF COVERED BONDHOLDERS, MODIFICATION AND WAIVER**

### **16.1 Covered Bonds other than CSD Covered Bonds**

This Condition 16.1 only applies to Covered Bonds other than CSD Covered Bonds.

The Agency Agreement contains provisions for convening meetings of the Covered Bondholders (including by way of conference call or by use of a videoconference platform, in whole or in part) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in Schedule 4, Part 1 of the Agency Agreement) of a modification of the Covered Bonds, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than 5 per cent. in nominal amount of the Covered Bonds for the time being remaining outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Covered Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds, the Receipts or the Coupons (including modifying the date of maturity of the Covered Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Covered Bonds or altering the currency of payment of the Covered Bonds, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Covered Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Covered Bonds for the time being outstanding.

The Agency Agreement provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Agency Agreement by a majority consisting of not less than 75 per cent. of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Covered Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the

relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Covered Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Covered Bondholders. An Extraordinary Resolution passed at any meeting of the Covered Bondholders shall be binding on all the Covered Bondholders, whether or not they are present at the meeting, and on all Couponholders.

The Fiscal Agent and the Issuer may agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to:

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

In addition to paragraph (a) above, the Issuer shall be entitled to determine in its sole discretion that any modification required in order to accommodate the substitution of a Rating Agency with respect to any Series of Covered Bonds will not be prejudicial to the interests of the Covered Bondholders provided that the relevant modifications are required to accommodate an equivalent or higher rating of the replacement Rating Agency. In such case, the related ratings requirements specified by and/or relating to such Rating Agency to be substituted (including those specified in the Deed of Covenant) may be amended, without the consent of the Covered Bondholders, to refer to the respective ratings requirements of the replacement Rating Agency, without the consent of the relevant Covered Bondholders, Couponholders or Receiptholders, as applicable.

In relation to a modification made pursuant to paragraph (a) and/or (b) above, the Issuer shall consider the interest of the Covered Bondholders and, in the event that the Issuer proposes any modification to the Agency Agreement, the Covered Bonds, the Receipts, the Coupons or the Deed of Covenant, the Agents shall assume, without further enquiry, that the conditions set out in this Condition 16 have been satisfied.

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

## **16.2 CSD Covered Bonds**

This Condition 16.2 only applies to CSD Covered Bonds.

The Agency Agreement provides that meetings of Covered Bondholders (for the purposes of this Condition 16.2, a **Covered Bondholders' Meeting**) may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than 5 per cent. in nominal amount of the Covered Bonds for the time being remaining outstanding. The quorum at any such meeting for passing a resolution is one or more persons holding a certificate or certificates (dated no earlier than 14 days prior to the meeting) from either the CSD or the CSD Agent stating that each such Covered Bondholder is entered into the records of the CSD (as applicable) as a Covered Bondholder, and such Covered Bondholder or Covered Bondholders collectively hold or represent not less than 50 per cent. in nominal amount of the Covered Bonds for the time being outstanding and provide an undertaking that no transfers or dealings have taken place or will take place in the relevant Covered Bonds until the conclusion of the meeting, or at any adjourned meeting one or more such persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds so held or represented; except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds as set out in Schedule 4, Part 2 of the Agency Agreement (including modifying the date of maturity of the Covered Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Covered Bonds or altering the currency of payment of the Covered Bonds), the quorum shall be one or more such persons holding or representing not less than two-thirds in aggregate nominal amount of the Covered Bonds for the time being outstanding, or at any adjourned such meeting one or more persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds so held or represented. A resolution passed at any meeting of the Covered Bondholders shall be binding on all the Covered Bondholders, whether or not they are present at the meeting.

For the purposes of a meeting of the Covered Bondholders, the person named in the certificate from the CSD or the CSD Agent described above shall be treated as the holder of the Covered Bonds specified in such certificate, provided that he has given an undertaking not to transfer the Covered Bonds so specified (prior to the close of the meeting).

The provisions for the convening and holding of such Covered Bondholders' Meetings are set out in the Agency Agreement.

The CSD Agent, the Fiscal Agent (insofar as the relevant modification relates to the Agency Agreement) and the Issuer may agree without the consent of any of the Covered Bondholders, to any modification of the CSD Covered Bonds or the Agency Agreement (insofar as the relevant modification to the Agency Agreement relates to the CSD Covered Bonds) which, in the opinion of the Issuer, is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law or to comply with the EU Covered Bond Rules as such may be implemented into Icelandic law and/or to comply with the provisions of the Act on Covered Bonds.

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

## **17. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further covered bonds having terms and conditions the same as the Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds.



## **18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

## **19. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **19.1 Governing law**

The Agency Agreement, the Deed of Covenant, the Covered Bonds the Coupons, the Receipts and the Talons, and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Covered Bonds the Coupons, the Receipts and the Talons, are and shall be governed by, and construed in accordance with, English law, except for Condition 4 and the registration of CSD Covered Bonds with the CSD and Condition 15.2 which shall be governed by, and construed in accordance with, Icelandic law.

### **19.2 Submission to jurisdiction**

- (a) Subject to Condition 19.2(c) below, the English courts have exclusive jurisdiction to the Coupons, the Receipts and/or the Talons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Covered Bonds the Coupons, the Receipts and/or the Talons (a **Dispute**) and accordingly each of the Issuer and any Covered Bondholders, Couponholders or Receiptholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 19.2, each of the Issuer and any Covered Bondholders, Couponholders or Receiptholders in relation to any Dispute waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) This Condition 19.2(c) is for the benefit of the Covered Bondholders, the Couponholders and the Receiptholders only. To the extent allowed by law, the Covered Bondholders, the Couponholders and the Receiptholders 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.

### **19.3 Appointment of Process Agent**

The Issuer appoints LOGOS Legal Services Ltd. at Paternoster House, 65 St Paul's Churchyard, London EC4M 8AB, United Kingdom as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and undertakes that, in the event of LOGOS Legal Services Ltd. ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer 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 proceedings in any other manner permitted by law.

### **19.4 Waiver of immunity**

The Issuer hereby irrevocably and unconditionally waives with respect to the Covered Bonds and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving

of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute.

#### **19.5 Other documents**

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

## 7. USE OF PROCEEDS

The net proceeds (in respect of (a) and (c) below) or an amount equal to the net proceeds (in respect of (b) below) from each issue of Covered Bonds will, as specified in the applicable Final Terms, be:

- (a) used for the Issuer's general corporate purposes;
- (b) in respect of Green, Social or Sustainability Bonds, used to finance or refinance, in whole or in part, Green or Social Loans, as further described in the applicable Final Terms and the Sustainable Funding Framework dated January 2024 (as amended or supplemented from time to time) (the **Sustainable Funding Framework**) ([https://cdn.islandsbanki.is/image/upload/v1/documents/ISB\\_2024\\_sjalfbaer-fjarmalarammi.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_2024_sjalfbaer-fjarmalarammi.pdf)); or
- (c) used to finance any other particular identified use of proceeds as stated in the applicable Final Terms.

### *Green, Social or Sustainability Bonds*

In respect of (b) above, the Sustainable Funding Framework describes the Green or Social Loans to which an amount equal to the net proceeds of an issuance of Green, Social or Sustainability Bonds may be allocated.

The Sustainable Funding Framework has been developed by the Issuer in alignment with the International Capital Market Association (**ICMA**) Sustainability Bond Guidelines 2021, Green Bond Principles 2021 and Social Bond Principles 2023 (the **ICMA Principles**). The Sustainable Funding Framework takes also into account Bonds to Finance the Sustainable Blue Economy: A Practitioner's Guide, published by ICMA together with a number of organisations in September 2023.

The following four core components and recommendation of the ICMA Principles will be adopted by the Issuer in connection with the issue and offering of each of its Green, Social or Sustainability Bonds:

- Use of Proceeds;
- Process for Project Evaluation and Selection;
- Management of Proceeds;
- Reporting; and
- External Review

### *(A) Use of Proceeds*

#### *Allocation of net proceeds*

Unless otherwise specified in the applicable Final Terms, the Sustainable Funding Framework provides that the Issuer intends to allocate an amount equal to the net proceeds of the Green, Social or Sustainability Bonds to finance or refinance, in whole, or in part, loans financing eligible projects or assets with environmental or social benefits (or a combination of the foregoing) that fall within the "Eligible Project Categories" set out and defined in detail in the Sustainable Funding Framework and described below (the **Green or Social Loans**).

#### *Eligible Project Categories*

The Eligible Project Categories consist of Green or Social Loans that meet the eligibility criteria outlined in the Sustainable Funding Framework under the following categories (the **Eligible Project Categories**):

**Green project categories**

Clean transportation

Information technology and communications

Energy efficiency

Pollution prevention and control

Sustainable water and wastewater management

Renewable energy

Green buildings

Sustainable management of living natural resources and land use

Eco-efficient products

**Social project categories**

Access to Essential Services – Education and Healthcare

Affordable Housing

Employment Generation

Socioeconomic Advancement and Empowerment

The Sustainable Funding Framework provides that the designation of the Eligible Project Categories has had and will, on a best efforts basis, have regard to categories of environmental activities that are included in the EU Taxonomy Regulation and that the eligibility criteria for each subcategory of Green Loans has been designed and will be designed, on a best efforts basis, to comply with the technical screening criteria set out in the EU Taxonomy Climate Delegated Act as in effect at the date of the Sustainable Funding Framework, provided, in each case, that there are feasible practical Eligible Project Categories meeting these requirements in the geographies in which the Issuer’s assets are located as a matter of local regulation.

The look-back period for Green or Social Loans that fall within the categories above and that refinance operational expenditures is limited to three years from the date of issue of the relevant Green, Social or Sustainability Bonds. The distribution of allocated Green or Social Loans by category as well as “financing versus refinancing” will be published by the Issuer as soon as possible, or at the latest in the annual Allocation and Impact Report.

In addition to loans for specific eligible projects or assets, the Sustainable Funding Framework also provides for loans for general corporate purposes to “pure-play” green or social companies can be funded with amounts equivalent to the net proceeds of the issue of relevant Green, Social or Sustainability Bonds. The Sustainable Funding Framework describes a “pure-play” company as a company deriving more than 90 per cent. of its revenue from activities that fall within the Eligible Project Categories outlined above.

*Exclusionary Criteria*

The Sustainable Funding Framework provides that amounts equal to the net proceeds of any Green, Social or Sustainability Bonds will not be used to knowingly finance or refinance, in whole or in part,

Green or Social Loans that relate to activities on the Issuer's "Exclusion List" set out in the Issuer's Sustainability Policy dated October 2023 set out on the Issuer's website at [https://cdn.islandsbanki.is/image/upload/v1/documents/Islandsbanki\\_Sustainability\\_Policy\\_English.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/Islandsbanki_Sustainability_Policy_English.pdf). Among other things, the Exclusion List states what types of businesses and projects are excluded from financing or refinancing by the Issuer, for example:

- Research, mining, or processing of any type of energy production based on fossil fuels (natural gas, oil, coal or peat);
- Production, processing or transactions involving palm oil and its derivatives for energy use;
- All chemical processing of radioactive materials, including mining and mineral processing;
- Research involving animal testing that do not comply with EU or domestic directives;
- Mining and processing of minerals for the sole purpose of being used as gems;
- Sand mines that have a negative impact on ecosystems or are not carried out in accordance with laws on environmental impact assessment;
- Tobacco production.

In addition, the Sustainable Funding Framework provides that no allocations of funds to Green or Social Loans under the Sustainable Funding Framework will be made to activities in research and/or development within weapons and defence, environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling, adult entertainment and predatory lending.

***(B) Process of project evaluation and selection***

The Issuer's Sustainability Committee is mandated by the Issuer to meet on a regular basis (at least annually) and conduct a review of the selected loans within the Green and Social Loans categories to ensure ongoing compliance with the eligibility criteria as well as annual reporting requirements. The committee consists of representatives from the Issuer's relevant business areas, representatives from the Risk Management department and the Sustainability Manager. The Sustainability Committee can delegate authority to certain specialists to review selected loans to ensure compliance with eligibility criteria.

The Sustainability Committee will ensure that Green and Social Loans adhere to applicable laws and regulations as well as the Issuer's Sustainability Policy. The Sustainability Committee will also ensure that environmental and social risks potentially associated with the Green and Social Loans are properly mitigated and monitored in accordance with the Issuer's its ESG risk assessment process.

The Sustainable Funding Framework underscores that all loans, including Green or Social Loans, will undergo the Issuer's robust standard credit process which is designed to ensure compliance with applicable domestic and international rules and regulations, Know Your-Customer processes and the Issuer's internal policies and guidelines, such as related to Credit, Anti-Money Laundering, Counter-Terrorist Financing and Sanctions policies. Moreover, potential Environmental, Social, and Governance (ESG) risks are assessed. The Sustainable Funding Framework provides that only loans approved in the regular credit process can be eligible for green, social or sustainable funding.

The Sustainability Committee monitors Green and Social Loans on an ongoing basis. Green and Social Loans are recorded in a Sustainability Register. The Issuer's Finance Department will, on behalf of the Sustainability Committee, maintain the Sustainability Register. The Sustainability Register is monitored on a regular basis during the term of the Green, Social and Sustainability Bonds

to ensure that the sufficient amounts are allocated to Green or Social Loans. If the Sustainability Committee identifies loans which do not qualify (or continue to qualify) under the framework, the Sustainability Committee has the authority to remove the loans from the Sustainability Register.

**(C) Management of proceeds**

Amounts equivalent to the net proceeds from Green, Social or Sustainability Bonds will be tracked using the Sustainability Register. Green, Social and Sustainability Bonds will be managed on a portfolio level. This means that a Green, Social or Sustainability bond will not be linked directly to one (or more) predetermined Green or Social Loans. Green or Social Loans can, whenever needed, be removed from, or added to the Sustainability Register. Any unallocated net proceeds from the issue of a Green, Social or Sustainability bond temporarily held by the Issuer will be invested in accordance with the internal requirements for the liquidity reserve. Should there be any such unallocated net proceeds, the Issuer will endeavour to allocate them within 18 months. The Finance Department will be responsible for the management of the net proceeds of Green, Social and Sustainability Bonds. See "*Risk Factors – Covered Bonds issued with a specific use of net proceeds, such as Green, Social or Sustainability Bonds may not be suitable for the investment criteria of an investor*" for a discussion of potential consequences of any event or failure by the Issuer to apply an amount equal to the net proceeds of any issue of Green, Social or Sustainability Bonds or similar events.

**(D) Reporting**

The Sustainable Funding Framework provides that an "Allocation and Impact Report" will be made available on the Issuer's website.

The Allocation and Impact Report will be published at least annually and in the event of any material developments, as long as there are Green, Social or Sustainability Bonds outstanding.

The allocation report will include the following information:

- Total amount of Green, Social or Sustainability Bonds issued
- Allocation of proceeds within each Eligible Project Category
- Share of proceeds used for financing/refinancing
- Share of unallocated proceeds (if any)
- On a best effort basis, information on EU Taxonomy eligibility and/or alignment (%) of the underlying Green Loans financed by Green Bonds

The impact report will include details on the environmental or social impact of the Green or Social Loans financed under the Sustainable Funding Framework by reference to prescribed impact indicators, examples of which are set out in the Sustainable Funding Framework. If all necessary data for the impact report cannot be collected, the Issuer commits in the Sustainable Funding Framework to complete the impact assessment/calculations on a best efforts basis.

**(E) External reviews**

The Sustainable Funding Framework provides that the Issuer has obtained an opinion from an independent external second opinion provider (the **Second Party Opinion**) from the Second Party Opinion provider Sustanalytics, assessing the credibility and impactfulness of the Sustainable Funding Framework and its alignment with the ICMA Principles. The Second Party Opinion is

available on the Issuer's website (<https://cdn.islandsbanki.is/image/upload/v1/documents/ISB-Sustainable-Funding-Framework-Second-Party-Opinion-2023.pdf>).

In addition, the Sustainable Funding Framework provides that a limited assurance report will be obtained by the Issuer on an annual basis from an independent party and in the event of any material developments. The limited assurance report will be published on the Issuer's website.

#### *(F) Updates*

The Sustainable Funding Framework may in the future be updated to harmonise with market and/or developments within the Issuer. Any such future changes will however not apply to Green, Social or Sustainability Bonds issued under earlier versions of the framework. The Sustainable Funding Framework provides that it does not affect any outstanding Green, Social or Sustainability Bonds issued under the Issuer's Sustainable Financing Framework dated 28 October 2020.

The Sustainable Funding Framework, the Second Party Opinion and any public reporting by or on behalf of the Issuer in respect of the application of proceeds will be available on the Issuer's website but, for the avoidance of doubt, will not be incorporated by reference into or form part of the Base Prospectus.

Any information contained in or accessible through any website, including [https://cdn.islandsbanki.is/image/upload/v1/documents/ISB\\_2024\\_sjalfbaer-fjarmalarammi.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/ISB_2024_sjalfbaer-fjarmalarammi.pdf); [https://cdn.islandsbanki.is/image/upload/v1/documents/Islandsbanki\\_Sustainability\\_Policy\\_English.pdf](https://cdn.islandsbanki.is/image/upload/v1/documents/Islandsbanki_Sustainability_Policy_English.pdf) and <https://cdn.islandsbanki.is/image/upload/v1/documents/ISB-Sustainable-Funding-Framework-Second-Party-Opinion-2023.pdf>, does not form a part of the Base Prospectus, unless specifically stated in the Base Prospectus, in any supplement hereto or in any document incorporated or deemed to be incorporated by reference in this Base Prospectus that all or any portion of such information is incorporated by reference in the Base Prospectus.

## **8. SUMMARY OF ICELANDIC LEGISLATION RELATING TO COVERED BONDS**

The Icelandic Act on Covered Bonds was adopted by the Icelandic Parliament on 4 March 2008. This legislation enables Icelandic commercial banks, savings banks and credit undertakings, which have been duly licensed to issue covered bonds as defined therein.

The Issuer is licensed by the FSA under the Icelandic Act on Covered Bonds which enables it to issue the Covered Bonds. The following constitutes a general summary of the Icelandic legislation governing the issuance of covered bonds in Iceland, as at the date of this Base Prospectus, which law may be supplemented, amended, modified or varied whether by legislative enactment or by way of judicial decisions and administrative pronouncements, including possibly, with retroactive effect. The summary does not purport to be, nor shall it be, construed as being an exhaustive description or presentation of all aspects of law, regulation, judicial decisions and administrative pronouncements relevant to the Covered Bonds. The original language of the Icelandic Act on Covered Bonds is Icelandic. The relevant legislation, executive orders and or regulations in the original Icelandic version should be consulted in the event of any doubt.

### ***The Legislation***

As of the date of this Base Prospectus, the main legislation which governs the issuance of covered bonds is the Act on Covered Bonds, the Act on Financial Undertakings and the Rules issued by the FSA under the authority conferred on it by Article 25 of the Act on Covered Bonds.

The Icelandic Act on Covered Bonds defines "covered bonds" (Ice: *sértryggð skuldabréf*) as bonds and other unilateral, unconditional, written debt obligations which enjoy a right of priority over the cover pool (as defined below) of an issuer and which are issued in compliance with the Icelandic Act on Covered Bonds.

The Icelandic Act on Covered Bonds has been amended (by way of Act no. 7/2023) and the Rules have been amended and restated (as Rules No. 190/2023) to comply with and transpose the EU Covered Bond Rules. Whilst certain non-mandatory provisions of the Covered Bond Directive have not been implemented into Icelandic legislation, covered bonds that fulfil the requirements set forth in the Icelandic Act on Covered Bonds, which inter alia requires that the assets included in the cover pool must meet the criteria set out in Article 129 of the CRR and appurtenant regulations may be marketed under the label 'European Covered Bond' (Ice: *evrópsk sértryggð skuldabréf*) or 'European Covered Bond (Premium)' (Ice: *evrópsk sértryggð skuldabréf (úrvals)*), or under the official translation of the same terms of another member state of the EEA.

### ***The Register***

The issuer of covered bonds must maintain the Register of the issued covered bonds, the related derivatives agreements, and the Cover Pool pertaining to such covered bonds and the relevant derivatives agreements concluded in accordance with the Act on Covered Bonds. The assets included in the Register are included on, and are a part of, the issuer's balance sheet. Each item in the Register must be clearly identified and the Register must be updated on a regular basis to include any changes in the relevant information. The Act on Covered Bonds also stipulates the type of information that must be recorded in the Register with respect to each item. The Register must at all times contain detailed information on the nominal value of the covered bonds, the assets which constitute the Cover Pool and their valuation, substitute collateral (if any), cash inflow from the Cover Pool and the derivative agreements. Bonds in a cover pool must be endorsed showing they are part of a cover pool and have been entered in a register as provided for in Chapter VI of the Act on Covered Bonds. The endorsement shall also indicate that such bonds are to secure priority rights of a specific covered bond programme.



### ***Benefit of a prioritised claim***

Pursuant to the Act on Covered Bonds, if an issuer is declared bankrupt, enters into debt negotiations pursuant to the Icelandic Act on Bankruptcy etc., No. 21/1991, as amended (the **Bankruptcy Act**), is liquidated, or is placed under public administration, the holders of covered bonds issued by the relevant issuer shall have exclusive, equal and *pro rata* rights of priority to bonds and other assets in the cover pool and payments received on the above mentioned assets, provided they have been entered into the Register. The nature of claims and rights of priority of covered bonds to the assets shall be as provided for in Art. 111 of the Bankruptcy Act which characterises secured claims. The prioritised claims will rank ahead of all other claims, save for claims relating to the fees and expenses of a bankruptcy estate and derivative agreements concluded in accordance with the Act on Covered Bonds. Derivative contracts shall enjoy priority as provided for in Point 3 of Article 110 of the Bankruptcy Act, cf. Article 111 of the Bankruptcy Act.

By virtue of the priority established by the Act on Covered Bonds, claims of the holders of covered bonds against an issuer which has issued covered bonds will rank ahead of claims of all other creditors of the credit institution with respect to the cover pool (save for the priority described above granted to a bankruptcy estate in respect of fees and expenses and claims of the counterparties to the relevant derivative contracts).

Cost of bankruptcy administration, to such extent as this is incurred due to efforts of the bankruptcy administrator concerning covered bonds, bonds and other assets in the cover pool, payments with respect to these assets or derivative contracts connected with the cover pool, shall be paid from the assets of the cover pool or funds which are substituted for them. Other cost of bankruptcy administration shall not be paid from the assets of the cover pool and fulfilment of derivative contracts connected with the pool if such exist.

Pursuant to the Act on Covered Bonds, loans and other assets included in the cover pool may not be pledged.

### ***Cover Pool – composition of assets***

The Act on Covered Bonds provides that holders of covered bonds (and also, if applicable, counterparties under derivatives contracts entered into for hedging purposes in relation to the covered bonds) have an exclusive and prioritised right of claim, on a *pari passu* basis between themselves over a pool of certain security assets (the **Cover Pool**). Under Icelandic law, an issuer of bonds, such as an issuer of covered bonds, is authorised to register the bonds in dematerialised book entry form by electronic registration in the CSD in accordance with Act No. 7/2020 on Central Securities Depositories, Settlement and Electronic Registration of Financial Instruments.

Pursuant to Article 129 of the CRR, in order to qualify for the preferential treatment set out in paragraph 4 and 5 of that Article, covered bonds need to be collateralised by the following eligible assets:

- (a) exposures to or guaranteed by central governments, the ESCB central banks, public sector entities, regional governments or local authorities in the European Union;
- (b) exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1, and exposures to or guaranteed by third-country public sector entities, third-country regional governments or third- country local authorities that are risk weighted as exposures to institutions or central governments and central banks in accordance with Article 115(1) or (2), or Article 116(1), (2) or (4) respectively and that qualify for the credit quality step 1, and exposures within the meaning of this point that qualify as a minimum for the credit quality

step 2, provided that they do not exceed 20 per cent. of the nominal amount of outstanding covered bonds of the issuing institutions;

- (c) exposures to credit institutions that qualify for credit quality step 1 or credit quality step 2, or exposures to credit institutions that qualify for credit quality step 3 where those exposures are in the form of (i) short-term deposits with an original maturity not exceeding 100 days, where used to meet the cover pool liquidity buffer requirement of Article 16 of the Covered Bond Directive; or (ii) derivative contracts that meet the requirements of Article 11(1) of that Directive, where permitted by the competent authorities, and meet the exposure requirements set out in paragraph 1a of Article 129 of the CRR;
- (d) loans secured by residential property up to the lesser of the principal amount of the liens that are combined with any prior liens and 80 per cent. of the value of the pledged properties. The limit of 80 per cent. shall apply on a loan-by-loan basis, shall determine the portion of the loan contributing to the coverage of liabilities attached to the covered bond, and shall apply throughout the entire maturity of the loan;
- (e) residential loans fully guaranteed by an eligible protection provider referred to in Article 201 of the CRR qualifying for the credit quality step 2 or above, where the portion of each of the loans that is used to meet the requirement set out in this paragraph for collateralisation of the covered bond does not represent more than 80 per cent. of the value of the corresponding residential property located in France, and where a loan-to-income ratio respects at most 33 per cent. when the loan has been granted. There shall be no mortgage liens on the residential property when the loan is granted, and for the loans granted from 1 January 2014 the borrower shall be contractually committed not to grant such liens without the consent of the credit institution that granted the loan. The loan-to-income ratio represents the share of the gross income of the borrower that covers the reimbursement of the loan, including the interests. The protection provider shall be either a financial institution authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to institutions in terms of robustness or an institution or an insurance undertaking. It shall establish a mutual guarantee fund or equivalent protection for insurance undertakings to absorb credit risk losses, whose calibration shall be periodically reviewed by the competent authorities. Both the credit institution and the protection provider shall carry out a creditworthiness assessment of the borrower;
- (f) loans secured by commercial immovable property up to the lesser of the principal amount of the liens that are combined with any prior liens and 60 per cent. of the value of the pledged properties. Loans secured by commercial immovable property are eligible where the loan-to-value ratio of 60 per cent. is exceeded up to a maximum level of 70 per cent. if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 per cent., and the bondholders' claim meets the legal certainty requirements set out in Chapter 4 of the CRR. The bondholders' claim shall take priority over all other claims on the collateral;
- (g) loans secured by maritime liens on ships up to the difference between 60 per cent. of the value of the pledged ship and the value of any prior maritime liens;

Article 129 of the CRR further provides that the following criteria must be met:

- (a) immovable property and ships collateralising covered bonds that comply with the CRR, the requirements set out in Article 208 of the CRR shall be met. The monitoring of property values in accordance with point (a) of Article 208(3) of the CRR shall be carried out frequently and at least annually for all immovable property and ships;

- (b) covered bonds shall be subject to a minimum level of 5 per cent. of overcollateralisation as defined in point (14) of Article 3 of the Covered Bond Directive. For these purposes, the total nominal amount of all cover assets as defined in point (4) of Article 3 of that Directive shall be at least of the same value as the total nominal amount of outstanding covered bonds ('nominal principle'), and shall consist of eligible assets as set out above, subject to the authorisation of member states to set a lower minimum level of overcollateralisation for covered bonds or authorise their competent authorities to set such a level; and
- (c) eligible assets listed above may be included in the cover pool as substitution assets as defined in point (13) of Article 3 of the Covered Bond Directive, subject to the limits on credit quality and exposure size set out in paragraphs 1 and 1a of Article 129 of the CRR.

The real property and the registered assets which serve as security for the bonds included in the cover pool must be located in a member state of the EEA, EFTA or the Faroe Islands (each a **Cover Pool Member State** and collectively the **Cover Pool Member States**). A cover pool will consist primarily of mortgage bonds secured against residential property; industrial, office or commercial property; agricultural property; debt instruments including those issued by the Icelandic state or another member state, municipality in Iceland or in another member state, or guaranteed by such member state within the EEA, and certain collateral up to a specific limit of the value of the relevant cover pool.

Substitute collateral are assets that may be included in the cover pool and are intended to ensure that the interests of covered bondholders are not prejudiced despite changes which may occur to the assets of the cover pool. The cover pool may include the following substitute collateral; (1) Demand deposits with a financial undertaking; (2) Deposits with or claims against a Cover Pool Member State or central bank in a Cover Pool Member State; (3) Claims against other legal entities which in the FSA's evaluation, do not involve greater risk than those in points (1) and (2) above. Substitute collateral may not comprise more than 20 per cent. of the value of the cover pool. The FSA may however authorise an increase in the proportion of substitute collateral in the cover pool to as much as 30 per cent. of its value.

Assets in the cover pool are to be kept separate from other business operations of the issuer, as further defined below in the section *The Register*.

#### ***Loan-to-value (LTV) ratio and Cover Pool composition***

Mortgages listed in the Register, must on the date of registration fulfil the following conditions:

- The LTV ratio of Residential Mortgages must not exceed 80%.
- The LTV ratio of Commercial Mortgages must not exceed 60%.
- The LTV ratio of Agricultural Mortgages must not exceed 70%. Production quotas, allocated to registered farms, may not be included in the calculations of market value.

Residential Mortgages and Commercial Mortgages may not be listed in a cover pool if payment is in arrears of 90 days or more. Should an issuer intend to include more than one class of bonds in its cover pool, mention must be made thereof in the license application to the FSA.

#### ***Regular assessment of the market value for Cover Pool assets***

The aggregate present value of mortgages, including accrued interest and indexation, and other assets in the cover pool which is to serve as collateral for a specific class of covered bonds, must always exceed the aggregate current value of this same covered bond class.

An issuer must regularly monitor and have appraised the market value of the mortgages of the cover pool. If the market value of collateral of the cover pool decreases substantially, the amount of the mortgages included in the cover pool shall be increased to ensure that the LTV lies within the above limits specified by the Act on Covered Bonds.

#### *Valuation of Cover Pool, administration etc.*

Market value of the mortgages shall be based on the selling price in recent transactions with comparable properties. If the market value of real estate based on the foregoing considerations is not available, it shall be determined by a specific valuation. The valuation shall be based on generally accepted principles for market valuation of real estate. Data on real estate price developments from the Icelandic Property Register (Icelandic: *Fasteignaskrá Íslands*), a data and information system run by the Icelandic Housing and Construction Authority, for instance, may be used as a basis, together with other systematic collection of real estate price data.

If an issuer assesses the market value of real estate in accordance with the foregoing, the Independent Inspector provided for in Chapter VIII of the Act on Covered Bonds (see *Independent Inspector* below) must verify that the appraisal is based on accepted methodology. The Independent Inspector shall re-assess the market price of one or more properties if it is believed to be valued incorrectly. An appraisal of the market value of real estate must be in writing and specify what methodology is used, who has carried out the appraisal and when it was made.

Additional provisions regarding quantitative and qualitative requirements placed on the assets forming part of the Cover Pool are set out in the Act on Covered Bonds and the Rules. In order to qualify for inclusion in the Cover Pool all legislative requirements must be met. However, if the Cover Pool assets at a later stage cease to meet the requirements of the Act on Covered Bonds and/or the Rules in relation to ratios, or proportion limits etc., such assets may nevertheless form part of the Cover Pool, but will be excluded from the calculation of the value of the Cover Pool.

According to the Act on Covered Bonds, bonds, substitute collateral and other assets placed by an issuer in a cover pool shall be valued having regard to exchange rates, interest rates, maturities and other factors of significance, in order to maintain a suitable balance between the relevant cover pool and the corresponding covered bond programme. An issuer may conclude derivative agreements for the purpose of achieving this balance.

Moreover, the Act on Covered Bonds states an issuer must ensure that instalments and other payment flows accruing on assets in the cover pool, and from derivative agreements, match payments on the covered bonds so that all commitments towards the Covered Bondholders and counterparties to derivative agreements can be met. To this end the issuer shall keep instalments and other payments accruing on assets in the cover pool segregated from the issuer's other assets, including other cover pools, as well as their accrued instalments and other payments. An issuer must preserve assets such as instalments and other payments accruing on assets in the cover pool in a separate account and keep them segregated from its other assets.

Bonds and other cover pool assets shall not be subject to claims by the issuer's creditors.

#### *Supervision by an Independent Inspector*

Issuers are required to appoint an independent inspector (the **Independent Inspector**) to supervise the issuance of covered bonds licensed by the FSA and the FSA must approve their appointment in accordance with the Icelandic Act on Covered Bonds. In seeking the FSA's approval for the Independent Inspector's appointment, an issuer must disclose possible interrelation between the Independent Inspector and the issuer. The Independent Inspector must fulfil the eligibility criteria prescribed in the Icelandic Act on Covered Bonds and is assigned the task of monitoring that the

register is maintained in accordance with the provisions of the Icelandic Act on Covered Bonds and to verify that the valuation of collateral for bonds in the cover pool is based on proper methodology. Furthermore, the Independent Inspector is tasked with the ongoing monitoring of a cover pool liquidity buffer and the dissemination of information to investors. The Independent Inspector shall on a regular basis deliver a report to the FSA on his observations and immediately inform the FSA of any circumstances he becomes aware of, that could affect the FSA's assessment of the issuer, as frequently and in such format as the FSA decides, or above and beyond this if exceptional circumstances so warrant, among other things.

### ***Investor Information***

Pursuant to the Icelandic Act on Covered Bonds, issuers of covered bonds are required to provide information on their covered bond programmes. The information must be sufficiently detailed to allow investors to assess the profile and risks of that programme and to carry out their due diligence. At least on a quarterly basis the following minimum information shall be published:

- (a) the value of the cover pool and outstanding covered bonds;
- (b) the International Securities Identification Numbers (**ISINs**) for all covered bond issues under that programme, to which an ISIN has been attributed;
- (c) the geographical distribution and type of assets in the cover pool, the size of loans in the cover pool and valuation method of the cover pool assets;
- (d) the market risk, including interest rate risk and currency risk, and credit and liquidity risks;
- (e) the maturity structure of cover pool assets and covered bonds, including an overview of maturity extension triggers;
- (f) the levels of required and available coverage, and the levels of statutory, contractual and voluntary overcollateralisation above what is required by the Icelandic Act on Covered Bonds; and
- (g) the percentage of loans that are more than 90 days past due or are otherwise considered to be in default pursuant to Article 178 of CRR.

### ***Cover Pool administration in the event of bankruptcy of the Issuer***

The Act on Covered Bonds prescribes that if an issuer's estate is subject to resolution, financial restructuring, bankruptcy or winding-up proceedings, covered bonds it has issued shall not be accelerated. The estate shall maintain rights and obligations subject to derivative agreements concluded in accordance with the provisions of the Act on Covered Bonds.

If an issuer's estate is subject to bankruptcy proceedings, covered bonds it has issued shall have rights of priority to bonds and other assets in the Cover Pool and payments received on the abovementioned assets, provided they have been entered into a Register.

The administrator, who is appointed by the relevant district court, will manage the Cover Pool and the rights of the Covered Bondholders and counterparties to derivative contracts. The administrator of the bankrupt estate must keep bonds and other assets in a cover pool, as provided for in the Act on Covered Bonds, segregated from other assets in the issuer's estate as further specified in the Register at any given time. The same shall apply to funds and other assets substituted for the bonds and other assets in the Register or paid towards such assets. Such separation shall be maintained until claims arising from covered bonds have been paid in full. The bankruptcy administrator shall also keep

derivative agreements, and funds returned by such assets or which must be paid from the relevant cover pool to counterparties in derivative agreements, separate from other assets of the estate. Any administrator's fees and any other expenses in connection with the administration are to be paid by the administration estate.

If an issuer is granted a debt moratorium, the assisting administrator for the debt moratorium shall ensure that obligations arising from covered bonds and derivative agreements are fulfilled using the assets of the cover pool, substitute collateral and payments made on these assets.

An administration estate cannot be closed until (a) the obligations of the estate and the assets of the Register have been transferred to a third party credit institution holding a license to issue covered bonds, (b) all the covered bonds for which the assets in the Register serve as collateral have been repaid and the derivative contracts have matured or (c) the estate has filed for bankruptcy and the bankruptcy estate has been closed.

If an issuer's estate is subject to bankruptcy proceedings, covered bonds it has issued shall not be foreclosed unless a specific agreement to this effect has been concluded. The estate shall maintain rights and obligations subject to derivative agreements concluded in accordance with the provisions of the Act on Covered Bonds.

### ***Coverage Requirements***

The Icelandic Act on Covered Bonds requires the value of the assets in the cover pool at all times to exceed the value of the claims against the cover pool. The percentage level by which the value of the cover pool exceeds the nominal value of the liabilities, relating to the issued and outstanding covered bonds, along with all accrued interests, from time to time is known as "**overcollateralisation**". The Icelandic Act on Covered Bonds requires a minimum overcollateralisation of 5 per cent. and the Issuer covenants under Condition 5.2 to overcollateralise the Cover Pool at all times by at least the higher of (i) 5 per cent.; (ii) such percentage as required under the Icelandic Act on Covered Bonds and/or the Rules on Covered Bonds from time to time; and (iii) such percentage as may be agreed between the Issuer and any rating agency from time to time.

The Issuer will also maintain the overcollateralisation of the Cover Pool in accordance with the overcollateralisation committed to under the terms and conditions of its existing Covered Bonds, this being at least 25 per cent. until March 2024 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 25 per cent. are redeemed in full), at least 20 per cent. from March 2024 until May 2026 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 20 per cent. are redeemed in full), at least 10 per cent. from May 2026 until May 2030 (or, if earlier, the date which any Covered Bonds with a committed overcollateralisation of 10 per cent. are redeemed in full) and thereafter the level of overcollateralisation required to be maintained will be as required under Condition 5.2.

Moreover, instalments and other cash flows accruing on the assets in the cover pool and from derivative agreements shall be in such a manner that at any given time the issuer can meet all its financial obligations to covered bondholders and counterparties to derivative agreements.

In order to maintain a suitable balance between the cover pool and the corresponding covered bond programme, the issuer (a) must ensure that the assets in the cover pool (including substitute collateral) are valued having proper regard to currency exchange rates, interest rates, maturity dates, and other relevant factors; and (b) may enter into derivative agreements for the purpose of achieving this balance.

### ***Liquidity Buffer***

The Icelandic Act on Covered Bonds requires that an issuer must maintain a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow on the covered bonds and related derivative contracts over the next 180 days. Where the maturity of covered bonds can be extended, for the calculation of the net liquidity outflow it may be assumed that the principal amount of the covered bonds is to be repaid on the extended maturity date as determined in the contractual terms and conditions of the covered bond.

The Rules on Covered Bonds further define the assets that the liquidity buffer may consist of. Pursuant to the Rules on Covered Bonds, the liquidity buffer can only consist of (i) assets that qualify as level 1, level 2A or level 2B assets pursuant to the LCR Regulation and not issued by the credit institution issuing the covered bonds itself, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary or another subsidiary of its parent undertaking or by a securitisation special purpose entity with which the credit institution has close links, or (ii) short-term exposures to credit institutions that qualify for credit quality step 1 or 2, or credit step 3, subject to the conditions in point (c) of Article 129(1) of Regulation (EU) No 575/2013 (as amended). It should also be noted that the Icelandic Act on Covered Bonds specifically states that the uncollateralised claims from exposures considered in default pursuant to Article 178 of CRR cannot contribute to the cover pool liquidity buffer.

### *Extendable Maturity Structures*

The Icelandic Act on Covered Bonds allows for the exercise of extendable maturity (aka 'soft bullet') pursuant to the transposing of the EU Covered Bond Rules. Any such extension of maturity shall be subject to the approval of the FSA. Under the Icelandic Act on Covered Bonds, such approval is subject to the following conditions:

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

Furthermore, an issuer, or, upon winding-up of the issuer, its winding-up committee, is required to promptly inform the covered bondholders of the deferral of the maturity of the covered bonds and the duration of such deferral. The terms and conditions of the relevant covered bond shall otherwise determine what is required to be communicated by the relevant issuer to covered bondholders with respect to the maturity of their covered bonds.

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

### ***Rescission of actions***

Actions taken by an issuer, whether they involve delivery of funds to a cover pool, delivery of substitute collateral to the cover pool, payments on assets in the cover pool or disposal of funds from the cover pool to fulfil obligations under a bond covered by it or a derivative agreement concluded in accordance with the Act on Covered Bonds and in connection with the cover pool, shall not be subject to rescission, cf. Chapter XX of the Act on Bankruptcy etc. The same shall apply to payments to an issuer under a derivative agreement concluded in accordance with the provisions of this Act.

### ***No Rights in certain circumstances***

No covered bondholders, counterparties to derivative contracts can claim early repayment of payment obligations on the basis of a bankruptcy order against an issuing bank or an issuing bank's failure to satisfy the requirement for additional collateral. Moreover, the relevant borrower(s) of the underlying loan(s) will retain the right to repay their loans in full or in part without variation. Furthermore, it is not possible for individual covered bondholders, counterparties to the derivative contracts to initiate claims against the issuing bank during the issuing bank's bankruptcy. The Act on Covered Bonds makes it clear that the administrator is acting on behalf of all covered bondholders, counterparties to the derivative contracts and lenders of loans that may be taken out to purchase assets which are in turn added to the cover pool in the event of a requirement to post additional collateral, if any, and that only the administrator may prove claims against the bankruptcy estate for any assets required to cover the claims of the covered bondholders and counterparties to derivative contracts.

### ***Supervision of the FSA***

The issue of covered bonds requires a licence from the FSA, which monitors compliance with the Icelandic Act on Covered Bonds as well as being the supervisory authority for the business operations of an issuer conducted in connection with the issue of covered bonds. Effective 1 January 2020 the FSA merged with the Icelandic Central Bank into one institution, which in turn is subject to a new Act on the Central Bank of Iceland No. 92/2019 (CBA). There is no change to tasks entrusted to these two institutions. There is however integration of tasks within one institution of governance and decision-making arrangement, as further set out in the CBA, as well as Act No. 91/2019 on amendment to various Acts, as a consequence of the merger between the Central Bank and the Financial Supervisory Authority. A license from the FSA requires, *inter alia*, that the issuance comply with the Icelandic Act on Covered Bonds and that a certified public accountant certifies that the issuer's budget and accounts demonstrate that its financial situation is stable enough not to jeopardise the interests of other creditors. Furthermore, the FSA may grant the licence subject to specified conditions.

The FSA must revoke an issuer's license to issue covered bonds if the issuer (a) has not issued the covered bonds to which the license applies within one year from its date of issue; (b) has declared that it does not intend to avail itself of the authorisation to issue covered bonds; or (c) has been granted the license on the basis of misinformation or otherwise in an abnormal manner. The FSA may grant an issuer a specified time limit for issuance instead of revoking a license on the basis of (a) above.

Further, the FSA may revoke an issuer's license to issue covered bonds if (a) the issuer no longer fulfils the requirements to issue covered bonds; (b) the issuer's budget, as attested to by a certified public accountant, demonstrates that its financial situation is no longer sufficiently sound so that the



issuance of covered bonds will jeopardise the interests of other creditors; or (c) the issuer violates provisions of the Icelandic Act on Covered Bonds or rules adopted by virtue of it. If the FSA revokes the issuer's license to issue covered bonds it shall decide how to terminate the activities of the issuer. Before any revocation may be enacted pursuant to this paragraph, the issuer must be allowed a suitable period to rectify the situation, if rectification is possible in the estimation of FSA.

An issuer of covered bonds must annually deliver to the FSA a report, in such format as the FSA decides, containing information on (a) cover pool assets, including liquid assets, and how they are segregated from the issuer's other assets; (b) compliance with coverage requirements; (c) conditions for covered bonds' maturity extensions, as applicable; and (d) the monitoring activities of the Independent Inspector.

The FSA may authorise that previously issued bonds and other comparable debt instruments which were issued for the purposes of financing the assets in a cover pool may be converted to covered bonds under the Icelandic Act on Covered Bonds. The term 'covered bond' may be used for covered bonds issued prior to 1 March 2023 that complied with the requirements laid down prior to the implementation of the EU Covered Bond Rules, as applicable on the date of their issue. The same applies to tap issues of covered bonds issued between 1 March 2023 and 31 December 2024, provided that those issues comply with certain requirements.

### ***The Rules on Covered Bonds***

The FSA has issued Rules No. 190/2023 on Covered Bonds (the **Rules on Covered Bonds**), replacing Rules No. 528/2008, that concern among other things, the conditions for being granted licence to issue covered bonds, appraisal and revaluation of the assets in the cover pool, coverage requirements, assets that may be considered for the liquidity buffer, derivative agreements, the register, the eligibility and reporting of the Independent Inspector and reporting of the Issuer to the FSA. The Rules on Covered Bonds are issued with reference to the Icelandic Act on Covered Bonds and elaborate on the provisions of said Act.

The Rules on Covered Bonds list the documents to be provided to the FSA by an issuer who applies for the FSA's licence to issue covered bonds. Such documents include, among other things, approvals, descriptions of the proposed programme, the issuer's budget, information and requirements concerning IT-systems, etc. The Rules on Covered Bonds describe the assets which are eligible to be registered to the cover pool and how the eligibility of such assets shall be evaluated.

The Rules on Covered Bonds provide further clarification with respect to coverage requirements and provide a method of calculating the present value of assets/liabilities in relation thereto. The Rules on Covered Bonds prescribe that an issuer shall complete such calculations as often as deemed necessary and at least on a weekly basis.

The Rules on Covered Bonds provide for certain restrictions to the provisions and counterparties of derivative agreements. Such agreements may not include provisions on automatic termination of contracts upon the winding-up or resolution of the issuer, or similar insolvency events. Furthermore, counterparties to derivative agreements must be rated as qualifying for credit quality steps 1 or 2, as defined in Annex III of Regulation (EU) No. 2016/1799 (as amended), by a registered or certified credit rating agency in accordance with Regulation (EU) No. 1060/2009 (as amended). Such rating must be in place at the beginning of the contract making process for the relevant derivative agreement and cover both the institutions short- and long-term ratings. However, issuers may with the prior approval of the FSA enter into derivative agreements with counterparties that do not meet the above criteria, if the FSA considers the counterparty sufficiently reliable to fulfil its obligations pursuant to the relevant derivative agreement.

The Rules on Covered Bonds provide further detail on the Register. The register shall be kept in a secure manner and updated on a daily basis. The FSA shall have access to the Register.

The Rules on Covered Bonds provide further detail on the obligations of the Independent Inspector to be appointed by the issuer. The Independent Inspector shall ensure that the register is properly maintained and updated and shall therefore verify that bonds and derivative agreements are correctly registered; only eligible assets and substitute collateral are included in the cover pool; the value of the assets registered in the cover pool and the valuation thereof is in accordance with the Icelandic Act on Covered Bonds and the Rules on Covered Bonds; that LTV calculations are correctly updated upon significant decrease in the market value of mortgaged assets; and that the coverage requirements are complied with.

The Independent Inspector shall semi-annually provide the FSA with a written report regarding his/her surveillance, as further described in the Rules on Covered Bonds. Furthermore, the Independent Inspector shall as soon as possible notify the FSA should he/she become aware of any matters which could affect the FSA's assessment of the issuer's position in general. The Issuer has appointed an Independent Inspector pursuant to an agreement with Gunnar Ragnarsson.

### ***The Issuer's Licence to Issue Covered Bonds***

On 10 January 2011, the Issuer applied to the FSA for a licence to issue the Covered Bonds under the Icelandic Act on Covered Bonds. Pursuant to the terms of such a licence, the Issuer would be able, from time to time, to issue Covered Bonds that entitle the holder to the benefit of a statutory preferred creditor status in respect of the assets contained in the Cover Pool in the event of the insolvency of the Issuer.

## 9. DESCRIPTION OF THE ISSUER

### *Name, incorporation and registration*

The Issuer's legal and commercial name is Íslandsbanki hf. The Issuer is a public limited company incorporated in Iceland on 14 October 2008. It is registered with the Register of Enterprises (*Fyrirtækjaskrá Skattsins*) in Iceland and bears the registration number 491008-0160. The registered office of the Issuer is at Hagasmári 3, 201 Kópavogur, Iceland, and the telephone number is +354 440 4000. The Issuer's homepage is: [www.islandsbanki.is](http://www.islandsbanki.is). The information on the Issuer's website does not form part of this Base Prospectus unless such information is incorporated by reference into this Base Prospectus.

The Issuer's operations are subject to the provisions of the Act on Public Limited Companies No. 2/1995 and the Act on Financial Undertakings. The Issuer is authorised to provide all financial services stipulated in the latter Act. Its activities are under the supervision of the Financial Supervisory Authority of the Central Bank of Iceland (**FSA**).

### *History & development of the Issuer*

The Issuer traces its roots back to 1904 when the original Íslandsbanki hf. was founded as the first privately-owned bank in Iceland. Útvegsbanki Íslands took over Íslandsbanki's operations in 1930 and in 1990 Útvegsbanki Íslands, Alþýðubanki Íslands, Iðnaðarbanki Íslands and Verslunarbanki Íslands merged into Íslandsbanki hf. In 2000, Íslandsbanki hf. merged with The Icelandic Investment Bank (**FBA**), which itself was created through the merger of three state-owned credit funds, forming Íslandsbanki-FBA hf. As a result of the merger, the bank further solidified its connections with the corporate sector, particularly in the seafood industry. In the years 2000 to 2007, the bank expanded its business beyond Iceland by first lending to seafood enterprises in northern Europe and North America, and later through strategic acquisitions in the Nordic countries. In March 2006, the bank was rebranded as Glitnir banki hf. (all the aforementioned banks collectively referred to as **Glitnir**).

Following the collapse of the Icelandic banking system in October 2008, by decree of the newly passed Act on the Authority for Treasury Disbursements due to Unusual Financial Market Circumstances etc. No. 125/2008, the Issuer assumed the domestic assets and liabilities of Glitnir while the remainder of Glitnir's assets, which were mostly foreign assets, were left within Glitnir under the supervision of a Resolution Committee (**Resolution Committee**) which was appointed to maximise the recovery value of those assets for the benefit of its creditors. The Issuer, initially named New Glitnir Banki hf., reverted back to its previous brand name of Íslandsbanki hf. on 20 February 2009.

On 13 September 2009, Glitnir, on behalf of its creditors, and the Icelandic government reached an agreement on the settlement of assets and liabilities between the Issuer and Glitnir. Under the agreement the Resolution Committee acquired a 95 per cent. stake in the Issuer. Glitnir therefore assumed majority control of the Issuer and a new board of directors of the Issuer (the **Board of Directors**) was appointed on 25 January 2010. The 95 per cent. stake was owned by ISB Holding ehf., a holding company wholly owned by GLB Holding ehf., a subsidiary of Glitnir. In January 2016, Glitnir signed an agreement to deliver the 95 per cent. stake to the Icelandic government as a part of the estate's stability contribution. The change was approved by the Competition Authority on 11 March 2016.

In June 2011 the Issuer announced that it had successfully won a public bid for the entire share capital of Byr hf., a local bank in Iceland. Byr hf. focused mainly on retail banking and was built on the foundation of an older savings bank which became insolvent in April 2010. The shares were acquired from the Byr hf.'s, savings bank winding up committee and the Icelandic government. The acquisition price was ISK 6.6 billion. The acquisition agreement was executed on 29 November 2011 and the

acquisition was completed in the first quarter of 2012. In March 2011, the Issuer acquired all shares of the credit card company, Kreditkort hf. and on 27 March 2012 Kreditkort hf. was merged into the Issuer.

Between 2017 and 2019, the Issuer underwent a digital transformation. In 2018, the Board approved an open banking strategy and the Issuer successfully replaced its core banking system, including an effective migration of an old legacy system to a global standardised core banking system for payments and deposits.

In 2021, the Issuer's shares were admitted to trading on the Nasdaq Main Market in Iceland.

### ***Credit rating***

The Issuer has been assigned credit ratings by the rating agencies S&P and Moody's. The rating Moody's has given in relation to the Issuer is endorsed by Moody's Deutschland GmbH. S&P and Moody's Deutschland GmbH are registered in the EU in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the **Credit Rating Agency Regulation**). S&P rates the Issuer BBB+ (long term debt) and A-2 (short term debt) with stable outlook. Moody's rates the Issuer A3 (long term debt) with stable outlook.

### ***Business Overview***

The Issuer is an Icelandic bank headquartered in Iceland. Its primary market is Iceland.

The Issuer is licensed as a commercial bank in Iceland, in accordance with Point 1 of Art. 4(1) of the Act on Financial Undertakings and offers comprehensive services to the retail and corporate sectors. The Issuer is one of Iceland's three main banks and maintains a strong market share across the spectrum of banking services in the country. According to Capacent Gallup market surveys in 2022, the Issuer had approximately 31.1 per cent. of the market share in consumer banking, 36.3 per cent. of the market share in small to medium-sized enterprise banking and 35.5 per cent. of the market share of corporate & investment banking. The Issuer seeks to move Iceland forward by empowering its customers to succeed and prioritise sustainability as an integral driver of strategy and value creation.

The Issuer's core values are passion, professionalism and collaboration. 76 per cent. of employees of the Issuer believe that the Issuer is a force of positive change and believe in the strategy of the Issuer. Employee satisfaction has been consistently high.

The Issuer operates 12 branches, half of which are based around the Reykjavík metropolitan area. It also maintains a presence in larger municipalities across Iceland.

#### **The Issuer's business lines are as follows:**

*Personal Banking*: provides customers with a comprehensive range of financial services, with strong emphasis on digital distribution channels.

*Business Banking*: provides small and medium-sized enterprises (SMEs) with comprehensive financial services. Ergo, the Issuer's asset financing service, is also part of Business Banking

*Corporate & Investment Banking*: offers a full range of financial and investment banking services to large companies, pension funds, municipalities, mutual funds, investors and affluent individuals.

#### ***Personal Banking***

Personal Banking offers a full range of financial services for individuals and households, such as lending, savings and payments, with a particular focus on digital and self-service solutions. The Issuer's customers are increasingly taking care of their day-to-day banking via digital solutions, such as mobile apps, online banking, and the secure web chat. Customers can also visit the Issuer's efficient branch network for comprehensive consultancy services or contact the contact centre.

### *Business Banking*

Business Banking provides comprehensive banking services and versatile banking products to SMEs, such as lending, savings products and payment solutions offered through business banking centres in Kópavogur and Akureyri, including 10 strategically located branches around Iceland and via online banking, and mobile apps. Additionally, the Issuer provides asset-based financing services through its separate brand, Ergo. The Business Banking contact centre is operated from Norðurturn, the headquarter branch. The Issuer has been a market leader within the SME market, with 36.3 per cent. market share in 2022 (source: Gallup) and has consistently scored highest in service amongst peers according to the same surveys.

### *Corporate & Investment Banking*

Corporate & Investment Banking provides services to large companies, municipalities, institutional investors, and high net worth individuals. The product and services offering is a comprehensive range of financial and investment banking services, including lending, securities and currency brokerage, corporate advisory services, private banking services and sales of hedging instruments. The division is focused on building and maintaining relationships across all industry divisions within Iceland. Outside of Iceland, the division has a special focus on the North Atlantic seafood industry, leveraging its expertise in the domestic market and global contacts.

### *Support Divisions*

#### *Finance*

The Finance division includes finance and accounting operations as well as treasury and financial institutions, back-office functions and investor relations. This division also manages and oversees shareholding in the Issuer's subsidiaries.

#### *Risk Management*

The Issuer has an independent risk management function, Risk Management, headed by the Chief Risk Officer. Risk Management is responsible for ensuring efficient implementation of the Issuer's risk strategy and policies, for verifying that the Issuer has efficient risk management processes in place and that each key risk that the Issuer faces is identified and properly managed by the relevant function.

#### *IT*

The IT division is responsible for the Issuer's IT platform and systems and software development, including internet banking, websites, and its hardware, such as data centres, telephone systems, ATMs and personal computers.

#### *Compliance*

The Compliance division has an independent position within the Issuer's organisational structure. The Compliance division's function is to assist in managing compliance risk on a consolidated basis. Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss

of reputation that the Issuer may suffer because of its failure to comply with applicable laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct. The Compliance division, in cooperation with Group Internal Audit, performs a special fit and proper test by gathering information via questionnaires and examinations to management and key employees.

### *Group Internal Audit*

Group Internal Audit is an independent function headed by the Chief Audit Executive and is responsible for assessing whether the Group's risk management, internal control framework (including internal policies) and governance processes are effective and efficient and whether they comply with the relevant legal and regulatory requirements. Group Internal Audit is not responsible for internal control or its implementation but provides the Group with independent objective assurance and consulting services designed to add value and improve the Group's operations.

The work of Group Internal Audit is performed in accordance with a risk-based audit plan approved by the Board's Audit Committee. Group Internal Audit is furthermore responsible for internal investigations on suspected fraudulent activities. Group Internal Audit reports directly to the Board on its findings and suggestions for material improvements to the risk management, controls and governance processes. All audit recommendations are subject to a formal follow-up procedure by the appropriate levels of management to ensure and report their resolution.

The Chief Audit Executive is appointed by the Board and reports directly to the Board. Group Internal Audit operates independently from other departments in accordance with Article 16 of the Act on Financial Undertakings. The responsibilities and authorisations of the Chief Audit Executive and Group Internal Audit are further outlined in the Group Internal Audit Charter.

### *Regulatory and Tax Environment*

#### *Capital Requirements and European Bank Recovery and Resolution Directive*

The Issuer's capital management framework is based on CRD IV, which is an EU legislative package consisting of Directive 2013/36/EU of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms dated 26 June 2013, as amended or replaced from time to time and Regulation 575/2013/EU (**CRR**). The enactment of the CRD IV Directive has been implemented into Icelandic law and has involved numerous amendments of the Act of Financial Undertakings.

The CRR was enacted into Icelandic law by the entry into force of Regulation No. 233/2017 on 6 March 2017, although Articles 500 and 501 of CRR, the latter one stipulating capital requirements deduction for credit risk on exposures to SMEs, came into effect on 1 January 2020 following the incorporation of CRR into the EEA Agreement.

On 11 May 2021, the Parliament enacted an amendment to the Act on Financial Undertakings. The most notable amendments enable the Minister to implement Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No. 575/2013 (**CRR II**) and EU Regulation 2019/630 amending CRR. Moreover, the amendments enabled the Central Bank of Iceland to implement related secondary EU legislation based on technical standards, which have already been incorporated into the EEA Agreement. Those amendments entered into force on 28 June 2021.

On 2 July 2014, Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**) entered into force. The purpose of the BRRD is to equip the relevant regulatory authorities with a range of powers so that they may intervene in an ailing or distressed

entity so as to ensure its continuity and minimise any potential impact on the economy and financial system.

BRRD has been implemented into Icelandic law by means of a combination of legislative acts. First, the passage of Act No. 54/2018, amending the Act on Financial Undertakings, implemented the BRRD provisions focusing on recovery plans and timely intervention to prevent an economic shock to financial institutions operating in Iceland.

Second, the enactment of Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms (the **Recovery and Resolution Act**) further amended the Act on Financial Undertakings and implemented the parts of the BRRD that provide for the resolution process, from preventive measures and preparation, to decision-making and the implementation of each resolution. Under the Recovery and Resolution Act, the Central Bank of Iceland possesses powers of resolution and can take action and prepare and execute resolution procedures on behalf of credit institutions and investment firms.

On 4 May 2021, the Parliament passed a bill that implements Directive 2017/2399/EU with regard to the position of unsecured debt instruments in the insolvency hierarchy and amends the Recovery and Resolution Act accordingly. The Act further implemented conformation amendments to the Act on Financial Undertakings and the Deposit Insurance Act.

In addition, following the publication on 7 June 2019 in the Official Journal of the EU of (i) the Directive (EU) 2019/879 of the European Parliament and of the Council dated 20 May 2019 amending the BRRD (the **BRRD II**) as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC and (ii) the Regulation (EU) 2019/877, of the European Parliament and of the Council dated 20 May 2019, amending the Single Resolution Mechanism Regulation, as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms, a comprehensive legislative package has been produced which intends to reduce risks in the banking sector and the financial system, reinforce bank's ability to withstand potential shocks and strengthen the banking union from 28 December 2020. On 28 June 2022, the Parliament passed a bill, amending the Act on Financial Undertakings implementing the remaining features of CRD IV, Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU (**CRD V**) and CRR II into Icelandic legislation. Moreover, the bill implemented some provisions of the BRRD II in order to enable full implementation of the CRR II. BRRD II was incorporated into the EEA Agreement by EEA Joint Committee Decision No 145/2022 and implemented into Icelandic law with Act No. 63/2023, amending the Recovery and Resolution Act. However, some technical provisions of the BRRD II have not been implemented into Icelandic law as at the date of this Base Prospectus.

Prospective investors in the Covered Bonds should consult their own advisers as to the consequences of the implementation of BRRD and BRRD II, CRD IV and the CRR, as well as further changes to capital adequacy and liquidity requirements in Iceland.

### *Tax Environment*

The Issuer's results of operations depend, to a certain extent, on tax laws and tax treaties or the interpretation thereof.

In December 2010, the Icelandic Parliament passed the Act on Special Tax on Financial Undertakings under which certain types of financial institutions, including the Issuer, are required to pay an annual levy (the **Bank 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 Issuer excluding tax liabilities in excess of ISK 50 billion at the end of the year. This levy remained unchanged until 1 January 2020 when it was reduced to 0.145 per cent. Non-financial subsidiaries are exempt from this tax. There can be no assurance that the levy will not be further increased.

In June 2009, the Icelandic Parliament adopted an amendment to the ITA as a result of which payments of Icelandic sourced interest by an Icelandic debtor, such as the Issuer, to a foreign creditor, including holders of Covered Bonds who are not Icelandic, are taxable in Iceland at the current rate of 12 per cent. for individuals and 13 per cent. for legal entities. However, individuals are not subject to taxation on interest income up to ISK 300,000 per year. This tax is applicable unless the foreign creditor can demonstrate and obtain approval from the Directorate of Internal Revenue in Iceland 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. Notes issued by energy companies and certain financial institutions, including notes issued by the Issuer, are also subject to exemption. The exemption, subject to certain other requirements, applies to notes that are held through a clearing system, such as Euroclear and Clearstream, Luxembourg, within a member state of the OECD, the EEA, a founding member state of the EFTA or the Faroe Islands.

In December 2011, the Icelandic Parliament passed the Act on Tax on Financial Activities, No. 165/2011, under which certain types of financial institutions, including the Issuer, were required to pay a special additional tax levied on all remuneration paid to employees, with effect from 1 January 2012. The levy is currently set at 5.5 per cent. of such remuneration. Additionally, Act No. 165/2011 amended Article 71 of the ITA, regarding income tax of legal entities, and imposed a special additional income tax on legal entities liable for taxation according to Article 2 of Act No. 165/2011, which includes the Issuer. The levy is set at 6 per cent. on income over ISK 1 billion, disregarding joint taxation and transferable losses. The aforementioned taxes and levies placed on the Issuer increases the cost burden on the Issuer and subjects it to a competitive disadvantage relative to other competitors which are not subject to such taxes or levies.

### Organisational Structure

As of 31 December 2023, the Icelandic government, through ISFI, holds 42.5 per cent. of the Issuer's share capital, see “*Business Overview — Description of the Issuer — Major Shareholders*”.

The following chart illustrates the Issuer’s organisational structure:

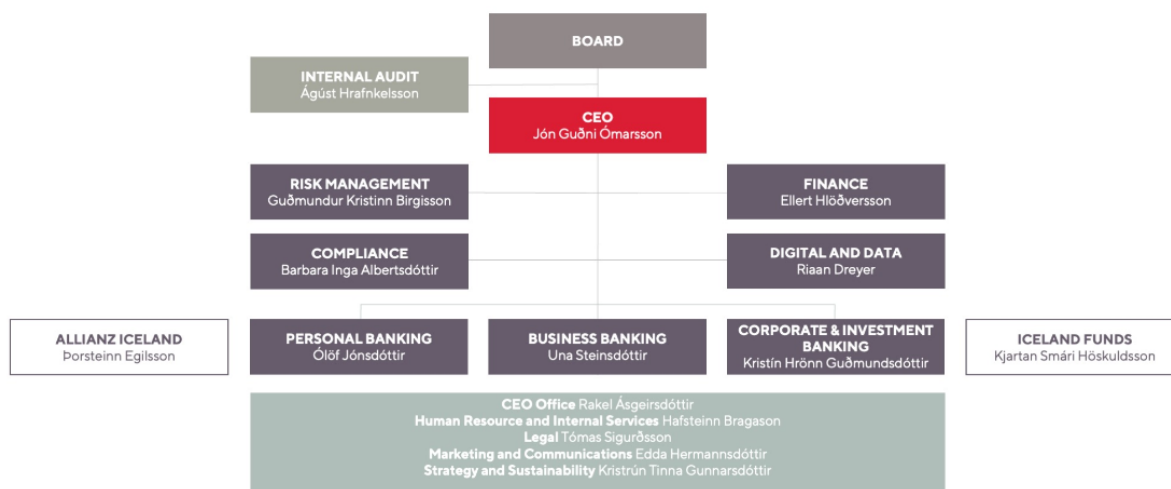


Figure 1: Organisational Structure



The table below lists the Issuer’s significant subsidiaries and the nature of their business as of 31 December 2023:

<b>Subsidiary</b>	<b>Ownership</b>	<b>Company Description</b>
<b>Íslandssjóðir hf.</b>	<b>100 per cent.</b>	<b>Investment fund management company</b>
<b>Allianz Ísland hf.</b>	<b>100 per cent.</b>	<b>Insurance agent</b>

**and other non-significant subsidiaries**

*Trend Information*

No material adverse changes have occurred in the prospects of the Issuer since the date of its last published audited financial statements.

***Administrative, Management and Supervisory Bodies***

*Board of Directors*

The Issuer’s Board of Directors consists of seven members. Two alternate members are also appointed. The Board of Directors appoints the Chief Executive Officer and the Chief Audit Executive. The Chief Executive Officer appoints the Managing Directors of the Issuer.

The business address of each member of the Board of Directors and of the executive committee of the Issuer (the **Executive Committee**) is Íslandsbanki hf., Hagasmári 3, 201 Kópavogur, Iceland.

Set forth below are the members of the Issuer’s Board of Directors:

<b>Name</b>	<b>Title</b>
Ms. Linda Jónsdóttir	Chairman of the Board of Directors
Mr. Agnar Tómas Möller	Member of the Board of Directors
Mr. Haukur Örn Birgisson	Member of the Board of Directors
Ms. Helga Hlín Hákonardóttir	Member of the Board of Directors
Mr. Stefán Pétursson	Member of the Board of Directors
Mr. Stefán Sigurðsson	Member of the Board of Directors
Ms. Valgerður Hrund Skúladóttir	Member of the Board of Directors

*Ms. Linda Jónsdóttir (Chairman of the Board of Directors)*

Linda Jónsdóttir joined the Board in July 2023. Linda was the Chief Operating Officer of Marel hf. from 2022-2024, having been Chief Financial Officer 2014-2022 and Corporate Director of Treasury, Financing and Investor Relations from 2009-2014. Linda is an accomplished leader and has

accumulated broad experience of management, finance, IT and operations through her various roles at Marel hf., a company with around 7500 employees in over 30 countries delivering annual revenues of EUR 1.7 billion. She also has extensive experience from the domestic sector through her prior roles at Icelandic companies like Eimskip hf., Burðarás and Straumur Investment bank. Today, Linda is a board member of the University of Iceland Science Park and has also been on the board of the Iceland Chamber of Commerce and the Iceland Enterprise Investment Fund. Linda has a MSc in Finance from Reykjavík University, a cand. oecon degree in Business Administration from University of Iceland, and is a licensed securities broker by the Icelandic Ministry of Finance and Economic Affairs.

*Mr. Agnar Tómas Möller (Member of the Board of Directors)*

Agnar Tómas Möller joined the Board in March 2023. Agnar has an extensive experience of the financial market, especially the bond market. Currently an independent consultant, he previously worked for Kvika Asset Management hf. as bond fund manager from 2018-2022. From 2009 to 2018 he worked at GAMMA Capital Management hf., also managing bond funds, and prior to that he worked in bond brokerage at Kaupþing bank hf. in 2006-2008. Agnar holds an MSc in Industrial Engineering from the University of Iceland and a BA in History from the same school. He is a director of ATM ehf.

*Mr. Haukur Örn Birgisson (Member of the Board of Directors)*

Haukur Örn Birgisson joined the Board in July 2023. Over the past two decades, Haukur has worked as an attorney, including as a self-employed attorney for 15 years. He has been an attorney at the Supreme Court since 2011. In his work, Haukur has protected the interests and provided advice to small and large companies, individuals, municipalities and foreign companies and tackled numerous legal issues and countless court proceedings. He has managed the operations of Iceland Legal, as owner and managing director, since the foundation of the law firm in 2008 until 2023. Since then he has been a partner at FIRMA Legal Services. Haukur holds a cand. jur. from the University of Iceland and is a Licensed Supreme Court Attorney.

*Ms. Helga Hlín Hákonardóttir (Member of the Board of Directors)*

Helga Hlín Hákonardóttir joined the Board in July 2023. Helga is a partner and consultant at Strategía. Helga founded and practiced as an attorney at Lixia law firm in the years 2011-2014. Helga was the co-founder and Managing Director of Legal at Saga Fjárfestingarbanki hf. in 2006-2011. Helga was an attorney at Straumur-Burðarás Investment Bank hf. from 2005-2006. Helga worked at Íslandsbanki hf. in the years 2000-2005 and as a financial markets lawyer at Fjárfestingarbanki Atvinnulífsins hf. in the years 1998-2000 and the Iceland Stock Exchange in the years 1996-1998. Helga is a member of the board of Rue de Net. Helga has been on the boards of mark.is as chairman, Verðbréfabing Ísland as alternate, Skeljungur hf., Summa Rekstrarfélag hf., Greiðsluveitan, Icelandic Chamber of Commerce, Festi hf., Krónan hf., Vís hf. as chairman, Lífís as alternate, WOW air hf., Meniga Ltd. and on the The University Council of Akureyri University. Helga holds a cand. jur. from the University of Iceland, is a Licenced District Court Attorney and a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

*Mr. Stefán Pétursson (Member of the Board of Directors)*

Stefán Pétursson joined the Board in July 2023. Stefán has extensive experience in the corporate and financial market, both as a manager and director. From 1992 to 2010 he worked for the National Power Company Landsvirkjun as funding manager, head of the finance department and CFO for the last eight years. As CFO, Stefán took an active part in formulating the company's strategy, in addition to directing its profitability analyses, finances and funding. He was also on Landsvirkjun's negotiation committee with large customers. From 2010 to 2021 Stefán was CFO of Arion Bank hf., where he played an important role in rebuilding the bank, formulating its new strategy and strengthening trust

in the bank, both nationally and internationally. Stefán also had a key role in the public listing of Arion Bank hf. in Iceland and Sweden and its sale to domestic and foreign investors. Since 2022, Stefán has worked as CFO of the drug development company EpiEndo Pharmaceuticals ehf. The company, which is owned by domestic and foreign investors, is working on the development of a drug to treat emphysema which is in phase 2 clinical trials. Stefán has considerable experience of board work, as he was Chairman of the Board of the savings bank Afl sparisjóður ses. and a director of Valitor hf., Landfestar ehf., Landey ehf., TIF and other entities. He also served on the Board of the Iceland Chamber of Commerce, is a member of project management of the ÍL fund and on the Board of Margildi ehf. Stefán holds a cand. oecon. degree in Business Administration from the University of Iceland and an MBA degree from Babson College in Boston.

*Mr. Stefán Sigurðsson (Member of the Board of Directors)*

Stefán Sigurðsson joined the Board in March 2024. Sigurður has worked in the financial sector for most of his career. He has an extensive experience in the operation of banks and the activities of financial undertakings, as he has worked as Managing Director of Wealth Management at Íslandsbanki in the years 2008-2014 as a member of the bank's Executive Committee, Executive Director and later Managing Director of Strategic Development at Glitnir and before that as Associate of Corporate Finance at Glitnir in Denmark. He also served as Senior Trader at Íslandsbanki in 1998-2000. Stefán also has comprehensive knowledge of management and strategic planning and was the CEO of SÝN hf. (Vodafone Iceland) in the years 2014-2019. He has vast experience as a manager in implementing strategic changes among senior management and other employees. He is currently based in Denmark and works on own projects and as an independent advisor. Stefán currently is Chairman of the Board at Verðbréfamiðstöð Íslands hf., and a board member of FÓLK Reykjavík ehf., Isavia ANS ehf., North Ventures ehf. and North Ranga ehf. He has served as board member at Iceland's Chamber of Commerce and Island Fund S.A. in Luxemburg. Stefán has an MSc in Economics from the University of Copenhagen and a BSc in Economics from the University of Iceland.

*Ms. Valgerður Hrund Skúladóttir (Member of the Board of Directors)*

Valgerður Hrund Skúladóttir joined the Board in March 2024. Valgerður has worked in IT for the past 30 years. She is the founder of Sensa, an IT services company, and its managing director since its inception (2002). Prior to that she was, among other things, managing director of corporate sales and infrastructure solutions at Tæknival. She has served as director of the IT companies Staki Automation and Talenta, Siminn DK and Sensa A/S and is currently a director of the fintech company Memento and Erit ehf. She sat on the board of Íslandsbanki, Confederation of Icelandic Employers, the Federation of Icelandic Industries and on its Intellectual Property Council, served as Chairman of the Board for the Federation of IT companies (SUT) and is currently a board member of the Reykjavík Forestry Association and an alternate board member of the Board of the Classical Dance School and Business Iceland. Valgerður has a CSc in Electrical Engineering from the University of Iceland and an MBA from the University of Miami. The alternate members of the Issuer's Board of Directors are as follows:

<b>Name</b>	<b>Title</b>
Ms. Herdís Gunnarsdóttir	Alternate Member of the Board of Directors
Mr. Páll Grétar Steingrímsson	Alternate Member of the Board of Directors

*Ms. Herdís Gunnarsdóttir (Alternate Member of the Board of Directors)*

Herdís Gunnarsdóttir is the CEO of the Quality and Supervisory Agency of Welfare. Herdís holds an MBA from the University of Iceland and an MSc and BSc in nursing from the University of Iceland.

*Mr. Páll Grétar Steingrímsson (Alternate Member of the Board of Directors)*

Páll Grétar Steingrímsson is an independent consultant, director at Skrifstofufjónusta Austurlands ehf. and serves as an external member of the Issuer's Audit Committee. Páll holds a cand. oecon. in Business Administration from the University of Iceland and is a Chartered Accountant.

#### *Nomination Committee*

In accordance with the Issuer's Articles of Association, the Issuer operates a nomination committee (the **Nomination Committee**) whose role is to nominate individuals to the Issuer's Board of Directors at the Annual General Meeting, or as the case may be at a shareholders' meeting where elections for the Board of Directors are on the agenda. The members of the Nomination Committee shall be three, elected for one year at a time by the Board of Directors. The committee shall be independent in its work and the majority of the committee's members shall be independent of the company and its senior management. The Nomination Committee consists of Helga Valfells, as Chairman, Linda Jónsdóttir, Chairman of the Board of Directors, and Hilmar Garðar Hjaltason. Along with the Issuer's Nomination Committee, ISFI operates a special three-member Selection Committee which, on behalf of the state, nominates candidates for the supervisory boards or boards of directors of banks or undertakings that are managed by ISFI. According to the Relationship Agreement between the Issuer and the ISFI, the Issuer's Nomination Committee and the ISFI Selection Committee shall ensure that when the Board of Directors is elected, the candidates for election to the Board of Directors meet the requirements on composition according to law, both as concerns breadth of experience as well as gender representation. The Rules of Procedure of the Issuer's Nomination Committee are published on the Issuer's website.

#### *Senior Management*

The Executive Committee consists of the following members:

*Mr. Jón Guðni Ómarsson, Chief Executive Officer*

Jón Guðni Ómarsson has served as Chief Executive Officer since June 2023. From 2011 until he was appointed CEO, Jón Guðni served as Chief Financial Officer of Íslandsbanki. Jón Guðni was Head of Treasury at the Issuer from 2008-2011. He has had various other roles within the Issuer and its predecessors, including advising customers on hedging strategies and leading arrangements and participations in syndicated loans. He also worked as an ALM consultant at SunGard in Boston. Jón Guðni holds a BSc degree in Industrial Engineering and an MSc degree in Quantitative and Computational Finance (QCF) from Georgia Institute of Technology in Atlanta. Jón Guðni has an AMP from Harvard Business School. Jón Guðni is a Chartered Financial Analyst (CFA) and a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs. Jón Guðni has been with Íslandsbanki and its predecessors since 2000.

*Mr. Ellert Hlöðversson, Chief Financial Officer*

Ellert Hlöðversson has served as Chief Financial Officer since January 2024. Ellert has extensive experience in the financial markets and has been with Íslandsbanki since 2010, most recently as Executive Director of the Issuer's Corporate Finance. Prior to that he served as Executive Director of Íslandsbanki's Securities Brokerage and a director within the Issuer's Corporate Finance team, where he led many of the largest advisory roles which the Issuer engaged in, including mergers and integration of companies as well as various kinds of financing transactions. Ellert holds a BSc degree

in Electrical Engineering and MSc degree in Financial Engineering from the University of Iceland and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs.

*Ms. Barbara Inga Albertsdóttir, Chief Compliance Officer*

Barbara Inga Albertsdóttir has served as Chief Compliance Officer since November 2023. Barbara previously served as Global Head of Regulatory Change at Deutsche Bank, where she was responsible for managing regulatory changes where the focus was on analysing the opportunities the changes would have on the Issuer's operations. Barbara has also worked for Wells Fargo and both the UK Financial Conduct Authority as well as the Financial Supervisory Authority in Iceland. Barbara has i.a. worked on transformation management within Íslandsbanki. Barbara has a bachelor's degree and a M.L. degree in Law from the University of Iceland and an LLM in International Financial Law from King's College London. Barbara has been with Íslandsbanki since 2023.

*Mr. Guðmundur Kristinn Birgisson, Chief Risk Officer*

Guðmundur Kristinn Birgisson has served as Chief Risk Officer since October 2018. He joined Íslandsbanki in 2011 as Executive Director of Risk Monitoring where he oversaw the implementation of the Issuer's Operational Risk Management Framework and monitoring of the execution of credit processes. From 2017 until he was appointed CRO, Guðmundur served as Executive Director of Lending in the Issuer's Personal Banking Division. Guðmundur has a wide range of professional experience and has for example served as Assistant Professor of Mathematics Education and Dean of Undergraduate Studies at the Iceland University of Education. Guðmundur holds a PhD. degree in Mathematics Education from Indiana University and a BA in Philosophy and Science from the University of Iceland. He has been with Íslandsbanki since 2011.

*Ms. Kristín Hrönn Guðmundsdóttir, Managing Director of Corporate & Investment Banking*

Kristín Hrönn Guðmundsdóttir has over 20 years' experience as a manager in financial markets. Kristín Hrönn led the Sales and Services team within CIB from 2013 to 2019 when she assumed the role of Executive Director of Finance, Operations and Strategic planning within CIB. She has further served as a member of the Issuer's Credit Committees, Asset and Liability Committee and Investment Council. Kristín Hrönn has wide-ranging experience in Leveraged and Structured Finance and Private Equity both locally and in the London market. Kristin Hrönn holds a bachelor's degree in Economics from the University of Iceland, has completed an AMP Management Programme from IESE Business School in Barcelona and is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs. She has been with Íslandsbanki since 2008.

*Mr. Riaan Dreyer, Managing Director of Digital and Data*

Riaan Dreyer has served as Managing Director of Information Technology since September 2019. He has been in various Chief Information Officer roles in South Africa, most notably Standard Bank and Liberty Life, before he relocated to Iceland in 2016. He then joined Meniga within the Engineering space after which he joined Arion as the Head of Development. Riaan holds a master's degree in Information Technology from the University of Pretoria, South Africa in addition to bachelor degrees in Actuarial Science and Economics. He has also completed the Advanced Management Programme from IESE, Barcelona. He has been with Íslandsbanki since 2019.

*Ms. Ólöf Jónsdóttir, Managing Director of Personal Banking*

Ólöf Jónsdóttir has served as Managing Director of Personal Banking since February 2024. Ólöf has extensive experience in the financial markets. She was Managing Director of Commercial Banking at Kvika banki hf. and held various different management positions within Kvika banki where she led the innovation and development of fintech solutions. Prior to that she worked for Auður Capital and

Virðing from 2008 until its merger with Kvika banki. Ólöf has a BSc in Mechanical- and Industrial Engineering from the University of Iceland and an MSc in Operations Research and Analytics from London School of Economics. Ólöf is a securities broker licensed by the Icelandic Ministry of Finance and Economic Affairs. Ólöf has been with Íslandsbanki since 2024.

*Ms. Una Steinsdóttir, Managing Director of Business Banking*

Una Steinsdóttir has served as Managing Director of Business Banking since May 2017. She joined Íslandsbanki in 1991 and has a broad background from varied divisions within the Issuer. Una was Managing Director of Retail Banking from October 2008 until May 2017, Managing Director of the Issuer’s branch network from 2007-2008, and Keflavík Branch Manager from 1999. Prior to that she held various positions in the Issuer’s International Banking division, loan supervision and service management. Una holds a cand. oecon. degree in Business Administration from the University of Iceland and has completed an AMP management programme from IESE, Barcelona. She has been with Íslandsbanki and its predecessors since 1991.

*Potential Conflict of Interest*

The Issuer has identified the following as a possible conflict of interest situation:

- Herdís Gunnarsdóttir is not considered independent of the Issuer and its major shareholders on account of her employment with the Icelandic government which is a large shareholder of the Issuer.

Besides this situation, no member of the Board of Directors or the Executive Committee has any private interest that might conflict with the Issuer’s interests.

The Issuer’s Conflict of Interest policy promotes adherence to applicable laws and regulations and sets out the principles for the identification and appropriate and reasonable management of conflicts of interest.

Moreover, the Issuer’s Code of Conduct is intended to promote sound governance practices within the Issuer and to support the regulatory framework applying to its activities. It contains important guidelines for employees, including measures to prevent conflicts of interest.

*Major Shareholders*

As of 31 December 2023, the Icelandic state, through the ISFI, held 42.5 per cent. of the Issuer’s share capital (42.9 per cent. when calculated by excluding treasury shares held by the Issuer).

As of 31 December 2023, each of the following shareholders own more than 3 per cent. of the Issuer’s shares:

<b>Shareholder</b>	<b>% of Bank’s Share Capital</b>
ISFI	42.50%
LSR Pension Fund	8%
Gildi Pension Fund	7.9%
Live Pension Fund	6.3%

Capital Group 5.6%

Brú Pension Fund 3.3%

### *Voting Rights*

Each share carries one vote. Accordingly, all shareholders have voting rights in proportion to their percentage of share ownership.

### *Direct or Indirect Control by Individual Shareholders*

Other than ISFI, the Issuer is not aware of any individual shareholder or group of connected shareholders who directly or indirectly control the Issuer. At the date of this Base Prospectus there are no arrangements known to the Issuer the operation of which may at a subsequent date result in a change of control of the Issuer. According to the Icelandic State Budget for the year 2024, the Icelandic state intends to sell its share in the Issuer in full over the next two years, the first half in the year 2024 and the remainder in the year 2025. The ISFI is a separate state body under the Minister of Finance and Economic Affairs and manages the government's holdings in financial undertakings. In 2022, the Icelandic state announced its intention to propose the abolishment of the ISFI to the Icelandic legislator and implementing a new system for the management of the state's holdings in financial undertakings. At the date of this Base Prospectus, no action to this effect has been taken. The ISFI manages its holdings in the Issuer in accordance with applicable law, good administrative and business practices and the government's ownership policy for financial undertakings at each time. The government's ownership policy is based on Article 44 of the act No. 123/2015 on public finances and Article 1 of Act No. 88/2009 on the ISFI.

### ***Financial Information***

#### *IFRS*

The consolidated financial statements of the Issuer as of and for the years ended 31 December 2022 and 31 December 2023 were prepared in accordance with the IFRS as adopted by the European Union.

#### *Auditors*

The consolidated financial statements as of and for the year ended 31 December 2023 were audited by Deloitte ehf., Dalvegur 30, 201 Kópavogur, Iceland. The consolidated financial statements as of and for the year ended 31 December 2022 were audited by Ernst & Young ehf., which voluntarily relinquished its license in December 2023. Geir Steindórsson was the Issuer's auditor on behalf of Deloitte ehf. He is a member of the Institute of State Authorized Public Accountants in Iceland.

#### *Age of latest financial statement*

The latest audited consolidated financial statements are for the year as of and ended 31 December 2023 and were published on 8 February 2024.

To the Issuer's best knowledge, no significant changes have occurred in the financial position of the Issuer since the end of the last financial period.

#### *Explanatory Notes*

Detailed information regarding the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are accessible in the explanatory notes in the relevant financial statements incorporated by reference in this Base Prospectus.

#### *Selected Financial Information 2022 and 2023*

The following is a summary of the Issuer's consolidated financial statements as of and for the years ended 31 December 2022 and 31 December 2023. This information should be read together with each consolidated financial statement due to changes in methodology between years. The Issuer's consolidated financial statements as of and for the years ended 31 December 2022 and 31 December 2023 can be found on the Issuer's website: <https://www.islandsbanki.is/en/landing/about/investor-relations>. The Issuer's profit as of and for the year ended 31 December 2023 amounted to ISK 24,585 million, which corresponded to a 11.3 per cent. return on equity. Total equity amounted to ISK 224,693 million as of and for the year ended 31 December 2023. The Issuer's total capital ratio, calculated according to the Act on Financial Undertakings, was 25.3 per cent. and its Tier 1 ratio was 22.5 per cent. in excess of both internal and regulatory requirements. The Issuer's total assets amounted to ISK 1,583 billion as of and for the year ended 31 December 2023.

The Issuer's profit as of and for the year ended 31 December 2022 amounted to ISK 24,535 million, which corresponded to a 11.8 per cent. return on equity. Total equity amounted to ISK 218,874 million as of and for the year ended 31 December 2022. The Issuer's total capital ratio, calculated according to the Act on Financial Undertakings, was 22.2 per cent. and its Tier 1 ratio was 19.8 per cent. The Issuer's total assets amounted to ISK 1,566 billion as of and for the year ended 31 December 2022.



**Consolidated Income Statement**  
**ISK million**

	<b>2023</b>	<b>2022</b>
Interest income calculated using the effective interest rate method	126,095	87,671
Other interest income	11,047	6,342
Interest expense	(88,531)	(50,887)
<b>Net interest income</b>	<b>48,611</b>	<b>43,126</b>
Fee and commission income	18,591	17,630
Fee and commission expense	(4,357)	(3,577)
<b>Net fee and commission income</b>	<b>14,234</b>	<b>14,053</b>
Net financial income (expense)	241	(1,257)
Net foreign exchange gain	581	881
Other operating income	570	433
<b>Other net operating income</b>	<b>1,392</b>	<b>57</b>
<b>Total operating income</b>	<b>64,237</b>	<b>57,236</b>
Salaries and related expenses	(15,003)	(13,452)
Other operating expenses	(11,740)	(10,166)
Administrative fine	(860)	(300)
Contribution to the Depositors' and Investors' Guarantee Fund	-	(165)
Bank tax	(1,871)	(1,858)
<b>Total operating expenses</b>	<b>(29,474)</b>	<b>(25,941)</b>
<b>Profit before net impairment on financial assets</b>	<b>34,763</b>	<b>31,295</b>
Net impairment on financial assets	(1,015)	1,576
<b>Profit before tax</b>	<b>33,748</b>	<b>32,871</b>
Income tax expense	(9,198)	(8,485)
Profit for the period from continuing operations	24,550	24,386
Discontinued operations held for sale, net of income tax	35	149
<b>Profit for the period</b>	<b>24,585</b>	<b>24,535</b>

## Consolidated Statement of Financial Position

<i>ISK million</i>	<b>31.12.2023</b>	<b>31.12.2022</b>
Cash and balances with Central Bank	87,504	94,424
Loans to credit institutions	73,475	110,364
Bonds and debt instruments	161,342	130,804
Derivatives	5,776	7,461
Loans to customers	1,223,426	1,186,639
Shares and equity instruments	13,241	15,868
Investments in associates	4,051	3,844
Property and equipment	6,562	6,752
Intangible assets	2,930	3,279
Other assets	3,638	6,072
Non-current assets and disposal groups held for sale	749	782
<b>Total Assets</b>	<b>1,582,694</b>	<b>1,566,235</b>
Deposits from Central Bank and credit institutions	16,149	15,269
Deposits from customers	850,709	789,897
Derivative instruments and short positions	5,090	10,804
Debt issued and other borrowed funds	417,573	468,270
Subordinated loans	38,155	34,392
Tax liabilities	13,107	12,128
Other liabilities	17,218	16,601
Non-current liabilities and disposal groups held for sale	-	-
<b>Total Liabilities</b>	<b>1,358,001</b>	<b>1,347,361</b>
<b>Equity</b>		
Share capital	9,898	10,000
Share premium	55,000	55,000
Reserves	5,083	9,158
Retained earnings	154,712	144,716
<b>Total Shareholder's Equity</b>	<b>224,693</b>	<b>218,874</b>
Non-controlling interests	-	-
<b>Total Equity</b>	<b>224,693</b>	<b>218,874</b>
<b>Total Liabilities and Equity</b>	<b>1,582,694</b>	<b>1,566,235</b>

### ***Risk Management***

The Issuer is exposed to various risks. The management of these risks is an integral part of the Issuer's operations. The ultimate responsibility for ensuring an adequate risk management framework lies with the Issuer's Board of Directors. The Issuer's Board of Directors defines and communicates the acceptable level of risk through the Issuer's risk management policies. The Issuer's risk management framework and policies are discussed under Note 45 in the 2023 Financial Statements, which are incorporated by reference in this Base Prospectus.

## 10. COVER POOL

### *Authorisation*

The establishment of the Programme and the issue of the Covered Bonds have been duly authorised by resolutions of the meetings of the Board of Directors of the Issuer dated 23 March 2010, 1 December 2010, 25 October 2011, 10 May 2017, 21 March 2018, 6 May 2020, 11 March 2021, 10 February 2022, and 4 April 2023.

### *Composition*

The composition of the Cover Pool may vary from time to time but shall always fulfil the requirements laid down in any applicable FSA licence to issue the Covered Bonds. Information relating to the type of assets (and where relevant, their location) that make up the Cover Pool will be provided quarterly, no later than 30 days from the end of each quarter, on the Issuer's website at <https://www.islandsbanki.is/en/landing/about/investor-relations>. For the avoidance of doubt and in accordance with the Act on Covered Bonds, the Cover Pool, and any proceeds derived therefrom, will be kept separate from the Issuer's other assets at all times in the Register, and thus there will be no commingling of the relevant underlying assets.

In respect to the loans to be included in the Cover Pool, the Issuer will include, amongst others, loans secured by mortgages over residential properties located in Iceland. However, other non-loan assets may be included in accordance with the Act on Covered Bonds and any applicable licence issued by the FSA. See "*Cover Pool – composition of assets*" on page 133 of this Base Prospectus further details.

The Issuer may enter into certain derivative contracts for the purpose of hedging risks between assets in the Cover Pools and the Covered Bonds. The Issuer will maintain an Overcollateralisation level of at least 5 per cent relating to the Covered Bonds. It is the opinion of the Issuer that the Overcollateralisation will be sufficient to manage the market risk of the Cover Pool and to enable the Covered Bonds to obtain and maintain an acceptable rating. Overcollateralisation is limited to 30 per cent. of the aggregate value of the principal amount outstanding of the Covered Bonds in accordance with the FSA's requirements for a Covered Bond licence.

### *Origination*

The Mortgages in the original Cover Pool were primarily originated by the Issuer's predecessor, Glitnir. By decision of the FSA dated 14 October 2008 all assets of Glitnir were allocated to the Issuer. All mortgages are owned, maintained and serviced by the Issuer. Other Mortgages going forward may be originated by the Issuer or separately acquired by the issuer.

### *Proceeds*

All proceeds derived from the Mortgages will be allocated to an account by the Issuer, which is separated from the Issuer's other assets and accounts (the **Proceeds Account**). The Proceeds Account will form a part of the Register, as further described in this Base Prospectus ("*Summary of Icelandic Legislation relating to Covered Bonds*"). The Proceeds Account will be monitored by the Issuer and will eventually contain amounts that at a minimum are sufficient to pay an amount equal to 3 months forward looking accrued interest (**Minimum Account Amount**). After such date any proceeds exceeding the Minimum Account Amount can be allocated at the discretion of the Issuer, subject to the approval of the Independent Inspector as further described below, provided that any such allocation would not affect the Overcollateralisation.

### ***Independent Inspector Agreement***

According to a letter of approval dated 15 January 2024 the FSA has approved the Issuer's appointment of Gunnar Ragnarsson, Id.no. 160870-5839, Naustavör 16, 200 Kópavogur, a certified public accountant and partner at KPMG ehf. in Iceland as the Independent Inspector of the Programme in accordance with Chapter VIII. of the Act on Covered Bonds and the Rules (the **Independent Inspector**). The appointment was concluded by an agreement dated 31 January 2024 between the Issuer and the Independent Inspector (the **Independent Inspector Agreement**). The principal duties of the Independent Inspector is the carrying out of the supervision set out in Chapter VIII of the Act on Covered Bonds and the Rules, including inter alia the maintenance of the Register in accordance with Chapter VI of the Act on Covered Bonds, verifying the collateral for bonds in a Cover Pool is based on proper methodology and provide the FSA with information obtained in the course of his work as frequently and in such form as the FSA may decide, or above and beyond that if exceptional circumstance so warrant. The Independent Inspector Agreement is governed by Icelandic law.

### ***Independent Inspector's Oversight***

As further described in this Base Prospectus, the Register will be monitored by the Independent Inspector in accordance with the Act on Covered Bonds. The Independent Inspector must ensure that a Register is maintained, as described above, and verify that the valuation of collateral for bonds in the Cover Pool is based on proper methodology.

### ***Derivative Contracts***

#### *General*

The Act on Covered Bonds allows the inclusion of derivative contracts in the Cover Pool. Such derivative contracts can be entered into in order to hedge interest rate, exchange rate or liquidity risks.

According to the requirements of the Act on Covered Bonds, any such derivative contract can only be entered into with i) the Icelandic State; i) member state; iii) municipality in a member state; iv) central bank in a member state; or v) other party deemed sufficiently solid to fulfil the obligations involved in the contract.

In addition, pursuant to the Act on Covered Bonds, the Register of assets within the Cover Pool shall, in relation to each derivative contract, identify the type of agreement and individual number, counterparty, nominal value, currency, interest terms, value of the net claim or net debt, as well as the start and expiry date of the agreement.

#### *Currency Exchange Risk*

If a particular Tranche of Covered Bonds or a part of the Cover Pool is denominated in a currency other than ISK, the Issuer shall enter into derivative contracts for the purpose of hedging any net currency exchange risk. The market value of cross currency swaps will fluctuate with exchange rates. Such market value fluctuations will be managed according to a Credit Support Annex (see below).

The Issuer also has the option to reverse existing swaps and enter into new ones at current exchange rates.

### *Interest Rate Risk*

Interest rate exposure of the Issuer relating to assets within the Cover Pool may be managed through the derivative contracts. Interest rate swaps may be entered into with a hedge counterparty relating to both the Cover Pool and the Covered Bonds issued by the Issuer.

Under derivative contracts, with respect to interest rate hedging on the fixed rate Cover Pool, on a monthly basis the Issuer may enter into contract with a hedge counterparty to hedge on a net risk basis the fluctuations in the relevant assets held by the Issuer and which are included in the Cover Pool on the relevant date and with regards to the interest rate payable on the Covered Bonds with regards to the interest rate on the Mortgages contained in the Cover Pool.

### *Downgrade in Rating of Hedge Counterparty*

Under the terms of the proposed derivative contracts to be entered into with the hedge counterparty, if the applicable short term rating of any hedge counterparty falls below “A2” by S&P (or, if applicable, the equivalent rating assigned by Fitch or Moody's) or the applicable long term rating of any hedge counterparty falls below “BBB” by S&P (or, if applicable, the equivalent rating assigned by Fitch or Moody's) at any time, the hedge counterparty will be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the derivative contract; (ii) terminate the derivative contract and arrange for its obligations under the derivative contracts to be transferred to an entity with the ratings required by the relevant rating agency; or (iii) procuring another entity with the ratings required by the relevant rating agency to become co-obligor in respect of its obligations under the derivative contracts.

### *Restrictions on Use of Derivative Contracts*

The Issuer uses derivatives in the Cover Pool, including the swaps described above, strictly for hedging purposes and these are designated as hedging instruments. Derivatives are not used in trading activities or for speculative purposes.

Under rules made under the Act on Covered Bonds, the Issuer is required to fix a limit on interest risk in relation to its own funds and potential losses resulting from 1 per cent. parallel shift in all interest rate curves.

In respect of assets within the Cover Pool, the Issuer complies with the currency coverage requirements set out in the Rules made under the Act on Covered Bonds and provisions applicable to cover assets derivative contracts.

### *Origination Criteria*

All loans, in the Cover Pool, were at the time of lending (or at the time of restructuring, if applicable), if not otherwise specifically mentioned, subject to the following various conditions (the **Origination Criteria**) being satisfied on the relevant date:

- (a) no loan relates to a Property which is not a residential property;
- (b) all of the borrowers of each respective loan are individuals and were aged 18 years or older at the date of entering into the relevant loan and its related Mortgage;
- (c) each loan is denominated in ISK;
- (d) prior to the making of each advance under a loan, the requirements of the relevant standard documentation were met, so far as applicable to that loan;

- (e) each loan complies fully with the Consumer Credit Act No. 121/1994;
- (f) the whole of the outstanding principal balance on each loan and any arrears of interest and all accrued interest is secured by a Mortgage;
- (g) each loan and its Mortgage is valid and binding and enforceable in accordance with its terms;
- (h) insurance cover for each Property is or will at all times be available under a policy arranged by the borrower in accordance with the relevant Mortgage conditions; and
- (i) prior to the making of each advance under a loan, the above Origination Criteria and all preconditions to the making of that loan were satisfied in all material respects subject only to exceptions as would be acceptable to a reasonable, prudent mortgage lender,

where:

**Cover Pool** means the pool of eligible assets recorded in the Register maintained by the Issuer in accordance with the Act on Covered Bonds;

**Mortgage** means each mortgage loan referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other moneys due or owing with respect to that mortgage loan under the relevant mortgage terms by a borrower to the Issuer on the security of a Mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same, and eligible to be added to the Cover Pool; and

**Property** means a residential property in Iceland which is subject to a Mortgage.

## 11. THE ICELANDIC ECONOMY

Following the rapid upswing in the Icelandic economy beginning in the middle of the first decade of the 21<sup>st</sup> century, the economy experienced a banking and currency crisis in the second half of 2008. The gross domestic product (GDP) contracted considerably during the next two years, the value of assets deteriorated, real wages declined and unemployment rose. However, the Icelandic economy subsequently enjoyed a period of robust GDP growth in 2011-2019 and, despite a temporary setback due to the COVID-19 pandemic in 2020, currently has a GDP per capita among the highest in the world.

The Icelandic economy has a history of considerable volatility. The source of such volatility has historically been the fisheries industry, which is one of two main goods export sectors along with aluminium smelting. The business cycle, therefore, has been linked to fish catch volumes and fluctuations in the prices of marine products on foreign markets. The development of power-intensive industry, which plays a considerable role in export activities, has also been the cause of some volatility. The business cycle of the first decade of the 21<sup>st</sup> century was partly driven by investments in this sector. However, these fluctuations can, to a greater extent, be attributed to systemic changes in the domestic financial market, which in a short period of time evolved from a capital controlled financial market with fixed exchange rates to an open financial market with a floating exchange rate and large international privately-run financial institutions. The currency and banking crisis was therefore preceded by the classical antecedents to a crisis of such kind and was sparked by the international financial crisis that prevailed at the time.

The International Monetary Fund (**IMF**) approached the Icelandic government at the end of 2008 with the promise of a credit facility in exchange for a letter of intent from the Icelandic government agreeing to changes in the Icelandic economy in three main areas: fiscal policy, the activities of financial institutions and stability of the foreign exchange market. Despite some initial delays, the Stand-by Agreement with the IMF came to an end on 26 August 2011. The Icelandic Parliament imposed capital controls in 2011 pursuant to Act No. 87/1992 on Foreign Exchange (**FEA**) in order to prevent serious difficulties with regard to Iceland's balance of payments and to stabilise the króna exchange rate. On 14 March 2017, Rules no. 200/2017 on Currency Exchange took effect, granting a general exemption from the restriction set forth in the FEA and effectively lifting the capital controls that had previously been in place. The FEA was replaced with Act No. 70/2021 on Foreign Exchange which lifted the capital controls by law. The last remaining limitations on derivatives involving króna were lifted in 2021.

The Icelandic economy enjoyed a period of continuous robust growth from 2011 until year-end 2019. Consumption, investment and exports all grew at a brisk pace and real wages and real residential house prices rose considerably during that period. The impact of the COVID-19 pandemic led to a 6.8 per cent. decline in real GDP in 2020, mostly due to a sharp fall in exports. On the other hand, national expenditure fell by a more moderate 1.8 per cent. in 2020 and the current account remained in surplus as a fall in imports offset the contraction in exports to a degree. In the year 2021 GDP growth measured 4.5 per cent. in real terms, subsequently rising to 7.2 per cent. in 2022. GDP growth in 2023 to the end of September was at a rate of 4.2 per cent. as the economy transitioned to post-expansion adjustment phase.

After a period of inflation remaining close to the Central Bank of Iceland's inflation target between the first quarter of 2014 and the third quarter of 2018, inflation temporarily increased above the target as the ISK depreciated and domestic cost pressures remained considerable. After falling back to inflation target levels in late 2019, inflation again rose in 2020 following a depreciation in the Icelandic Krona due to the impact of the pandemic. The rise in inflation continued throughout the subsequent years, with inflation peaking at 10.2 per cent. in February 2023 before abating to 7.7 per cent. by year-end 2023. The Central Bank of Iceland decreased its main policy rate from 4.5 per cent.



as of the first quarter of 2019 to 0.75 per cent. as of the fourth quarter of 2020 to counter the adverse economic impact of the pandemic. The Central Bank has also employed a range of additional policy instruments to mitigate the pandemic impact, including foreign exchange market interventions and liquidity measures in the financial sector. From May 2021, the Central Bank embarked on a rate hike process to counter adverse inflation developments and normalise real interest rates in line with the improving economic outlook. As of year-end 2023, the Central Bank's policy rate had been raised to 9.25 per cent.

Despite brisk economic growth in the period preceding the COVID-19 pandemic and a decline in GDP during the early phase of the pandemic, the total debt ratios of households, corporates and the public sector remained relatively robust compared to GDP following a substantial decline in debt ratios earlier in the decade. As the economy has recovered, the debt ratios of the three main economic sectors have declined once more to pre-pandemic levels. Furthermore, Iceland's external debt position has improved vastly, with external assets exceeding external liabilities by around 31 per cent. of GDP as of the end of the third quarter of 2023 after decades of substantial net negative international investment position. The main reason for this economic development is an exceptionally rapid growth in Iceland's tourist sector, which in recent years has been the country's largest export sector. Moreover, business investment rose substantially around mid-decade, particularly in export sectors such as tourism and energy. The final years of the last decade saw a moderate fall in business investment before a healthy rebound in 2021-2022, followed by moderate growth in the year 2023 to September.

## 12. THE ICELANDIC HOUSING MARKET

A relatively typical price bubble formed in the Icelandic housing market around the middle of the first decade of the 21<sup>st</sup> century, fuelled by easier access to credit, a rapid increase in real wages and expectations of further property value increases. The economy experienced a vast upswing during this period, which was driven by, among other things, the recent privatisation and regulation in the financial market. A large quantity of residential housing was built during this period because the market prices of residential property considerably outweighed building costs.

Historically, a large proportion of Icelandic households have owned the houses they have lived in, i.e. around four out of five. The rental market, on the other hand, has been relatively small when compared to many other economies although recent years have seen the formation of a more structured long-term rental market with the arrival of dedicated residential property rental companies. Ownership has been encouraged with public subsidies on mortgage rates in the form of tax rebates. Icelandic households have placed a rather large proportion of their savings into residential property. The majority of mortgage loans were CPI-indexed, but during the upswing a growing number of loans were also exchange rate-linked, as households sought to finance the purchases of their homes with the lower interest rates on foreign currencies. This made Icelandic households vulnerable to fluctuations in housing prices, as well as the exchange rate of the Icelandic króna and inflation. When the price bubble burst in 2008, capital rapidly shrank and debt servicing costs on loans as a percentage of disposable income suddenly soared. Consequently, exchange-rate linked mortgage loans have since been de facto prohibited in Iceland.

One of the distinguishing features of the Icelandic housing market has long been that decreases in real value are caused more by inflation than changes in nominal prices. Thus business in this market contracted substantially at the same time as the Icelandic upswing came to an end, the currency depreciated and inflation soared. From this point of view, developments in the aftermath of 2008 crash were not unlike previous downturns in the history of the Icelandic economy. The real decrease in residential property value, which measured at 36% in Q1 2010 from when prices were at their peak at the end of 2008, is a result of high inflation during this period.

The housing market went through a turnaround in 2010 and real and nominal housing prices started to rise somewhat. Moreover, turnover on the housing market picked up. There were several reasons for this. Firstly, real wages increased, as did expectations that the nadir of the recession had been reached. Secondly, the demand was driven by expectations regarding the development of housing prices, since housing prices seemed to be rising again. Thirdly, the debt problems of households were tackled with debt forgiveness and debt restructuring. In parallel with this, bottlenecks in at both the supply and demand end of the housing market have been cleared, which may partly explain the increase in turnover. From Q1 2010 to Q1 2018 housing prices increased by 55% in real terms. Following a period of more moderate price rises, the pace of housing price increases picked up again from Q3 2021 onwards before moderating once more in 2023. As of end-2023, housing prices had decreased by 3.3% in real terms over the previous 12 months although nominal prices showed an increase of 4.2% over the same period.

The real prices of residential housing reached a historical peak in 2022 but have since declined moderately. Housing prices in proportion to wages have also risen considerably until recently and are above long-term average. Even so, average household debt has not increased significantly as a share of GDP and remains at considerably lower levels than a decade ago.

### **13. FINANCIAL MARKETS IN ICELAND**

The FSA supervises commercial banks, savings banks and other credit institutions, insurance companies, companies and individuals acting as insurance brokers, undertakings engaged in securities services, Undertakings for Collective Investment in Transferable Securities (UCITS), management companies, stock exchanges and other regulated markets, central securities depositories and pension funds. The FSA is charged with ensuring that the activities of these entities are conducted in accordance with the laws and regulations of Iceland. The activities of FSA are primarily governed by Act No. 87/1998, on the Official Supervision of Financial Operations, and Act No. 9/1999, on the Payment of Cost Due to the Official Supervision of Financial Activities.

#### *The Central Bank*

The Central Bank of Iceland is an independent institution owned by the Icelandic state and operating under the auspices of the Prime Minister. Its objective is to promote price stability, financial stability and sound and secure financial activities. The Central Bank also undertakes such tasks as are consistent with its role as a central bank, such as maintaining international reserves and promoting a safe, effective financial system, including domestic and cross-border payment intermediation.

As of 1 January 2020, the Central Bank is responsible for the tasks entrusted by law and governmental directives to the FSA and financial supervision is now under the responsibility of the Central Bank. The Central Bank monitors supervised entities to ensure that their activities are in compliance with the law and with governmental directives, and that they are in other respects consistent with sound and appropriate business practices.

#### *Monetary policy*

The main objective of the Central Bank's monetary policy is price stability. For a number of years following the banking and currency crises in 2008, and in accordance with the joint economic policy agreed upon by the Icelandic authorities and the IMF in November 2008, the secondary main focus of Iceland's monetary policy became stabilisation of the króna, without committing to defend a specific value of the currency.

With declining inflation and progress in the restructuring of domestic balance sheets as the second decade wore on, the emphasis of monetary policy gradually shifted towards future inflation and output prospects, although exchange rate stability continues to play a role in monetary policy. With statutory amendments passed on 21 October 2016, important steps were taken towards easing restrictions on capital transactions. Further reforms were implemented on 1 January 2017. On 14 March 2017, Rules no. 200/2017 on Currency Exchange took effect, granting a general exemption from the restriction set forth in the FEA and effectively lifting the capital controls that had previously been in place. The rules, as amended by Rules 568/2017 and 311/2019, remained in effect until the passage of Act 70/2021 in June 2021, which effectively lifted all remaining capital controls. However, there is still a requirement for reporting to the Icelandic Central Bank of any new investment three weeks after Icelandic Krona is bought for new inflow of foreign currency. Also, the current rules place restrictions on the total amount of financial institutions' derivatives transactions.

#### *Nasdaq Iceland hf.*

Iceland currently has one authorised stock exchange where the public listing of securities and securities trading take place: Nasdaq Iceland hf. Nasdaq Iceland hf. is part of the Nasdaq Group and is licensed to operate a regulated market as well as a multilateral trading facility, the First North Iceland market. Nasdaq Iceland hf. also provides listing alternatives for small-cap to large-cap companies; and the main market and the First North market for small and medium-sized companies with growth

potential. Both issuer rules and trading rules are largely harmonised with the sister exchanges run by Nasdaq Group in the Nordic countries (Stockholm, Helsinki and Copenhagen).

## 14. OVERVIEW OF THE TRANSACTION DOCUMENTS

### *Cover Pool Swap Agreement*

The Issuer may enter into an interest rate swap transaction governed by an ISDA Master Agreement (including a schedule, a credit support annex and confirmation(s)) in respect of the assets registered to the Cover Pool (respectively, the **Cover Pool Swap** and the **Cover Pool Swap Agreement**) with a **Cover Pool Swap Provider**.

On each monthly payment date under the Cover Pool Swap, the Issuer may pay to the Cover Pool Swap Provider all revenue payments (i.e. excluding principal payments) received in respect of the assets (other than Eligible Swaps) registered to the Cover Pool (but excluding amounts corresponding to the client margin) and the Cover Pool Swap Provider may pay to the Issuer an amount calculated on the nominal amount of the assets (other than Eligible Swaps) which are registered to the Cover Pool, based on the applicable floating rate or fixed rate payable under the Covered Bonds plus a margin.

The coverage requirements referred to in "*Summary of Icelandic Legislation relating to Covered Bonds – Coverage Requirements*" above will apply in respect of the Cover Pool Swap.

### *Ratings downgrade*

Under the Cover Pool Swap Agreement, in the event that the relevant rating(s) of the Cover Pool Swap Provider are downgraded by a rating agency below the rating(s) specified in the Cover Swap Agreement (in accordance with the requirements of the rating agencies) for the Cover Pool Swap Provider, the Cover Pool Swap Provider will, in accordance with the Cover Pool Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the Cover Pool Swap, arranging for its obligations under the Cover Pool Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the Cover Pool Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the Cover Pool Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the Cover Pool Swap or taking some other action as it may agree with the relevant rating agency.

### *Termination events*

The Cover Pool Swap Agreement will or may be terminated under certain circumstances, including the following:

- (a) at the option of the Cover Pool Swap Provider, if the Issuer is in breach of representations contained in the Cover Pool Swap Agreement to register the Cover Pool Swap Agreement and the Cover Pool Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the Cover Pool Swap Agreement, if there is a failure by the other party to pay any amounts due under the Cover Pool Swap Agreement and any applicable grace period has expired;
- (c) at the option of the Issuer, upon the occurrence of an insolvency of the Cover Pool Swap Provider or its guarantor, or the merger of the Cover Pool Swap Provider without an assumption of its obligations under the Cover Pool Swap Agreement, or if a material misrepresentation is made by the Cover Pool Swap Provider under the Cover Pool Swap Agreement, or if the Cover Pool Swap Provider defaults under an over-the-counter derivatives

transaction under another agreement between the Issuer and the Cover Pool Swap Provider or if a breach of a provision of the Cover Pool Swap Agreement by the Cover Pool Swap Provider is not remedied within the applicable grace period;

- (d) if a change in law results in the obligations of one party becoming illegal or if a *force majeure* event occurs;
- (e) at the option of the Cover Pool Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the Cover Pool Swap Provider under the Cover Pool Swap due to a change in law;
- (f) if the Cover Pool Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the Cover Pool Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the Cover Pool Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the Cover Pool Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources) and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from the Cover Pool Swap Provider.

### ***Transfer***

The Cover Pool Swap Provider may, subject to certain conditions specified in the Cover Pool Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under the Cover Pool Swap to another entity.

### ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Cover Pool Swap Provider will rank senior to the Covered Bondholders in respect of its claims against the Issuer in respect of assets registered to the Cover Pool.

The margins over the applicable floating rate or fixed rate applicable to the Cover Pool Swap will be determined on the effective date of such swap and may be varied from time to time by the Issuer and the Cover Pool Swap Provider, subject to written confirmation from the rating agencies that the proposed amendment will not adversely affect the then current ratings of the Covered Bonds.

The Cover Pool Swap Agreement will be governed by English law.

### ***Interest Rate Swap Agreements***

The Issuer may also, from time to time, enter into additional interest rate swaps with Interest Rate Swap Providers by executing an ISDA Master Agreement (including schedules, a credit support annex and confirmations) (each such agreement, an Interest Rate Swap Agreement and each of the transactions thereunder, an Interest Rate Swap), in order to hedge the Issuer's interest rate risks in ISK and/or other currencies to the extent that these have not already been hedged by the Cover Pool Swap, Currency Swap or an Indexed Currency Swap, subject always to the coverage requirements as referred to in "*Summary of Icelandic Legislation relating to Covered Bonds – Coverage Requirements*" above.

### ***Ratings downgrade***

Under each of the Interest Rate Swap Agreements, in the event that the relevant rating(s) of an Interest Rate Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the rating agencies) for such Interest Rate Swap Provider, the relevant Interest Rate Swap Provider will, in accordance with the relevant Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Interest Rate Swap, arranging for its obligations under the relevant Interest Rate Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Interest Rate Swap or taking some other action as it may agree with the relevant rating agency.

### ***Termination events***

The Interest Rate Swap Agreements will or may be terminated under certain circumstances, including the following:

- (a) at the option of each Interest Rate Swap Provider, if the Issuer is in breach of representations contained in the relevant Interest Rate Swap Agreement to register the relevant Interest Rate Swap Agreement and each Interest Rate Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the relevant Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under that Interest Rate Swap Agreement and any applicable grace period has expired;
- (c) at the option of the Issuer, upon the occurrence of an insolvency of the relevant Interest Rate Swap Provider or its guarantor, or the merger of the relevant Interest Rate Swap Provider without an assumption of its obligations under the relevant Interest Rate Swap Agreement, or if a material misrepresentation is made by the relevant Interest Rate Swap Provider under the relevant Interest Rate Swap Agreement, or if the relevant Interest Rate Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Interest Rate Swap Provider or if a breach of a provision of the relevant Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- (d) if a change in law results in the obligations of one party becoming illegal or if a *force majeure* event occurs;

- (e) at the option of the relevant Interest Rate Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Interest Rate Swap Provider under the relevant Interest Rate Swap due to a change in law;
- (f) if the relevant Interest Rate Swap Provider, or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Interest Rate Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the relevant Interest Rate Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Interest Rate Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from an Interest Rate Swap Provider.

### ***Transfer***

Each Interest Rate Swap Provider may, subject to certain conditions specified in the relevant Interest Rate Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Interest Rate Swap to another entity.

### ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Interest Rate Swap Agreements will be governed by English law.

The Interest Rate Swap Providers will rank senior to the Covered Bondholders in respect of their claims against the Issuer in respect of assets registered to the Cover Pool.

### **Currency Swap Agreements**

Subject to currency restrictions in place at each time, if Covered Bonds are issued in currencies other than ISK, the Issuer may enter into Currency Swaps from time to time with Currency Swap Providers by executing ISDA Master Agreements (including schedules, a credit support annex and confirmations) (each such agreement, a **Currency Swap Agreement** and each of the transactions thereunder, a **Currency Swap**), in order to hedge currency risks arising between (a) Covered Bonds issued in currencies other than ISK and (b) assets (other than Mortgage Bonds and Eligible Swaps) forming part of the Cover Pool but denominated in ISK, subject always to the coverage requirements



as referred to in "*Summary of Icelandic Legislation relating to Covered Bonds – Coverage Requirements*" above.

### ***Ratings downgrade***

Under each of the Currency Swap Agreements, in the event that the relevant rating(s) of a Currency Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Currency Swap Agreement (in accordance with the requirements of the rating agencies) for such Currency Swap Provider, the relevant Currency Swap Provider will, in accordance with the relevant Currency Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Currency Swap, arranging for its obligations under the relevant Currency Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Currency Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Currency Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Currency Swap or taking some other action as it may agree with the relevant rating agency.

### ***Termination events***

The Currency Swap Agreements will or may be terminated under certain circumstances, including the following:

- (a) at the option of each Currency Swap Provider, if the Issuer is in breach of representations contained in the relevant Currency Swap Agreement to register the relevant Currency Swap Agreement and each Currency Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the relevant Currency Swap Agreement, if there is a failure by the other party to pay any amounts due under that Currency Swap Agreement and any applicable grace period has expired;
- (c) at the option of the Issuer, upon the occurrence of an insolvency of the relevant Currency Swap Provider or its guarantor, or the merger of the relevant Currency Swap Provider without an assumption of its obligations under the relevant Currency Swap Agreement, or if a material misrepresentation is made by the relevant Currency Swap Provider under the relevant Currency Swap Agreement, or if the relevant Currency Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Currency Swap Provider or if a breach of a provision of the relevant Currency Swap Agreement by the Currency Swap Provider is not remedied within the applicable grace period;
- (d) if a change in law results in the obligations of one party becoming illegal;
- (e) at the option of the relevant Currency Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Currency Swap Provider under the relevant Currency Swap due to a change in law;
- (f) if the relevant Currency Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Currency Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the relevant Currency Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Currency Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from a Currency Swap Provider.

### ***Transfer***

Each Currency Swap Provider may, subject to certain conditions specified in the relevant Currency Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Currency Swap to another entity.

### ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Currency Swap Agreements will be governed by English law.

The Currency Swap Provider will rank senior to the Covered Bondholders in respect of their claims against the Issuer in respect of assets registered to the Cover Pool.

Where the Issuer enters into both interest rate swap transactions and currency swap transactions with the same counterparty these may be entered into under the same ISDA Master Agreement.

### **Indexed Currency Swap Agreements**

The Issuer may enter into Indexed Currency Swaps from time to time with Indexed Currency Swap Providers by executing ISDA Master Agreements (including schedules, a credit support annex and confirmations) (each such agreement, an **Indexed Currency Swap Agreement**) and each of the transactions thereunder, an **Indexed Currency Swap** in order to hedge currency and inflation risks arising between (a) Covered Bonds issued in currencies other than ISK and (b) assets forming part of the Cover Pool but denominated in ISK and indexed linked, subject always to the coverage requirements as referred to in "*Summary of Icelandic Legislation relating to Covered Bonds - Coverage Requirements*" above.

### ***Ratings downgrade***

Under each of the Indexed Currency Swap Agreements, in the event that the relevant rating(s) of an Indexed Currency Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the rating agencies) for such Indexed Currency Swap Provider, the relevant Indexed Currency Swap Provider will, in accordance with the relevant Indexed Currency Swap Agreement, be required to take certain

remedial measures which may include providing additional collateral for its obligations under the relevant Indexed Currency Swap, arranging for its obligations under the relevant Indexed Currency Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Indexed Currency Swap or taking some other action as it may agree with the relevant rating agency.

### ***Termination events***

The Indexed Currency Swap Agreements will or may be terminated under certain circumstances, including the following:

- (a) at the option of each Indexed Currency Swap Provider, if the Issuer is in breach of representations contained in the relevant Indexed Currency Swap Agreement to register the relevant Indexed Currency Swap Agreement and each Indexed Currency Swap thereunder in the Cover Pool register;
- (b) at the option of one party to the relevant Indexed Currency Swap Agreement, if there is a failure by the other party to pay any amounts due under that Indexed Currency Swap Agreement and any applicable grace period has expired;
- (c) at the option of the Issuer, upon the occurrence of an insolvency of the relevant Indexed Currency Swap Provider or its guarantor, or the merger of the relevant Indexed Currency Swap Provider without an assumption of its obligations under the relevant Indexed Currency Swap Agreement, or if a material misrepresentation is made by the relevant Currency Swap Provider under the relevant Indexed Currency Swap Agreement, or if the relevant Indexed Currency Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Indexed Currency Swap Provider or if a breach of a provision of the relevant Indexed Currency Swap Agreement by the Indexed Currency Swap Provider is not remedied within the applicable grace period;
- (d) if a change in law results in the obligations of one party becoming illegal or if a *force majeure* event occurs;
- (e) at the option of the relevant Indexed Currency Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Indexed Currency Swap Provider under the relevant Indexed Currency Swap due to a change in law;
- (f) if the relevant Indexed Currency Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Indexed Currency Swap Agreement and described above under "*Ratings downgrade*"; and
- (g) at the option of the relevant Indexed Currency Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Indexed Currency Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be

determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from a Indexed Currency Swap Provider.

### ***Transfer***

Each Indexed Currency Swap Provider may, subject to certain conditions specified in the relevant Indexed Currency Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Indexed Currency Swap to another entity.

### ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Indexed Currency Swap Agreements will be governed by English law.

### **Eligibility Criteria for Swap Providers**

The Issuer will only enter into Swaps with entities which are "qualified counterparties" for the purposes of the Act on Covered Bonds (such Swaps, the **Eligible Swaps**).

### **Deed of Covenant**

The Issuer has entered into a Deed of Covenant for the benefit of the Covered Bondholders, including amongst others, the following covenants:

#### *Relevant Reference Currency Swaps*

- (a) In connection with an issuance of a Series of Covered Bonds denominated in a currency other than ISK and assigned a rating by S&P, in circumstances where the Issuer does not otherwise enter into a Currency Swap in connection with such issuance, the Issuer covenants to establish on or before the Issue Date of such Series and maintain and update (to the extent required) on a weekly basis in its books an account (a **Collateral Reserve Account**). All amounts of cash and, if applicable, securities standing to the credit of the relevant Collateral Reserve Account will be denominated in the relevant currency and registered and updated (to the extent required) on a weekly basis in the Register so as to form part of the Cover Pool.
- (b) The Issuer shall within one Business Day of a relevant issuance and thereafter on a weekly basis (to the extent required under the terms of the Relevant Reference Currency Swap) credit and/or debit cash or securities to or from the relevant Collateral Reserve Account in accordance with paragraph (c) below.
- (c) The amount of cash or securities required to be maintained in the relevant Collateral Reserve Account will be equal to the amount commensurate with an "adequate" collateral framework assessment under the relevant S&P criteria that a Currency Swap Provider would have been

required to maintain under the credit support annex forming part of an agreement in the form of the Relevant Reference Currency Swap Agreement if it had entered into such an agreement with the Issuer in connection with the relevant Series of Covered Bonds.

- (d) The Issuer may, at any time and in accordance with the provisions of the Deed of Covenant, enter into an agreement substantially in the form of the Relevant Reference Currency Swap Agreement (together with such amendments as may be agreed by the Issuer) with an eligible Currency Swap Provider and may use amounts standing to the credit of the relevant Collateral Reserve Account to enter into a Currency Swap to exchange receipts from the assets comprising the Cover Pool payable in ISK and the currency of the relevant Series of Covered Bonds.
- (e) Where a Currency Swap Agreement is entered into between the Issuer and an eligible Currency Swap Provider, such Currency Swap Agreement shall be registered in the Register so as to form part of the Cover Pool and the requirement to maintain the relevant Collateral Reserve Account pursuant to paragraph (a) above shall cease.
- (f) In the event that the Issuer does not enter into a Currency Swap with an eligible Currency Swap Provider in accordance with paragraph (d) the requirements of paragraph (a) shall continue to apply and amounts standing to the credit of the relevant Collateral Reserve Account from time to time will remain registered in the Register so as to form part of the Cover Pool and will be transferred to a corresponding Swap Collateral Account in accordance with the Issuer's obligations as to the establishment of Issuer Accounts (in respect of which see paragraph (a) of "*Establishment of Issuer Accounts*" below).
- (g) The Issuer shall use reasonable endeavours to ensure that any Currency Swap Agreement entered into pursuant to paragraph (d) includes a subordinated swap termination payment provision, such that any Early Termination Amount due and payable by the Issuer to the relevant Currency Swap Provider under the relevant Currency Swap Agreement following the occurrence of (i) an Event of Default or a Termination Event in respect of a Tax Event upon Merger where the Currency Swap Provider is the Defaulting Party or the sole Affected Party, respectively, or (ii) an Additional Termination Event in respect of the Currency Swap Provider following a ratings downgrade of such Currency Swap Provider shall be subordinated to all other amounts payable in respect of the relevant Series of Covered Bonds.

#### *Asset Coverage Test*

- (a) On each Monthly Calculation Date, the Issuer shall determine whether the then total value, without double counting, of:
  - (i) the assets comprising the Cover Pool (including any amounts comprising the liquidity buffer required to be maintained in accordance with the Icelandic Act on Covered Bonds (the **Cover Pool Value**)) (calculated in accordance with the Act on Covered Bonds);
  - (ii) any amounts standing to the credit of the Collateral Reserve Account or the Swap Collateral Account; and
  - (iii) any cash amounts or securities (excluding any amounts included in paragraph (ii) above) in any Issuer Account,

(such total value amount being the **ACT Assets Amount**) exceeds the then total value of:

- (iv) the Principal Amount Outstanding of all Series of Covered Bonds, together with all accrued interest thereon (provided that for the purpose of calculating such amounts in respect of any Series of Covered Bonds denominated in a currency other than ISK, the Principal Amount Outstanding (and such accrued interest) shall be calculated according to (i) the relevant prevailing spot exchange rate (as determined by the Issuer) on the relevant Monthly Calculation Date or (ii) if a Currency Swap has been entered into in respect of such Series of Covered Bonds, the relevant rate under that Currency Swap);
- (v) any other payment obligations that must be paid from the Cover Pool in accordance with the Act on Covered Bonds during the period to and including the next following Monthly Calculation Date; and
- (vi) the Deposit Set-off Amount,

(such total value amount being the **ACT Liabilities Amount**) provided that if on such Monthly Calculation Date the ACT Assets Amount does not exceed the ACT Liabilities Amount (such determination, the **Asset Coverage Test**) the Asset Coverage Test shall be deemed to have been breached for the purpose of paragraph (b) below.

- (b) In the event of a breach of the Asset Coverage Test on a Monthly Calculation Date, the Issuer shall use reasonable endeavours to allocate sufficient additional assets to the Cover Pool and register such assets in the Register in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Monthly Calculation Date.
- (c) In calculating the Cover Pool Value, subject to the provisions of paragraph (a)(iv) above, the value of any non-ISK denominated assets comprising the Cover Pool shall be converted into ISK on the basis of the exchange rate published by the Central Bank of Iceland as at such Monthly Calculation Date.

#### *Establishment of Issuer Accounts*

- (a) If the Issuer ceases to be an Eligible Institution, the Issuer shall within 90 calendar days (or such longer period as may be agreed by S&P) following the first Business Day on which it ceases to be an Eligible Institution, establish one or more of the following bank accounts in its name with an Eligible Institution:
  - (i) a transaction account denominated in ISK (the **Transaction Account**);
  - (ii) an account comprising the liquidity buffer required to be maintained in accordance with the Icelandic Act on Covered Bonds (the **Liquidity Buffer Account**); and
  - (iii) if required, a swap collateral cash and securities account denominated in the relevant currency in respect of each relevant Series of Covered Bonds (each such account, a **Swap Collateral Account** and together with the Transaction Account and the Liquidity Buffer Account, the **Issuer Accounts**).
- (b) Following the establishment of the Issuer Accounts in accordance with paragraph (a) above, the Issuer shall:
  - (i) transfer all payments received from the Cover Pool (**Cover Pool Revenue**) to the Transaction Account within 3 Business Days of receipt by the Issuer;

- (ii) only if required in accordance with paragraph (g) of the section *Relevant Reference Currency Swap* above following the event described in paragraph (a) (of this section *Establishment of Issuer Accounts*), transfer all amounts standing to the credit of any Collateral Reserve Account to the relevant Swap Collateral Account and thereafter on a weekly basis (to the extent required) credit and/or debit cash or securities to or from the Swap Collateral Account in accordance with paragraph (c) of the section *Relevant Reference Currency Swap* above and continue to maintain and update (to the extent required) on a weekly basis thereafter, a record of such amounts on the relevant Collateral Reserve Account;
  - (iii) provide, or procure the provision of, servicing, administration and cash management services with respect to the Cover Pool Revenue and the operation of the Issuer Accounts;
  - (iv) create security over each Issuer Account for the benefit of the Covered Bondholders; and
  - (v) take all necessary steps to register the Issuer Accounts and the amounts standing to the credit of the Issuer Accounts in the Register.
- (c) In the event that any Eligible Institution appointed pursuant to paragraph (a) ceases to be an Eligible Institution, the Issuer will be obliged to transfer the relevant Issuer Account to a credit institution with the appropriate minimum ratings.

*Obligations of the Issuer*

- (a) The obligations of the Issuer under the aforementioned sections, *Asset Coverage Test* and *Establishment of Issuer Accounts* shall only apply:
  - (i) to the extent that compliance with such obligations is required to maintain the ratings of the relevant Series of the Covered Bonds;
  - (ii) in respect of the Issuer's obligations under *Establishment of Issuer Accounts* only, during such time that the Issuer does not maintain the required ratings specified in *Establishment of Issuer Accounts* and shall cease at any time that the Issuer satisfies the relevant rating; and
  - (iii) to the extent that any mitigants as may be agreed with S&P for the purposes of maintaining the rating of the relevant Series of Covered Bonds are not otherwise available.
- (b) The obligations of the Issuer under *Establishment of Issuer Accounts* shall cease to apply in their entirety if its long-term issuer credit rating by S&P is at any time at least BBB- (or such other lower rating as may be agreed by S&P), notwithstanding any subsequent downgrade of the long-term issuer credit rating of the Issuer by S&P.
- (c) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps*, *Asset Coverage Test* or *Establishment of Issuer Accounts* will not result in any events of default relating to the Issuer, accordingly payments under the Covered Bonds will not be accelerated in such circumstances and any such failure by the Issuer to comply with these obligations will not entitle Covered Bondholders to accelerate the Covered Bonds.
- (d) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps*, *Asset Coverage Test* or *Establishment of Issuer Accounts* will result in the Issuer not

being able to issue further Covered Bonds whilst such failure is continuing. For the avoidance of doubt, the Issuer will be able to continue issuing non-rated Covered Bonds denominated in ISK.

The defined terms used in this section *Deed of Covenant* shall have the following meanings:

**Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London;

**Cover Pool** means the pool of eligible assets recorded in the Register maintained by the Issuer in accordance with the Act on Covered Bonds;

**Currency Swap Agreement** means the ISDA Master Agreement, schedule, credit support annex (if applicable) and confirmation(s) (as amended and supplemented from time to time) relating to the Currency Swap(s) entered into from time to time between the Issuer and each Currency Swap Provider;

**Currency Swap Provider** means any reference or actual (as the context requires) third party counterparty;

**Currency Swap** means a currency swap which enables the Issuer to hedge currency risks arising from (a) Covered Bonds which are issued in currencies other than ISK and (b) if required, assets (other than bonds as defined in Article 2 of the Act on Covered Bonds which are issued by borrowers and as described in Article 5 of the Act on Covered Bonds) which are registered to the Cover Pool and are denominated in ISK;

**Deposit Set-off Amount** means (i) nil, (A) if the rating assigned to the covered bonds is A- and the Issuer's long-term issuer credit rating is at least BBB- by S&P, or (B) if the rating assigned to the covered bonds by S&P is no longer A- and the Issuer's long-term issuer credit rating meets the requirement specified in S&P's methodology at the relevant time, or (ii) if (i) is not applicable, the "Potential Set-Off Amount" calculated pursuant to the relevant S&P rating methodology;

**Eligible Institution** means any bank whose long-term issuer credit rating is at least BBB- by S&P (or such other rating as may be agreed by S&P);

**Monthly Calculation Date** means the last Business Day of each month;

**Register** has the meaning given to it in the Act on Covered Bonds;

**Relevant Reference Currency Swap Agreement** means, in relation to a Series of Covered Bonds which are denominated in a currency other than ISK, an agreement in the form of an ISDA 2002 Master Agreement including the Schedule and Credit Support Annex thereto, together with the relevant form of currency swap confirmation for a Currency Swap, in each case in the form annexed to the applicable Series Deed of Covenant;

**S&P** means S&P Global Ratings Europe Limited;

**Series Deed of Covenant** means a deed of covenant prepared in relation to a particular Series of Covered Bonds including the applicable form of Relevant Reference Currency Swap Agreement, and **applicable Series Deed of Covenant** shall mean the Series Deed of Covenant applicable to the relevant particular Series of Covered Bonds; and

The Deed of Covenant is governed by English Law.



## 15. BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg, or the CSD (together, the **Clearing Systems**) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

In light of the existing withholding tax regime in Iceland, the clearing of the Covered Bonds through Euroclear or Clearstream, Luxembourg will be subject to confirmation that the relevant registration requirements with the Icelandic authorities have been completed.

### **Book-entry Systems**

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

### **Transfers of Covered Bonds represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Covered Bond within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and sale and Selling Restrictions*", and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under

no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## **16. TAXATION**

### **General**

Prospective purchasers of Covered Bonds are advised to consult their tax advisers as to the consequences, under the tax laws of Iceland and the countries of their respective citizenship, residence or domicile, of a purchase of Covered Bonds, including, but not limited to, the consequences of receipt of payments under the Covered Bonds and their disposal or redemption.

### **Iceland Taxation**

The comments below are of a general nature based on the Issuer's understanding of current law and practice in Iceland. This is not tax advice but a mere general overview of Icelandic rules. Prospective holders of the Covered Bonds 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.

In light of the existing withholding tax regime in Iceland as regards non-residents, the clearing of the Covered Bonds through Euroclear and/or Clearstream, Luxembourg will be subject to confirmation that the relevant registration requirements with the Icelandic authorities have been completed.

#### ***Icelandic residents***

Icelandic residents are subject to tax on any interest income derived by them from the Covered Bonds, individuals at 22 per cent. and companies at the rate of 21 per cent. for the year 2024 and taxable partnerships at the rate of 38.4 per cent. The Issuer is liable to withhold tax on interest payments to Icelandic residents and companies at the rate of 22 per cent. However, while interest payments on the Covered Bonds remain exempt from tax in relation to non-Icelandic residents, as a result of the registration of the Covered Bonds with the Directorate of Internal Revenue (as described under "*Non-Icelandic residents*" below), the Directorate of Internal Revenue has confirmed that the Issuer does not need to withhold tax on any interest payments to Covered Bondholders unless it is aware of any such Covered Bondholders being Icelandic residents.

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

#### ***Non-Icelandic residents***

Non-Icelandic residents are not subject to Icelandic tax on any interest income derived by them from the Covered Bonds provided the Covered Bonds are registered with a securities depository within the Organisation for Economic Co-operation and Development, the European Economic Area or a member of the European Free Trade Association or the Faroe Islands, and the Issuer has registered any Covered Bonds issued under the Programme with the Directorate of Internal Revenue in Iceland and received confirmation of exemption for the Covered Bonds from such taxation, all in accordance with point 8 of the first Paragraph of Article 3 of the ITA. The Issuer will provide a certificate of such tax exemption for each issue of Covered Bonds.

In the event that the Issuer is required to withhold tax then the provisions of Condition 10 will apply and the Issuer will be required to pay additional amounts to cover the amounts so withheld.

Capital gains on the sale of the Covered Bonds are classified as interest and should thus not be subject to tax in Iceland, provided that the aforementioned confirmation of exemption has been granted in respect of the Covered Bonds.

### **The Proposed Financial Transactions Tax**

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common financial transaction tax (**FTT**) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. 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 Covered Bonds are strongly advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act**

The Foreign Account Tax Compliance Act (**FATCA**) imposes a 30 per cent. United States withholding tax on certain United States source payments, including interest (and original issue discount), dividends (and dividend equivalents), or other fixed or determinable annual or periodical gain, profits, and income (**Withholdable Payments**), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the United States Treasury Department to collect and provide to the United States Treasury Department certain information regarding United States account holders, including certain account holders that are foreign entities with United States owners or otherwise complies with FATCA, or such institution is otherwise exempt from withholding under FATCA. A Covered Bond may constitute a "financial account" for these purposes and thus, be subject to information reporting requirements pursuant to FATCA.

In addition, under FATCA, "passthru payments" made by a foreign financial institution to "recalcitrant holders" or non-compliant foreign financial institutions are subject to a 30 per cent. United States withholding tax. A "recalcitrant holder" generally is a holder of an account with a foreign financial institution that fails to comply with reasonable requests for information that will help enable the relevant foreign financial institution to comply with its reporting requirements. Pursuant to United States Treasury Department regulations, a passthru payment is any Withholdable Payment and any "foreign passthru payment", which has yet to be defined. Under the regulations and other guidance, the 30 per cent. United States withholding tax on "recalcitrant holders" or non-compliant foreign financial institutions may be imposed on non-United States source payments made by the Issuer with respect to the Covered Bonds no earlier than the date that is two years after the date on which final regulations defining the term foreign pass thru payment are published in the United States Federal Register.

If the Issuer determines withholding is appropriate with respect to the Covered Bonds, the Issuer will withhold tax at the applicable statutory rate without being required to pay any additional amounts with

respect to amounts so withheld. However, the withholding tax will not be imposed on payments pursuant to obligations giving rise to Withholdable Payments solely because payments are treated as foreign passthru payments if the obligation is executed on or before the date of that is six months after the date on which final regulations defining the term foreign passthru payment are filed with the United States Federal Register. Holders are urged to consult with their own tax advisers regarding the possible implications of FATCA on their investment in the Covered Bonds.

## 17. SUBSCRIPTION AND SALE AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated programme agreement dated 3 May 2024 (the **Programme Agreement**), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under “*Form of the Covered Bonds*” and “*Terms and Conditions of the Covered Bonds*”. In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Dealers are entitled in certain circumstances to be released and discharged from their obligations under the Programme Agreement prior to the closing of the issue of Covered Bonds under the Programme, including in the event that certain conditions precedent are not delivered or met to their satisfaction on the relevant issue date. In this situation, the issuance of the relevant Covered Bonds may not be completed. Investors will have no rights against the Issuer or Dealers in respect of any expense incurred or loss suffered in these circumstances.

### **Selling Restrictions**

#### *United States*

The Covered Bonds have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and 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 or not subject to, 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 Covered Bonds in bearer form 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 Covered Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of all Covered Bonds of the Tranche of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. 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 Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in 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 Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### ***Prohibition of Sales to EEA Retail Investors***

Unless the Final Terms in respect of any Covered Bonds specifies “Prohibition of Sales to EEA Retail Investors” as “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 has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

If the Final Terms, specifies “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the EEA, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Member State except that it may make an offer of such Covered Bonds to the public in that Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an **offer of Covered Bonds to the public** in relation to any Covered Bonds in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

### ***United Kingdom***

Unless the Final Terms in respect of any Covered Bonds specifies “Prohibition of Sales to UK Retail Investors” as “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 has not made and will

not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the UK. For the purposes of this provision:

- (a) the expression retail investor means a person who is one (or more) of the following:
  - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
  - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
  - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

If the Final Terms in respect of any Covered Bonds specifies “Prohibition of Sales to UK Retail Investors” as “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 has not made and will not make an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in the UK except that it may make an offer of such Covered Bonds to the public in the UK:

- (a) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the UK subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision the expression an **offer of Covered Bonds to the public** in relation to any Covered Bonds means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds and **UK Prospectus Regulation** means Regulation (EU) 2017/1129 (as amended) as it forms part of domestic law by virtue of the EUWA.

#### ***Other UK regulatory restrictions***

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

- (a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of



investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or 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 Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the UK.

### *Norway*

Covered Bonds denominated in Norwegian kroner may not be offered or sold within Norway or outside Norway to Norwegian citizens abroad, without the Covered Bonds prior thereto having been registered in the Norwegian Central Securities Depository.

### *Japan*

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **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 Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), 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.

### *Iceland*

The investment described in this Base Prospectus has not been and will not be registered for public distribution in Iceland with the FSA-Iceland pursuant to the Prospectus Regulation.

Each Dealer has acknowledged and agreed, and each further Dealer appointed under the Programme will be required to acknowledge and agree, that this Base Prospectus may be distributed only to, and may be directed only at, persons who are (i) qualified investors under the private placement exemption of Article 1 Item 4 as defined in Article 2 Item e of the Prospectus Regulation or (ii) other persons to whom this Base Prospectus may be communicated lawfully in accordance with the Prospectus Regulation (all such persons together being referred to as the **Relevant Persons**). This Base Prospectus must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Base Prospectus relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Base Prospectus or any of its contents. This Base Prospectus must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other persons.

### ***The People's Republic of China***

The Covered Bonds may not be offered or sold directly or indirectly in the People's Republic of China (excluding Hong Kong, Macau and Taiwan) (the **PRC**) or to residents of the PRC unless such offer or sale is made in compliance with all applicable laws and regulations of the PRC.

### ***Hong Kong***

The Covered Bonds may not be offered or sold in Hong Kong, by means of any document, other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No person may issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Covered Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and any rules made under that Ordinance.

### ***Singapore***

Each Dealer has acknowledged that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Covered Bonds or caused the Covered Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Covered Bonds or cause the Covered Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Covered Bonds, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the **SFA**)) pursuant to Section 274 of the SFA, or (b) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

### ***Switzerland***

This Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Covered Bonds described herein. The Covered Bonds may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (**FinSA**) and no application has or will be made to admit the Covered Bonds to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Covered Bonds constitutes a prospectus pursuant to the FinSA, and neither this Base Prospectus nor any other offering or marketing material relating to the Covered Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

### ***Republic of Italy***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered with *Commissione Nazionale per le Società e la Borsa* (**CONSOB**) pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Base Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of the Prospectus Regulation and any applicable provision of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and/or Italian CONSOB regulations; or
- (b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11971 of May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of the Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under paragraph (a) or (b) above must:

- (i) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time), Legislative Decree No. 385 of 1 September 1993, as amended (the Italian Banking Act), and any other applicable laws and regulations; and
- (ii) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

### ***General***

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and 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 Covered Bonds 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 Covered Bonds 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 Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Covered Bonds 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 such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of the Covered Bonds have been duly authorised by resolutions of the meetings of the Board of Directors of the Issuer dated 23 March 2010, 1 December 2010, 25 October 2011, 10 May 2017, 21 March 2018, 6 May 2020, 11 March 2021, 10 February 2022 and 4 April 2023.

### Listing of Covered Bonds

This Base Prospectus has been approved by the Central Bank of Ireland as a base prospectus. Application has been made to Euronext Dublin for Covered Bonds issued under the Programme to be admitted to the Official List and to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of MiFID.

However, Covered Bonds may be issued pursuant to the Programme which will not be admitted to listing on the Official List and admitted to trading and/or quotation by the regulated market of Euronext Dublin or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

### Irish Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Programme and is not itself seeking admission of Covered Bonds issued under the Programme to the Official List or to trading on the Regulated Market for the purposes of the Prospectus Regulation.

### Documents Available

For the life of this Base Prospectus, the following documents will, when published, be available for inspection at <https://www.islandsbanki.is/en/product/about/funding>:

- (a) the constitutional documents (with an English translation thereof) of the Issuer;
- (b) the Agency Agreement, the Deed of Covenant and the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (c) a copy of this Base Prospectus; and
- (d) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to Exempt Covered Bonds will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and any relevant Paying Agent as to its holding of Covered Bonds and identity) to this Base Prospectus and any other documents incorporated therein by reference.

In addition, copies of this Base Prospectus, any supplement to this Base Prospectus and Final Terms relating to Covered Bonds listed on Euronext Dublin will be published on the website of Euronext Dublin at <https://live.euronext.com/en/markets/dublin>. Copies of Final Terms relating to Covered Bonds which are admitted to trading on any other regulated market in the EEA, will be published in accordance with the rules and regulations of the relevant listing authority or stock exchange and otherwise in accordance with the Prospectus Regulation.

## **Clearing Systems**

The Covered Bonds (other than CSD Covered Bonds) 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 Covered Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. The relevant ISIN and (if applicable) common code, will be specified in the applicable Final Terms. The appropriate securities code for each Tranche of CSD Covered Bonds will be specified in the applicable Final Terms. In the case of CSD Covered Bonds, the CSD is the entity in charge of keeping the records. If the Covered Bonds are to clear through an additional or alternative clearing system, such as Nasdaq CSD Iceland and Verðbréfamiðstöð Íslands CSD, 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. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg. The addresses of the registered offices of the Nasdaq CSD Iceland and Verðbréfamiðstöð Íslands CSD are Laugavegur 182, 105 Reykjavík, Iceland and Fiskislóð 31 A, 101 Reykjavík respectively.

## **Conditions for determining price**

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the 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 performance or financial position of the Group since 31 March 2024 and there has been no material adverse change in the prospects of the Issuer since 31 December 2023.

## **Litigation**

Save as disclosed below, there are no, nor have there been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) which may have, or have had, during the twelve months prior to the date of this Base Prospectus, individually or in the aggregate, a significant effect on the financial position or profitability of the Group.

### *Borgun hf. Landsbankinn*

Borgun hf., (currently Teya Iceland hf.) a former subsidiary of Íslandsbanki, is a payment acquirer and issuing processor. Landsbankinn hf. sold its 31.2% stake in Borgun hf. in late 2014. Landsbankinn claims that Borgun's management did not disclose all available information that might have affected the value of Borgun during the sales process, namely the value of its stake in Visa Europe which was sold to Visa International shortly after the Borgun sale. In order to reclaim the alleged loss, Landsbankinn filed a lawsuit against Borgun and others on 12 January 2017, claiming the right to damages for having been deprived of the true value of the stake involved in the sale. Landsbankinn does not quantify the claim, but its estimate of the lost profit from having sold its shares in Borgun is approximately ISK 1,930 million.

On 11 March 2020, the Issuer signed an agreement to sell its 63.47% stake in Borgun hf. to SaltPay Co Ltd. and concluded the sale on 7 July 2020. In the agreement the Issuer undertook to reimburse 63.47% of losses incurred by Borgun or the buyer as a result of an unfavourable outcome in the

Landsbankinn case, however such reimbursement was never to exceed the Issuer's share in the purchase price.

On 27 April 2023 a panel of three judges of the District Court of Reykjavík rendered a judgement and dismissed the claims made by Landsbankinn against all defendants. Landsbankinn has appealed the judgement to the Court of Appeal. The Group has not recognised a provision in respect of this matter.

#### *105 Miðborg slhf. - ÍAV hf.*

In February 2021, the alternative investor fund 105 Miðborg slhf., operated by Íslandssjóðir hf. (Iceland Funds hf.), a wholly owned subsidiary of the Issuer, terminated its contractor agreement with ÍAV hf., a contractor that had been retained for a real estate project at Kirkjusandur in the centre of Reykjavík. The main reason for the termination was the alleged non-performance and delays in the construction of one building on the premises. The contractor, ÍAV, has claimed approximately ISK 3,829 million in damages plus late payment interest and legal costs from 105 Miðborg and Iceland Funds for the alleged unlawful termination. The suit was filed on 11 May 2021 at the District Court of Reykjavík. Additionally, 105 Miðborg has filed a case against ÍAV claiming approximately ISK 3,878 million in damages plus late payment interest and legal cost due to alleged delays and significant breaches of contract. The Group owns a 8.25 per cent. stake in 105 Miðborg. The Group has not recognised a provision in respect of this matter.

#### *The Consumers' Association of Iceland*

In December 2021, three customers, sponsored by the Consumers' Association of Iceland, commenced litigation against the Issuer demanding that the court rules that certain provisions of their residential mortgages, governing variable interest rates, be deemed illegal and unenforceable and demand the repayment of any overpaid interest.

Firstly, two of the cases were brought by customers owing CPI linked mortgages that contain a certain interest resetting provision that the Supreme Court found, in its ruling on case no. 623/2016, could not be used by the Issuer to reset interest rates. Following the judgement, the Issuer repaid its customers any interest that the Issuer had charged in excess of the originally agreed interest rate and returned the affected loans to their original interest rates. In the case now brought to the courts, the customers maintain that instead of the originally agreed interest rates, their loans should incur interest rates pursuant to article 4 of Act no. 38/2001 on interest and price indexation. An unfavourable finding by the court may have an influence on the Issuer's portfolio of loans and fully paid loans that contained the resetting provision, disputed in case no. 623/2016. The Group estimates that the financial impact of an unfavourable ruling in an adverse scenario could lie in the range of ISK 2 to 3 billion. On 25 May 2023, the District Court of Reykjavík rendered a judgement in one of these cases and dismissed all claims that were made against the Issuer. The plaintiff has appealed the judgement to the Court of Appeal.

Secondly, a case has been brought against the Issuer by a customer owing a non-index linked mortgage bearing variable interest rates. The plaintiff maintains that the terms governing the variable interest rates are invalid and may not be used by the Issuer as basis for setting interest rates, and that therefore the originally agreed interest rate should remain fixed during the term of the loan. An unfavourable ruling in this case may affect all indexed and non-index linked mortgages bearing variable interest rates, as well as any loans bearing fixed interest rates to be reset on a predefined date.

In April 2022, the plaintiffs in two of the cases submitted claims that an advisory opinion by the EFTA Court should be requested on the interpretation of certain provisions in directives incorporated into the EEA Agreement. On 13 December 2022, the District Court issued its rulings. In the case involving a CPI linked mortgage, the Court rejected the plaintiff's request. In the case involving a non-indexed linked mortgage, the District Court decided to request an advisory opinion from the

EFTA Court on part of the issues raised by the plaintiff. The timing of the EFTA Court's advisory opinion is uncertain, as well as its impact on the case.

It is disputed in the three cases whether the terms of the Issuer's mortgages, and the method used by the Issuer to set variable interest rates, is in compliance with the Act on Mortgage Lending to Consumers no. 118/2016. That act is in this respect similar to the terms of Act no. 33/2013 on Consumer Credit. An unfavourable finding could therefore affect other loans to consumers bearing variable interest rates. Furthermore, the Issuer has received information requests from a legal firm representing over 1,200 customers of Icelandic commercial banks and loan institutions they deem to have a comparable right.

It is the Issuer's preliminary assessment of the potential impact of an adverse ruling on the Issuer's loan portfolio with the same interest rate provision that the Issuer's financial loss, taking different scenarios into account, could amount to around ISK 9 billion. The preliminary assessment does not include an assessment of the impact on the Issuer's interest rate risk should an adverse final court ruling be that the initial contractual interest rates should be applied throughout the duration of the respective loans. Such a ruling, which the Issuer regards as unlikely, would significantly increase the Issuer's interest rate risk and could have a considerable negative financial impact on the Issuer in times of increased market interest rates.

The Issuer has reviewed the terms of its mortgages, other loan contracts and the methods used for the setting and resetting of variable interest rates in light of the above claims. The Issuer believes that the claims of the plaintiffs are unfounded and has not recognised a provision with regard to this matter.

#### *EC Clear ehf.*

In August 2021, EC Clear ehf., a former owner of a payment processing company, filed a suit jointly against the Issuer and four other financial institutions claiming damages in the amount of ISK 923 million plus interest from June 2013, resulting from a breach of competition law that allegedly took place during the period from 2003 to 2013. This was the sixth time the case had been brought before the courts for this purpose, after previous cases had been dismissed. On 30 September 2022, the District Court of Reykjavík dismissed the case. On 10 January 2023, the Court of Appeal partly reversed the dismissal and ordered the District Court to hear the case in substance. The hearing of the case has not been decided. The Group has not recognised a provision in relation to this matter.

#### *Onsite inspection by the Financial Supervisory Authority of the Central Bank of Iceland into the Issuer's anti-money laundering measures*

The Financial Supervisory Authority of the Central Bank of Iceland (FSA) conducted an onsite inspection of the Issuer's anti-money laundering (AML) measures in the third quarter of 2022 as part of its supervision of regulatory compliance in the banking sector. The FSA identified certain shortcomings in relation to the Issuer's risk assessment framework, the risk assessment framework for individual customers and transactions as well the performance of customer due diligence and regular monitoring of transactions. The Issuer has not challenged the FSA's findings and has already made, and is continuing to make, improvements to its AML framework. The matter could result in a settlement and a fine. The Issuer has recognised an undisclosed provision in relation to this matter.

#### **Auditors**

Deloitte ehf., State Authorised Public Accountants of Dalvegur 30, 201 Kópavogur, Iceland, have audited the Issuer's consolidated financial statements as of and for the year ended 31 December 2023 without qualification. Ernst & Young ehf., which voluntarily relinquished its license in December 2023, audited the Issuer's consolidated financial statements as of and for the years ended 31 December 2022 and 31 December 2021. The Issuer's consolidated financial statements as of and for

the years ended 31 December 2023, 31 December 2022 and 31 December 2021 were prepared in accordance with IFRS as adopted by the EU.

Deloitte ehf. is a member of The Institute of State Authorised Public Accountants and independent within the meaning of Independent State Authorised Public Accountant.

KPMG ehf., State Authorised Public Accountants of Borgartún 27, 105 Reykjavík, Iceland, was elected as the Issuer's auditing firm at the Issuer's Annual General Meeting held on 21 March 2024.

### **Dealers transacting with the Issuer**

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Dealers and/or their affiliates have, directly or indirectly, performed investment and commercial banking or financial advisory services for the Issuer, for which they have received customary fees and commissions, and they expect to provide these services to the Issuer and its affiliates in the future, for which they also expect to receive customary fees and commissions.

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 the 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 the Issuer's securities, including potentially the Covered Bonds. Any such short positions could adversely affect future trading prices of the Covered Bonds. 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.

### **Yield**

In relation to any Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price and on the basis of the rate of interest as at the Issue Date of the Covered Bonds. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

### **Websites**

In this Base Prospectus, reference to websites or uniform resource locators (**URLs**) are inactive textual references. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Base Prospectus.

### **Original language references**

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



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