



ARION BANK HF.

(incorporated with limited liability in Iceland)

€3,000,000,000

Euro Medium Term Note Programme

Under this €3,000,000,000 Euro Medium Term Note Programme (the **Programme**), Arion Bank hf. (the **Bank**) may from time to time issue notes (the **Notes**) denominated in any currency agreed between the Bank and the relevant Dealer (as defined below). Notes may be issued in bearer form (**Bearer Notes**), registered form (**Registered Notes**) or in uncertificated and dematerialised book entry form registered in the Icelandic Securities Depository Ltd. (**ISD Notes** and the **ISD**, respectively).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement (as defined in "*Subscription and Sale*")), subject to increase as described herein. The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Bank (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

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

This Base Prospectus has been approved as a base prospectus by the *Commission de Surveillance du Secteur Financier* (the **CSSF**), as competent authority under Regulation (EU) 2017/1129 (the **Prospectus Regulation**). The CSSF only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the CSSF should not be considered as an endorsement of the Bank or of the quality of the Notes. Investors should make their own assessment as to the suitability of investing in the Notes.

The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Bank. Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

The Bank has requested the CSSF to notify the Financial Supervisory Authority of the Central Bank of Iceland (*Fjármálaeftirlitið*) (the **FSA**), as competent authority under the Prospectus Regulation in Iceland, of its approval of the Base Prospectus pursuant to Article 25 of the Prospectus Regulation. Application may be made to Nasdaq Iceland hf. reg. no. 681298-2829, Laugavegur 182, 105 Reykjavík, Iceland (**Nasdaq Iceland**) for Notes issued under the Programme to be admitted to trading on the Nasdaq Iceland Main Market, the regulated market of Nasdaq Iceland.

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been (i) admitted to trading on the Luxembourg Stock Exchange's regulated market and admitted to the Official List of the Luxembourg Stock Exchange or (ii) admitted to trading on the Nasdaq Iceland Main Market, in each case as specified in the applicable Final Terms. Each of the Luxembourg Stock Exchange's regulated market and the Nasdaq Iceland Main Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, **MiFID II**).

This Base Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date until 16 October 2024 in relation to Notes which are to be admitted to trading on a regulated market in the European Economic Area (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.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the **Final Terms**) which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, (see "*Subscription and Sale and Transfer and Selling Restrictions*").

The requirement to publish a prospectus under the Prospectus Regulation only applies to Notes which are to be admitted to trading on a regulated market in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 1(4) and/or 3(2) of the Prospectus Regulation. The Programme provides that Notes 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 Bank and the relevant Dealer. The Bank may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Bank has been rated BBB by S&P Global Ratings Europe Limited (**S&P Ireland**) and A3 by Moody's Investors Ltd. (**Moody's**). S&P Ireland is established in the EEA and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Moody's is established in the United Kingdom (the **UK**) and is registered under Regulation (EC) No. 1060/2009 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (the **EUWA**) (the **UK CRA Regulation**). The ratings issued by S&P Ireland have been endorsed by S&P Global Ratings UK Limited in accordance with the UK CRA Regulation and have not been withdrawn. S&P Global Ratings UK Limited is established in the UK and is registered under the UK CRA Regulation. As such, ratings issued by S&P Ireland and Moody's may be used for regulatory purposes in the UK in accordance with the UK CRA Regulation. The ratings issued by Moody's have been endorsed by Moody's Deutschland GmbH (**Moody's Deutschland**) in accordance with the CRA Regulation and have not been withdrawn. Moody's Deutschland is established in the EEA and registered under the CRA Regulation. S&P Ireland and Moody's Deutschland are included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation.

Notes issued under the Programme may be rated or unrated by the rating agency referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Interest amounts payable on Floating Rate Notes and Fixed Reset Notes may be calculated by reference to one of SONIA, SOFR, EURIBOR, NIBOR, STIBOR, REIBOR or CIBOR, as specified in the relevant Final Terms. As at the date of this Base Prospectus, (i) European Money Markets Institute (the administrator of EURIBOR) and Norske Finansielle Referanser AS (the administrator of NIBOR) are included in ESMA's register of administrators under Article 36 (the **EU Benchmarks Register**) of Regulation (EU) No. 2016/1011 (the **EU Benchmarks Regulation**) but not the register of administrators of the UK Financial Conduct Authority (the **UK FCA**) under Article 36 (the **UK Benchmarks Register**) of Regulation (EU) No 2016/1011

as it forms part of UK domestic law by virtue of the EUWA (the **UK Benchmarks Regulation**), (ii) the Federal Reserve Bank of New York (the **FRBNY**) (the administrator of SOFR), Bank of England (the administrator of SONIA), Swedish Financial Benchmark Facility (the administrator of STIBOR) and the Central Bank of Iceland (the administrator of REIBOR) are not included in the EU Benchmarks Register or the UK Benchmarks Register and (iii) Danish Financial Benchmark Facility ApS (the administrator of CIBOR) is included in both the EU Benchmarks Register and the UK Benchmarks Register. As far as the Bank is aware, SONIA, SOFR and REIBOR do not fall within the scope of the EU Benchmarks Regulation or the UK Benchmarks Regulation by virtue of Article 2 of each such regulation and otherwise the transitional provisions in Article 51 of each of the EU Benchmarks Regulation and the UK Benchmarks Regulation apply, such that the Swedish Financial Benchmark Facility is not currently required to obtain authorisation/registration in the European Union (the **EU**) or the UK and none of the other administrators are currently required to obtain authorisation/registration in the EU or the UK, as applicable (or, in each case, if located outside the EU and/or the UK, respectively, recognition, endorsement or to benefit from an equivalence decision).

Arranger

Deutsche Bank

Dealers

Barclays

BofA Securities

Citigroup

Deutsche Bank

Goldman Sachs Bank Europe SE

J.P. Morgan

Morgan Stanley

Nomura

Pareto Securities

UBS Investment Bank

The date of this Base Prospectus is 16 October 2023.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Notes issued under the Programme for the purposes of Article 8 of the Prospectus Regulation. When used in this Base Prospectus, **Prospectus Regulation** means Regulation (EU) 2017/1129.

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

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that those documents are incorporated and form part of this Base Prospectus.

Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*"), the information on the websites to which this Base Prospectus refers does not form part of this Base Prospectus and has not been scrutinised or approved by the CSSF.

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

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

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

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

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

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

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

IMPORTANT – EEA RETAIL INVESTORS

If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the 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; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT – UK RETAIL INVESTORS

If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE/TARGET MARKET

The Final Terms in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is

responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

UK MiFIR PRODUCT GOVERNANCE/TARGET MARKET

The Final Terms in respect of any Notes may include a legend entitled “UK MiFIR Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

This Base Prospectus has been prepared on the basis that the minimum denomination of each Note will be €100,000.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 (2020 REVISED EDITION) OF SINGAPORE

In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore (as amended, the **SFA**) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), unless otherwise stated in the applicable Final Terms, all Notes shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in the Monetary Authority of Singapore (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

SUITABILITY OF INVESTMENT

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

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

None of the Dealers or the Bank makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

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 (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

GREEN NOTES

None of the Dealers accepts any responsibility for any “green” or “environmental” assessment of any Green Notes (as defined herein) or makes any representation or warranty or assurance whether such Notes will meet any investor expectations or requirements regarding any “green” or similar labels. None of the Dealers is responsible for any assessment of any Eligible Assets (as defined herein) or the use of proceeds of any Green Notes, nor the impact or monitoring of such use of proceeds. No representation or assurance is given by the Dealers as to the suitability or reliability of any opinion or certification of any third party made available in connection with any issue of Green Notes, nor is any such opinion or certification a recommendation by any Dealer to buy, sell or hold any such Notes. In the event any Green Notes are or are intended to be listed or admitted to trading or otherwise displayed on any dedicated “green”, “environmental” or other equivalently labelled segment of any stock exchange or securities market, no representation or assurance is given by the Dealers that such listing or admission will be obtained or maintained for the lifetime of the Notes.

STABILISATION

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

CONTENTS

	Page
Overview of the Programme	9
Risk Factors	16
Presentation of Financial and Other Information	57
Documents Incorporated by Reference	62
Form of the Notes	66
Applicable Final Terms	72
Terms and Conditions of the Notes	87
Use of Proceeds	147
Financial Markets in Iceland	149
Description of the Bank	153
Key Financial Indicators	173
Funding and Liquidity	174
Risk Management	176
Capital Adequacy	187
Management and Employees	189
Taxation	197
Subscription and Sale	201
General Information	206

OVERVIEW OF THE PROGRAMME

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

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

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

Issuer:	Arion Bank hf.
Legal Entity Identifier (LEI):	RIL4VBPDB0M7Z3KXSF19
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme and risks relating to the structure of a particular series of Notes issued under the Programme. All of these are set out under " <i>Risk Factors</i> ".
Description:	Euro Medium Term Note Programme
Arranger:	Deutsche Bank Aktiengesellschaft
Dealers:	Barclays Bank Ireland PLC BofA Securities Europe SA Citigroup Global Markets Europe AG Deutsche Bank Aktiengesellschaft Goldman Sachs Bank Europe SE J.P. Morgan SE Morgan Stanley Europe SE Nomura Financial Products Europe GmbH Pareto Securities AB UBS Europe SE and any other Dealers appointed in accordance with the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the UK, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the UK Financial Services and Markets Act 2000, as amended (the **FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Fiscal Agent:	Citibank N.A., London Branch
Listing Agent:	Banque Internationale à Luxembourg, société anonyme
ISD Agent:	Arion Bank hf.
Programme Size:	Up to €3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Notes may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer.
Maturities:	The Notes will have such maturities as may be agreed between the Bank and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par and will be indicated in the applicable Final Terms.
Form of Notes:	The Notes will be issued in either bearer or registered form or in uncertificated and dematerialised book entry form registered in the ISD, as described in " <i>Form of the Notes</i> ". Registered Notes will not be exchangeable for Bearer Notes and <i>vice versa</i> .
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
Fixed Reset Notes:	The interest rate on Fixed Reset Notes will reset on each Reset Date by reference to the relevant Reset Margin and Reset Reference Rate.

Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined on the basis of the reference rate set out in the applicable Final Terms.</p> <p>Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Bank and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Bank and the relevant Dealer.</p> <p>The margin (if any) relating to such floating rate will be agreed between the Bank and the relevant Dealer for each Series of Floating Rate Notes.</p> <p>Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.</p>
Change of Interest Basis:	<p>Notes may be offered in circumstances where the provisions relating to Floating Rate Notes will apply for a certain period and, at the end of such period, the provisions relating to Fixed Rate Notes will apply until the Maturity Date (or vice versa), as set out in the applicable Final Terms.</p>
Zero Coupon Notes:	<p>Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.</p>
Inflation Linked Notes:	<p>Inflation Linked Notes will bear interest adjusted for inflation in accordance with the provisions set out in Condition 4.6 and payable on such date or dates as may be agreed with the Bank. Inflation Linked Notes will be redeemed by payment of one or more amounts adjusted for inflation in accordance with the provisions set out in Condition 6.15, constituting payments of principal in relation to such Inflation Linked Notes.</p>
Inflation Linked Amortising Notes:	<p>Inflation Linked Amortising Notes will bear interest and will be redeemed by payment of one or more amounts, adjusted in each case for inflation in accordance with the provisions set out in Conditions 4.5 and 5.9, which will be payable on such date or dates as may be agreed with the Bank.</p>
Other provisions in relation to Inflation Linked Notes and Inflation Linked Amortising Notes:	<p>Inflation Linked Notes and Inflation Linked Amortising Notes may have variable interest amounts and principal amounts. Interest on Inflation Linked Notes and Inflation Linked Amortising Notes in respect of each Interest Period, as agreed prior to issue by the Bank and the relevant Dealer, will be payable on the relevant Interest Payment Dates. The interest payable will be calculated in accordance with the formula set out in Condition 4.5 for Inflation Linked Notes and Condition 4.6 for Inflation Linked Amortising Notes.</p>
Redemption:	<p>The applicable Final Terms will indicate either that (i) the relevant Notes cannot be redeemed prior to their stated maturity (other than following a Tax Event (in the case of any Notes), following an Event of Default (in the case of Senior Preferred</p>

Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), upon the occurrence of a Capital Event (in the case of Subordinated Notes) or upon the occurrence of an MREL Disqualification Event (in the case of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes and Subordinated Notes (where redemption upon the occurrence of a MREL Disqualification Event in the case of Subordinated Notes is specified as being applicable in the applicable Final Terms))) or (ii) such Notes will be redeemable at the option of the Bank and/or the Noteholders upon giving notice to the Noteholders or the Bank, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the relevant Dealer. The Notes will only be redeemed at an amount of more than 100 per cent. of their nominal amount in the case of certain Zero Coupon Notes.

No early redemption of the Senior Preferred Notes (where Unrestricted Events of Default is specified as being not applicable in the applicable Final Terms), the Senior Non-Preferred Notes or the Subordinated Notes may take place without the prior written consent of the Relevant Regulator (if and to the extent such consent is required). See Condition 6.10.

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

Subordinated Notes – Substitution or Variation:

If at any time a Tax Event or a Capital Event occurs, or if required in order to ensure the effectiveness or enforceability of Condition 18, the Bank may, subject to the provisions of Condition 6.10 (if, and to the extent so required), either substitute all, but not some only, of the Subordinated Notes for, or vary their terms so that they remain or, as appropriate, become, Subordinated Qualifying Securities (as defined in Condition 6.12), as further provided in Condition 6.12.

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

If at any time a Tax Event or an MREL Disqualification occurs, or if required in order to ensure the effectiveness or enforceability of Condition 18, the Bank may, subject to the provisions of 6.10 (if, and to the extent so required), either substitute all, but not some only, of the Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes or Subordinated Notes (where redemption upon the occurrence of a MREL Disqualification Event in the case of Subordinated Notes is specified as being applicable in the applicable Final Terms) for, or vary their terms so that they remain or, as appropriate, become, in the case of Senior Preferred Notes, Senior Preferred Qualifying Securities or, in the case of Senior Non-Preferred Notes, Senior Non-Preferred

Qualifying Securities (each as defined in Condition 6.13), as further provided in Condition 6.13.

Benchmark Discontinuation:

In the case of Fixed Reset Notes or Floating Rate Notes other than where the Reference Rate is specified in the applicable Final Terms as being Compounded Daily SOFR, if the Bank determines that a Benchmark Event has occurred, the relevant benchmark or screen rate may be replaced by a Successor Rate or, if there is no Successor Rate but the Bank determines there is an Alternative Rate (acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser), such Alternative Rate. An Adjustment Spread may also be applied to the Successor Rate or the Alternative Rate (as the case may be), together with any Benchmark Amendments (which in the case of any Alternative Rate, any Adjustment Spread unless formally recommended or provided for and any Benchmark Amendments shall be determined by the Bank, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser). This is further described in Condition 4.4.

Denomination of Notes:

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

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 7. In the event that any such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

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

Cross Default:

Only the terms of Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms will contain a cross default provision as further described in Condition 9.1(c).

Status of the Notes:

The Notes may be issued on a senior preferred (**Senior Preferred Notes**), a senior non-preferred (**Senior Non-Preferred Notes**) or a subordinated (**Subordinated Notes**) basis, as described in Condition 3 and as specified in the applicable Final Terms.

Rating: Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Listing, Approval and Admission to Trading: Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and admitted to the Official List of the Luxembourg Stock Exchange.

The Bank has requested the CSSF to notify the FSA, as competent authority under the Prospectus Regulation in Iceland, of its approval of the Base Prospectus pursuant to Article 25 of the Prospectus Regulation.

Application may be made to Nasdaq Iceland for Notes issued under the Programme to be admitted to trading on the Nasdaq Iceland Main Market, the regulated market of Nasdaq Iceland.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Bank and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

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

Governing Law: The Bearer Notes and the Registered Notes, and any non-contractual obligations arising out of or in connection with the Bearer Notes or the Registered Notes will be governed by, and shall be construed in accordance with, English law, except for Condition 3 and Condition 18 of the Bearer Notes and the Registered Notes, and any non-contractual obligations arising out of or in connection with Condition 3 and Condition 18, which will be governed by, and construed in accordance with, Icelandic law.

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

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA (including Belgium), the UK, Japan, Hong Kong, Singapore, Switzerland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".

United States Selling Restrictions:

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

RISK FACTORS

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

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

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

RISKS RELATING TO THE BANK

The Bank's business is materially affected by the strength of Iceland's economy which remains vulnerable to a range of domestic and international economic and political factors

The Bank currently conducts substantially all of its business in Iceland. Accordingly, its performance is influenced by the level and cyclical nature of business activity in Iceland, and the overall strength of Iceland's economy, which in turn has been and will continue to be affected by both domestic and international economic and political factors.

Gross domestic product (**GDP**) grew by 4.6 per cent. in 2018 and 1.9 per cent. in 2019 before, according to preliminary figures, contracting by 7.7 per cent. in 2020 (*source: Statistics Iceland*). GDP growth recovered to 4.3 per cent. in 2021 (*source: Statistics Iceland*). Despite the almost 76 per cent. drop in tourist arrivals between 2019 and 2020 (*source: Icelandic Tourist Board*) and the resulting substantial negative impact of external trade on GDP, private consumption increased, softening to some extent the economic contraction. GDP growth in 2022 was 7.2 per cent. (*source: Statistics Iceland*). While Iceland has experienced a strong economic recovery following the reduced impact of the COVID-19 pandemic in Iceland, with the availability of vaccines, the implementation of vaccination programmes and prior infection rates having a positive impact, there can be no assurance that Iceland's speed of recovery will be sustained in the longer run.

The domestic factors that could affect the strength of Iceland's economy include:

- *Fluctuations in the value of Icelandic Krona:* in 2022 the Icelandic Krona depreciated by 8.37 per cent. against the US dollar and by 2.57 per cent against euro. In 2021, Icelandic Krona depreciated by 1.58 per cent. against the U.S. dollar but appreciated 5.0 per cent. against the euro (*source: Bloomberg*). In 2020, Icelandic krona depreciated by 5.5 per cent. against the U.S. dollar and 14.9 per cent. against the euro (*source: Bloomberg*). A devaluation of Icelandic Krona and an increase in the cost of imports could diminish consumer confidence and lead to contraction in certain sectors, such as real estate. Alternatively, the appreciation in the value of Icelandic Krona could lead to decreased demand for Icelandic exports or services, including tourism (i.e. as a source of foreign income), and could make Iceland less competitive relative to other economies and currencies.
- *Inflation:* the rate of inflation in September 2023 was 8.0 per cent. (year-on-year), which is above the target rate of 2.5 per cent. per annum set by the Central Bank of Iceland (*Seðlabanki Íslands*) (the **Icelandic Central Bank**). As per the Icelandic Central Bank's Monetary Bulletin dated May 2023, inflation is not expected to fall below 4 per cent. until late 2024 and is not expected to fall below 3 per cent. until well into 2026. Inflation in Iceland will continue to be strongly associated with factors such

as the relative value of the ISK, nominal wages, fiscal policy and housing prices. In response to the increased inflation, the Icelandic Central Bank has been steadily increasing its key interest rate, which was increased by 0.25 per cent. to 1.0 per cent. in May 2021, by 0.25 per cent. to 1.25 per cent. in August 2021, by 0.25 per cent. to 1.5 per cent. in October 2021, by 0.5 per cent. to 2 per cent. in November 2021, by 0.75 per cent. to 2.75 per cent. in February 2022, by 1.0 per cent. to 3.75 per cent. in May 2022, by 1.0 per cent. to 4.75 per cent. in June 2022, by 0.75 per cent. to 5.5 per cent. in August 2022, by 0.25 per cent. to 5.75 per cent. in October 2022, by 0.25 per cent. to 6 per cent. in November 2022, by 0.5 per cent. to 6.5 per cent. in February 2023, by 1 per cent. to 7.5 per cent. in March 2023 and by a further 1.75 per cent. to 9.25 per cent. in August 2023.

Iceland's economy also remains vulnerable to external factors, including conditions in Europe and other international economic and political developments, many of which are outside the control of the Icelandic government. In particular, instability or deterioration of the international financial markets could have a material adverse effect on the recovery of the Icelandic economy, especially given the relatively small size of the Icelandic economy and its dependence on trade with external partners, particularly the EU.

Russia's invasion of Ukraine in February 2022 has caused significant disruption, instability and volatility in global markets, as well as higher inflation (including by contributing to increases in energy and commodity prices and further disruption to supply chains) and lower growth. In response to higher inflation, leading central banks have initiated a tightening of their monetary policies, including by increasing policy rates and withdrawing monetary stimulus. For example, key policy rates in the Eurozone, the United States and elsewhere increased rapidly during 2022, and such policy rates continued to increase in the first quarter of 2023. The tightening monetary policies are likely to continue going forward in most economies and this could cause a significant slowdown in economic growth, including a potential global and/or regional recession) as well as volatility in financial markets.

Following Russia's actions, many countries, including the EU, the UK, the United States, Canada, Japan and Australia have imposed significant sanctions and export controls against Russia and Russian interests and further sanctions may be imposed. Significant uncertainty remains as to the full extent of the adverse economic consequences of the Russia-Ukraine war. Further escalation of the conflict could cause further substantial geopolitical uncertainty (including as a result of the ongoing tensions between China and Taiwan and between China and the U.S.), trade restrictions, global inflationary pressure, which in turn could have further adverse impact on the global and Icelandic economic environment.

A global recession as a result of any of the above factors is likely to affect demand for, and the price of, Iceland's most important products and exports (i.e. tourism, seafood and aluminium). The occurrence of any of the above factors could adversely affect Iceland's economy, which in turn could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank's operations are exposed to Iceland's key industry sectors, particularly tourism, seafood, aluminium, energy and real estate

Iceland's economy depends in large measure on a select number of industry sectors. In 2022, total exports accounted for 47 per cent. of GDP. The largest export industry sectors were tourism, aluminium, seafood and other industrial goods and services. Tourism accounted for 29 per cent. of total exports in the period of Q3 2022 to Q2 2023. Aluminium accounted for 20 per cent., seafood accounted for 19 per cent. and other industrial goods and services accounted for 32 per cent. (*source: Statistics Iceland*). In addition, growth in the real estate industry sector has helped to fuel the domestic economy and, as of 31 December 2022, loans in the real estate industry sector accounted for 9.7 per cent. of the Bank's customer loan portfolio (the **customer loan portfolio**).

Key risks in these industry sectors include:

- *Tourism:* In view of its contribution to the Icelandic economy, any decline of the Icelandic tourism industry sector and whether as a result of a global economic downturn, financial difficulties of key companies in the tourism industry, natural disasters, a significant appreciation of Icelandic Krona or other factors, could have an adverse impact on the Icelandic economy.
- *Seafood:* The seafood industry in Iceland depends on the availability of plentiful stocks of various seafood species and the international demand for seafood, and any decline in stocks, a decrease in quotas for a particular seafood species, a decrease in international demand or a significant appreciation of Icelandic Krona could have a material adverse effect on the seafood industry sector. Following the exit of the UK from the EU, Iceland signed a free trade agreement with the UK which provides for similar market access for the sale of Icelandic seafood into the UK. There can be no assurance however that the UK's exit from the EU does not have a material impact on the seafood industry in Iceland, including due to the UK ceasing to be a point of entry into the EU market.
- *Aluminium:* Iceland's aluminium industry sector has developed as a result of the availability of extensive, relatively inexpensive renewable energy sources to support energy-intensive aluminium smelting operations. Consequently, aluminium (smelted from imported raw materials) has become a principal component of Iceland's exports. Should the price of aluminium decline, to the point where it is no longer economical for aluminium producers to ship raw materials for smelting in Iceland, or if aluminium producers are able to find equivalent or cheaper sources of energy for their smelting operations, Iceland's aluminium exports could decline.
- *Energy:* According to the National Energy Authority of Iceland (*Orkustofnun*), nearly all stationary energy in Iceland is derived from renewable sources, such as hydro, wind and geothermal sources, and Iceland has become a key exporter of know-how regarding renewable energy sources. If Iceland is not able to keep up with the pace of worldwide developments in energy technology, for example, due to a shortage of skilled technicians or a lack of educational programmes specialising in energy, or if foreign investment in Icelandic energy projects and initiatives is not sufficient for its projected growth, Iceland's advantage in the energy industry sector could be impaired.
- *Real estate:* Real estate prices have continued to rise in recent months and the market is characterised by severe mismatches between supply and demand. Housing prices have increased by 52 per cent. from December 2019 to June 2023 as measured by the index of house prices in the capital area in Iceland. The index rose 7.7 per cent. in 2020, 18.4 per cent. in 2021, 17.4 per cent in 2022 and 1.6 per cent. in the period January to June 2023. The increase in housing prices was partly due to lower interest rates as the Icelandic Central Bank lowered rates in response to the impact of the COVID-19 pandemic and the measures adopted to mitigate such impact on the Icelandic economy. However, interest rates are now rising due to increased inflation, which has caused mortgage rates to rise accordingly which could negatively affect housing prices as well as mortgage affordability for households. Imbalances between property prices and their determinants have grown more pronounced. All of this indicates that risk in the housing market has mounted in the recent term, and the likelihood of stagnation or a correction in the market has increased, which could have a material adverse effect on the real estate industry sector in Iceland.

As a universal relationship bank with substantially all of its operations in Iceland, a decline in any of these industry sectors as a result of the occurrence of any of the above or other factors, including a global pandemic, increased inflation, natural disasters or other cataclysmic events outside the control of the Bank, could, for example, result in higher levels of problem loans, defined as loans more than 90 days past due but not impaired and other problem (i.e. individually impaired) loans, and provisions for losses on such problem loans (particularly in the Corporate & Investment Banking division), reduced demand for mortgage loans (in the Retail Banking division) and a reduction of transactions executed for customers. In addition, a decline in any of these industry sectors may negatively affect the broader Icelandic economy. Accordingly, a decline in any

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

Risks associated with pandemics like the COVID-19 pandemic could have a material adverse effect on the Bank's business, financial position, results of operations and prospects

The COVID-19 pandemic adversely impacted global economic and business conditions, including significant volatility in financial and commodities markets. Emergence of new variants continues to remain a source of concern and similar outbreaks of other diseases may have a further adverse impact on the global economy.

A substantial amount of the Bank's business involves making loans or otherwise committing resources to borrowers, including individuals and companies in various industries. The impact of episodes like the COVID-19 pandemic and their associated consequences and uncertainties on individuals, households, and businesses could adversely impact the Bank's business, financial position, results of operations and prospects. It could also lead to higher demand and/or lower availability of certain resources, as well as supply chain disruption and bottlenecks, which could, in certain cases, make it more difficult for the Bank to maintain the quality and continuity of its services.

The foregoing factors may also have the effect of heightening many of the other risks described in this "Risk Factors" section. As a result, the Bank's business, financial position, results of operations, and prospects may be materially adversely affected.

The Bank is exposed to significant liquidity risk

Banking institutions are exposed to liquidity risk, resulting from the fact that the maturity of assets (typically loans) exceeds the maturity of liabilities (the majority of which are demand deposits or otherwise short term) or might not otherwise be adequately matched with the maturity profile of other sources of funding.

The Bank's primary source of funding has historically been deposits from individuals, corporations and financial institutions, although it also accesses international and domestic capital markets for funding through bond issuances under the Programme and covered bond facilities. For additional information on the Group's deposits, see "Risk Management – Liquidity Risk".

The Bank has extended the maturity profile of its liabilities, strengthened its liquidity reserve and converted a large portion of its demand deposits to term deposits (with 72 per cent. of the Bank's deposits being on demand as of 31 December 2022, as compared to over 90 per cent. as of 31 December 2009). See "Risk Management – Liquidity Risk". However, no assurance can be given that the Bank will continue to be successful in converting its demand deposits to term deposits or will otherwise be able to increase the maturity profile of its funding.

The Bank's non-deposit funding primarily consists of Notes issued under the Programme that are denominated, among others, in euro, Norwegian krone (**NOK** or **Norwegian Krone**) and U.S. dollars (including issue of the U.S.\$100,000,000 Fixed Rate Reset Perpetual Additional Tier 1 Convertible Notes by the Bank on 26 February 2020), covered bonds issued under its Covered Bond Programme that are denominated in euro and Icelandic krona, other loans and equity funding.

In recent years the Bank has sought to further diversify its funding profile through increased debt issuances and will continue to do so if its deposit base declines or fails to grow relative to any increases in its assets, as there will be a natural limit on the scope for growth in deposits in view of Iceland's relatively small economy and in view of competition for funding with other banks and with pension funds. The Bank's loan-to-deposit ratio was 143.6 per cent. as of 31 December 2022 (115.4 per cent. excluding covered bonds (which is Non-IFRS Information)), as compared to 142.8 per cent. as of 31 December 2021 (111.8 per cent. excluding covered bonds) and, as a result, the Bank continues to rely significantly on non-deposit funding to fund its customer loan portfolio. The ability of the Bank to access the domestic and international capital markets depends on a

variety of factors, including market conditions, the general availability of credit, the volume of trading activities and rating agencies' and investors' assessment of the Bank's credit strength and of the state of Iceland's economy. These and other factors could limit the Bank's ability to raise funding in the capital markets, which could in turn result in an increase in its cost of funding or could have other material adverse effects on the Bank's business, prospects, financial position and/or results of operations.

Following the further easing of the Capital Controls in March 2017, the Bank's funding did not experience any significant withdrawal of deposits denominated in Icelandic Krona by customers who were restricted to some extent from doing so due to the Capital Controls. However, no assurance can be given that the Icelandic Central Bank will be able to halt capital flight in the event further Capital Controls are imposed in the future.

To the extent that the Bank fails to match more closely the maturity profiles of its assets and liabilities or otherwise ensure that its funding grows in line with any growth in its customer loan portfolio, the Bank will continue to be exposed to a material risk that it may be unable to repay its obligations under its funding instruments when due, or will only be able to do so at excessive cost, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank is exposed to a range of other typical financial institution market risks, including interest rate risk and equity price risk, as well as inflation risk in connection with its inflation-linked assets and liabilities

As a financial institution, the Bank is exposed to various market risks, including interest rate risk and equity price risk; in addition, the Bank is exposed to inflation risk in connection with its inflation-linked assets and liabilities. The Bank's exposure to these market risks arises from imbalances on the Bank's balance sheet as well as in market making activities and position taking in certain securities traded by it. The Bank's strategy towards market risk is to seek to limit the risk exposure that arises as a result of imbalances on the Bank's balance sheet but to accept limited market risk in its trading book. The market risk in the trading book arises from market-making activities, whereas market risk in the banking book arises from mismatches in assets and liabilities, primarily in relation to currencies, maturities and interest rates. The Bank's market-making activities are largely in Icelandic treasury notes and listed equity securities. The Bank has implemented a number of position limits and other controls designed to limit its trading book exposure, but no assurance can be given that these controls will be effective in all circumstances. The Bank is exposed to the risk that these controls do not prove to be effective in all circumstances and that the Bank could therefore experience material losses in its trading book. In addition, to the extent that these securities are marked to market, the Bank could experience significant fluctuations in its consolidated income statement as a result of movements in the market value of these securities. The results of operations of the asset management operations of the Bank are also subject to market risk, as fluctuations in the markets in which the asset management operations of the Bank hold assets under management can have a significant impact on their results of operations.

In relation to its balance sheet, the Bank's operations are subject to interest rate risk associated with mismatches between its interest-earning assets and its interest-earning liabilities. The principal mismatch arises from the Bank's fixed interest liabilities as against its floating rate assets. The Bank also faces interest rate risk between its interest-earning assets and interest-earning liabilities due to different floating rate calculations in different currencies.

In a period of increasing interest rates, the Bank's level of interest expense may increase more rapidly than the interest it earns on its loans and other assets. Unfavourable market movements in interest rates (for example, a prolonged period of flatter than usual interest rate curves, a stronger than expected rise in interest rates, in certain circumstances negative interest rates or an inverse yield curve) could materially adversely affect earnings and current and future cash flows. Changes in interest rates may also negatively affect the value of the Bank's assets and its ability to realise gains or avoid losses from the sale of such assets, all of which would ultimately affect the Bank's net results.

In addition, the Bank is exposed to inflation risk when there is a mismatch between its assets and liabilities linked to the Consumer Price Index (the **CPI**). As of 31 December 2022, the total amount of the Bank's CPI-linked assets was ISK 275,319 million and the total amount of its CPI-linked liabilities was ISK 248,692 million. In the event of periods of very low inflation or of deflation, CPI-linked assets would generate diminished levels of net interest income, which could have a material adverse effect on the Bank's net interest margin. Such assets would also decrease in value during periods of very low inflation or of deflation.

The Bank also has significant maturity mismatches in its CPI-linked assets and liabilities, which arise from the fact that a significant proportion of the Bank's CPI-linked mortgages is not match-funded. The Bank is faced with interest rate risk and liquidity risk when CPI-linked mortgages are funded with liabilities which have a shorter interest-fixing period and maturity. Although the Bank has implemented a range of risk management procedures designed to mitigate these risks, no assurance can be given that these controls will be effective in all circumstances, in which case the Bank could experience material losses. Any losses experienced by the Bank as a result of its market risk exposures could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank is exposed to credit risk and its customer loan portfolio contains certain problem and impaired loans

As a financial institution engaged in lending to individuals and companies, the Bank faces credit risk which arises from the possible failure of repayment by the borrower and/or the loans not being secured sufficiently. Although the Bank attempts to manage this risk through its credit risk management policies by monitoring the extension of credit to customers and taking of collateral, there is no guarantee that such precautions will be effective, and the Bank could be exposed to more credit risk than it finds acceptable. For example, non-compliance by employees with the Bank's credit risk management policies can result in riskier loans being extended than permitted. In addition, the Bank may fail to assess the inherent risk in each loan application correctly, the credit quality of borrowers or the value of collateral could decline, and deviations from the rules by committees allowed to make such deviations could become more frequent, especially in response to increased competition amongst lenders due to any deterioration in the economic situation in Iceland. Any of the foregoing could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The operating results of the subsidiaries Valitor, Stakksberg ehf. (**Stakksberg**) and Sólbjarg ehf. (**Sólbjarg**) were presented as discontinued operations as they have all been classified as held for sale in the 2022 Consolidated Financial Statements. As stated above, the Bank sold its entire shareholding in Valitor at the end of June 2022. Stakksberg's main assets, the plot of land and industrial facilities of the silicon plant at Helguvík, were transferred to Eignarhaldsfélagid Landey ehf. (**Landey**), the Bank's property development company, at the end of the year and thus is no longer classified as an asset held for sale. Stakksberg had a negative impact on the consolidated income statement of the Bank for the year ended 31 December 2022 of of ISK 0.5 billion in 2022 due to the impairment of the silicon plant and operating expenses. Sólbjarg has sold the vast majority of its assets and at the year ended 31 December 2022 the main asset was a 27.5 per cent. shareholding in Ferdaskrifstofa Íslands. Sólbjarg had a positive impact on the consolidated income statement of the Bank for the year ended 31 December 2022 of ISK 0.4 billion in 2022 and the main reason for this is the sale of the company's underlying assets.

As demonstrated by the impairments incurred by the Bank described in the paragraph above and elsewhere in the Base Prospectus, no assurance can be given that any currently performing loans will not become problem loans in the future, whether as a result of a general impairment of conditions in a particular customer or class of customers, a deterioration of the Icelandic economy or otherwise, or that impairments or losses relating to problem loans will not occur. Actions the Bank may take with respect to problem loans, such as enforcing collateral or forcing a bankruptcy in respect of problem loans, may have an adverse impact on customers in the Bank's other divisions, for example if such customers had invested in equity of the relevant problem

borrowers or had other exposure to such borrowers through products and services provided by other divisions of the Bank, such as Markets, and experienced losses as a result.

In particular:

- as of 31 December 2022, 1.2 per cent. of the Bank's gross customer loan portfolio was classified as Stage 3 loans (including purchased or originated credit impaired financial assets); and
- the Bank has significant exposure to the real estate and construction and the seafood industry sectors, with exposure amounting to 14.8 per cent. and 8.4 per cent., respectively, of the Bank's total loans to customers as of 31 December 2022 in the Corporate & Investment Banking division. The Bank's exposure to the tourism industry amounts to 11.5 per cent. of the Bank's total corporate loans as of 31 December 2022.

The Bank has concluded that credit risk relating to its tourism exposure has significantly increased in credit risk and has taken this into consideration in its provision calculations for the 2022 Consolidated Financial Statements. See "*Description of the Bank – Recent Developments*". Should any customers or an industry sector to which the Bank is exposed default or experience a significant deterioration in their business or prospects, as the case may be, this could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

Iceland's banking system has been subject to restructuring and is relatively small given the small size of the Icelandic economy, which could limit opportunities for growth in the near term

Early in October 2008, the Icelandic banking system faced a serious banking crisis, as a consequence of which Kaupthing, Glitnir and Landsbanki were placed first into restructuring and later into winding up proceedings. As part of the restructuring of the banking sector, the FSA transferred certain of their assets and liabilities, including their domestic deposits, into three newly established banks, Íslandsbanki hf. (**Íslandsbanki**), Landsbankinn hf. (**Landsbankinn**) and the Bank, respectively. The small size of the Icelandic economy and any changes to the Icelandic banking sector have affected and continue to affect the Icelandic banks.

In the past there has been uncertainty about the quality of the loan assets held by the Bank, Íslandsbanki and Landsbankinn and the relatively high levels of problem loans on their balance sheets have been a risk to the business, prospects, financial position and/or results of operations of the Icelandic banks. Worldwide financial and economic developments, in particular financial and economic developments in the UK and the other European countries that constitute Iceland's main trading partners, may also have an effect.

Given the relatively small size of the Icelandic economy and the experience of the financial crisis in 2008, Icelandic households and businesses may be reluctant to engage in new borrowing activities and, as a result, the Icelandic banks are not expected to grow significantly through domestic lending in the near term and may experience increased competition and consequently pressures on net interest income. In addition, the Bank has limited funding opportunities in Icelandic krona, namely its ISK-denominated deposits and its covered bond facilities, neither of which is capable of fully funding the Bank's ISK corporate lending volumes. Consequently, the Bank's ability to increase its corporate lending is limited and will continue to be limited unless the Bank is able to find additional sources of funding in Icelandic krona. It is also unlikely that the Bank, Íslandsbanki or Landsbankinn will grow significantly through international operations in the near future. Iceland's economy remains vulnerable to renewed disruptions, cessation or reversal of growth and a return to recession, including as a result of global pandemics or other developments in the Icelandic economy or internationally, such as Russia's invasion of Ukraine, any of which could in turn have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

Public sentiment and political activity in Iceland could impair the Bank's operations

Due to the financial crisis in 2008 and the subsequent deep recession in Iceland, public sentiment towards the banking sector has at times been negative. Any such negative sentiment could ultimately be reflected in political and legislative decisions, which could have material adverse effects on the Bank. One possibility which has been discussed in Iceland is the potential for a law requiring the separation of commercial banking activities from investment banking activities, which could require the Bank to divest or otherwise restructure some of its most significant operations. Since 2017, the Minister of Finance has established various committees to examine the structure of the banking system in Iceland. In December 2018, a working group appointed by the Minister of Finance published a white paper focusing on a future vision for the Icelandic financial system. The white paper proposed to set up “a line of defence” concerning the scope of investment banking activities resulting in the FSA needing to put into place certain rules to limit these investment banking activities. According to this proposal, the capital requirement for direct and indirect positions taken by a systemically important bank may not exceed 10-15 per cent. of own funds. The Bank is one of three systemically important banks in Iceland and, following the bill implementing the above proposal passing into law at the beginning of March 2021, will be subject to this requirement.

No assurance can be given that this law or similar or related measures will not be proposed and ultimately enacted, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

In addition, various decision-making processes within the Bank may continue to be affected by perceived public sentiment and reputational risk due to the financial crisis in 2008 and the resulting lack of trust in the banking sector. This could, for example, lead to the Bank deciding to refrain from engaging in activities which it might otherwise consider to be in its interests and the interests of its shareholders, such as whether to divest or otherwise restructure any of its operations, provide credit to a particular borrower or hire the best qualified individual for a job because of their association with or involvement in events leading up to or in the aftermath of the financial crisis.

During the financial crisis, the Icelandic government was not able to provide liquidity and guarantees to the banking sector, mostly due to the size of the banking sector before 2008. It is unclear whether, and in what capacity, the Icelandic government would assist the banking sector during difficult times in the future.

Any negative public sentiment in Iceland relating to the Bank's shareholders and other stakeholders, including professional financial and institutional investors, could also lead to a loss of customers or business opportunities for the Bank, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank is exposed to the risk of failure and breaches of its information technology systems

The availability, integrity, reliability and operational performance of the Group's information technology (IT) systems are critical to the Bank's operations. The Bank's business relies on the efficient and uninterrupted operation of numerous systems, including computer hardware and software systems, data centres, third party telecommunications networks and the systems of third parties. Although the Bank's IT systems have demonstrated a high level of reliability and performance to date, no assurance can be given that the Bank will be able to continue to maintain past levels of performance and any IT systems or operations, outsourced or otherwise, could be subject to unexpected implementation costs and delays, and no assurance can be given that such implementations will be delivered on time or within budget.

The Bank's ability to provide products and services to its customers on a timely basis or at all would be impaired by damage, interruption, failure or lack of capacity of its IT systems, core deposit and payment systems, payments platform, any other systems in its clearing operations or the systems of third parties on which it relies due to malicious increases in usage or attacks by hackers (including as a result of denial of service or similar attacks which exceed network or gateway capacity), hardware or software defects, human

error, unauthorised access, natural hazards, disasters or similarly disruptive events as well as due to planned upgrades and improvements which may be subject to developmental delay or fail to be effective. Although the Bank maintains customary insurance policies for its operations, such insurance policies may not be adequate to compensate the Bank for all losses that may occur as a result of any damage, interruption, failure or lack of capacity. A sustained failure of the Bank's IT systems centrally or across its branches would have a significant impact on its operations and the confidence of its customers in the reliability and safety of its banking systems, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

Unauthorised disclosure of confidential information and personal data, whether through cyber security breaches, computer viruses or otherwise, could expose the Bank to liability and protracted and costly litigation and damage its reputation

The secure transmission of confidential information is a critical element of the Bank's operations, with the Bank processing personal customer data (including, in certain instances, customer names, addresses, credit and debit card numbers and bank account details), merchant data (including merchant names, addresses, sales data and bank account details), transaction data (including payment instructions, money transfers, securities trading and various other electronic communications and transfers within Iceland and cross-border) and other confidential information as part of its business. Therefore, the Bank is responsible for safeguarding such confidential information and must comply with strict data protection and privacy laws when dealing with such data in the jurisdictions in which it operates, including through the Bank's subsidiaries Stefnir hf. (**Stefnir**) and Vördur. The Bank seeks to ensure that procedures are in place for compliance with the relevant data protection and privacy laws by its employees and any third party service providers. The Bank has also taken steps to implement and maintain appropriate security measures to protect confidential information.

Data protection requirements are evolving in the jurisdictions in which the Group operates. The European General Data Protection Regulation (the **GDPR**) entered into force in May 2018 and brought a number of changes to data protection legislation in the EU. The GDPR was implemented into Icelandic law by Act No 90/2018 and the Bank has taken the necessary steps to fully comply with the GDPR. The Bank is exposed to the enhanced data protection requirements under the GDPR in its operations and any failure to comply with the GDPR could subject the Bank to substantial fines.

The Bank could be liable in the event of a breach of applicable law including any loss of control of such confidential information or as a result of unauthorised third party access. Unauthorised disclosure of confidential information could occur in a number of circumstances, including as a result of cyber security breaches, malware infection, malicious or accidental user activity, internal security breaches or as a result of human error as well as physical security breaches due to unauthorised personnel gaining physical access to confidential information.

The loss, destruction or unauthorised modification of confidential information by the Bank or third parties could result in significant reputational damage, additional costs relating to customer and/or merchant compensation or other charges, fines, loss of relationships with financial institutions, sanctions and legal proceedings or adverse regulatory actions against the Bank by the governmental authorities, customers, merchants or other third parties. Although the Bank generally requires that its agreements with third party partners or service providers who may have access to confidential information include confidentiality obligations that restrict such third parties from using or disclosing any such confidential information, these contractual measures may not prevent the unauthorised use, modification, destruction or disclosure of confidential information or allow the Bank to seek reimbursement from such third party in case of a breach of confidentiality or data security obligations. In addition, certain of the small- to medium-sized enterprise customers of the Bank and/or its subsidiaries, defined as corporates with loans up to ISK 2.0 billion (**SMEs**), may have limited data security capability and experience loss of confidential information when using the Group's business-to-business services. Any unauthorised use, modification, destruction or disclosure of confidential information could also result in protracted and costly litigation. Any of these or other factors could

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

The Bank may be unable to successfully implement its strategy or its strategy may not yield the anticipated benefits

The Bank's strategy is based on assumptions and expectations, including in respect of macroeconomic developments, competition, interest rates, revenue, expenses and cost of risk and future demand for Bank's services, which may prove to be incorrect. Also, the benefits and impact of the Bank's strategy could fall short of what the Bank anticipates. For example, the Bank might not be able to realise the full benefits of its lean banking or digitalisation initiatives, which could result in less than expected customer satisfaction improvements and cost reductions and negatively impact revenues and operating results, respectively. For additional information on the Bank's strategy, see "*Description of the Bank – Strategy*".

Since the global financial crisis in 2008, macroeconomic volatility has made it more difficult to predict GDP development in many economies, resulting in frequent modifications to growth expectations published by economic research institutions as well as in adjustments by market research specialists, sometimes giving rise to significant revisions to growth expectations for specific markets. Unexpected events such as Russia's invasion of Ukraine are likely to further contribute to this. As a result, many financial institutions, including the Bank, may find it difficult to accurately model and predict the prospects for their businesses and set viable financial targets, and it may be difficult for investors to use historical financial results as an indicator for future results. Any failure by the Bank to accurately predict macroeconomic developments, interest rates, revenue, expenses and cost of risk and/or future demand for the Bank's services could lead to misjudgements with respect to its strategy and increase the risk of failed implementation. If the Bank's strategy is not implemented successfully or if the Bank's strategy does not yield the anticipated benefits, this could have a material adverse effect on the Group's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank is exposed to competition and expects competition will increase

The Icelandic banking sector is dominated by the Bank, Íslandsbanki and Landsbankinn (the latter two being majority owned by the Icelandic government, and each of which is classified as a systemically important financial institution), but also includes other commercial banks and savings banks, the Housing Financing Fund (*Íbúðalánasjóður*), which has decreased participation in the market and has been merged into a new entity, Housing and Construction Authority, and mostly provides assistance for social housing in Iceland and pension funds, which have increased their mortgage lending to individuals at aggressive interest rates, partially as a result of the fact that they are not subject to the Bank Levy. Pension funds in Iceland also provide competition for the Bank's deposits, as a vast proportion of individuals' savings in Iceland are held in pensions rather than in bank deposits, and a significant portion of payments to pension funds, representing a proportion of salary and a contribution by employers, are required by law. Pension funds also represent a significant source of the Bank's funding in Icelandic Krona as purchasers of the Bank's covered bonds. In addition, the Icelandic government has introduced legislation in order to facilitate customers switching banks in an effort to promote competition, for example, by abolishing the stamp fee on collateral, which has had the effect of increasing the rate of refinancings, and there can be no assurance that the Bank will be able to obtain funding at similarly low interest rates in order to maintain net interest margin.

The Bank is subject to considerable regulatory scrutiny that can hinder its competitiveness. At the same time, fintech companies and initiatives, which are not subject to the same regulatory burden, also pose an emerging source of competition for the Bank. The implementation of Directive (2015/2366/EU) on payment services in the internal market (the **Payment Services Directive 2**) in Iceland has increased this regulatory burden for the Bank, as well as competitive pressure, since it came into force in Iceland on 1 November 2021. Furthermore, the Bank is currently classified as a systemically important financial institution in Iceland, adding to its regulatory burden. For example, the Bank, Íslandsbanki and Landsbankinn were for some time under investigation by the Icelandic Competition Authority (*Samkeppniseftirlitið*) (the **ICA**) in relation to alleged

abuse of the alleged collective dominant position of these three banks relating to their mortgage loan arrangements. That investigation was concluded with a settlement with the ICA in which the Bank agreed to take certain measures which have the objective of stimulating competition in retail banking services for individuals and small businesses. The measures have the objective of reducing switching costs in financial services, promoting active competition among banks toward individuals and small businesses and negating circumstances that could enforce tacit co-ordination in the market for retail banking services in Iceland. According to the Icelandic Competition Act, a failure to implement or comply with measures agreed to in a settlement can lead to administrative fines being administered pending an investigation by the ICA.

If demand for new lending and other banking products increases, the Bank expects to face increased competition from the other large Icelandic banks, pension funds and smaller specialised institutions. In addition, if there is sufficient credit demand, the Bank could potentially face increased competition from foreign banks seeking to establish operations in Iceland, in particular with respect to the customers of the Corporate & Investment Banking division. The Bank may have to comply with regulatory requirements that may not apply to such foreign competitors, creating an unequal playing field and resulting in higher costs of regulatory compliance for the Bank. Foreign competitors may also have substantially more resources and financial means available to them than the Bank does (particularly given the Bank's relatively smaller size and lack of scale advantage in light of its regulatory obligations as a systemically important financial institution in Iceland), permitting them to invest more in business development and expansion or being able to increase lending volumes or endure a greater reduction in margins.

If the Bank is unable to compete effectively in the future in any market in which it has a significant presence, this could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank is involved in a number of ongoing legal proceedings and is subject to investigations by governmental authorities

The Bank is involved in, or could be affected by, a number of ongoing legal proceedings and is subject to investigations by governmental authorities.

For additional information on legal proceedings, see "*Description of the Bank – Legal Proceedings*". The extent and outcome of the legal proceedings or investigations, as the case may be, as well as any effect on the Bank, remain uncertain.

The Bank is also exposed to risks of lawsuits or other claims inherent in its role as a financial intermediary and consultant to third party businesses through its Corporate & Investment Banking division. These risks include potential liability for the Bank's role in determining the price of a company and for advice the Bank provides to participants in corporate transactions and in disputes over the terms and conditions of trading arrangements. The Bank also faces the possibility that counterparties in the above mentioned activities as well as trading transactions will claim that the Bank failed to properly inform them of the associated risks.

The Bank may also be subject to claims arising from disputes with employees for, among other things, alleged illegal dismissal, discrimination or harassment, and it may also be subject to losses or reputational damage as a result of illegal behaviour by its employees or third party service providers. These risks may often be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time.

Should any legal proceedings or investigations be determined adversely to the Bank, the Bank could be required to pay damages and/or fines and be subject to future restrictions on its business activities, either of which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank may be unable to successfully maintain salary levels, and overrunning salaries and related expenses may give rise to reputational risk while heavy cost-cutting measures may have adverse effects on operations

Measures introduced by the Bank from time to time to cut or contain salaries and related expenses may not produce anticipated results. For example, total salary expenditure may increase, notwithstanding cost-cutting measures in the form of redundancies, in response to external factors such as general salary increases. When the general labour market is in a state of flux, including when significant wage increases have been introduced for specific groups such as Members of Parliament and government officials or the market is experiencing wage inflation more generally, the Bank may come under pressure to increase the salaries of its employees. Steep salary increases not only increase the Bank's expenditure but may also have reputational consequences in light of public sentiment. See “- *Public sentiment and political activity in Iceland could impair the Bank's operations*”. In addition, failure to properly staff the various divisions of the Bank and to remunerate and incentivise employees adequately could lead to, among other things, an impairment in the level of service which the Bank provides to its customers or in regulatory and compliance functions and, consequently, impair its business operations. Any of the above could have a material adverse effect on the Group's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank may be unable to recruit or retain experienced and qualified personnel

The Bank's future success depends, in part, on its ability to attract, retain and motivate qualified and experienced banking and management personnel. Competition for personnel with relevant expertise can be significant, particularly given the limited pool of potential candidates in Iceland, as the Bank competes for talented people with both financial and non-financial services companies. In addition, the Bank may not have sufficient scale, or may be subject to additional limitations on compensation imposed by Icelandic law or public sentiment, which make it unable to offer employees rates of compensation comparable to its larger international competitors (or smaller domestic competitors which might be able to offer more flexible compensation structures), particularly at more senior levels. The loss of the services of any key employees with institutional and customer knowledge may significantly delay the Bank's achievement of its business objectives and could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank could experience credit rating downgrades

Rating agencies assess the creditworthiness of the Bank and its operating environment and they assign a rating to it and certain of the financial instruments it has issued for funding and capital management purposes. The Bank has been rated BBB by S&P Ireland and A3 by Moody's.

A rating agency assessment is based on various factors. While most of the factors are specific to the Bank and the relevant financial instruments it issues, some relate to general economic conditions and other circumstances outside the Bank's control, such as changes in the macroeconomic environment, sovereign credit rating of Iceland and prospective level of systemic support a government can provide. No assurance can be given that a rating agency will not revise downward a credit rating or change the outlook on any such credit rating. In addition, rating agencies have and may in the future change their methodology from time to time, which may also result in a downgrade or a change in the outlook on any credit rating of the Bank or the relevant financial instruments it issues, for example by reducing or removing the effect of systemic support.

Any downgrade or potential downgrade in the ratings of the Bank or of the relevant financial instruments it issues may limit the Bank's access to the capital markets and certain types of instruments (for example, in terms of seniority and maturity), reduce its prospective investor base, increase borrowing costs, require the Bank to replace funding lost due to the downgrade or potential downgrade (for example, customer deposits), limit the Bank's access to capital, funding and money markets and trigger requirements to post additional collateral in derivatives contracts and other secured funding arrangements. In addition, a rating downgrade or

potential downgrade of the Bank could, among other things, limit its opportunities to operate in certain business lines and materially adversely affect certain other business activities, which in turn could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank is exposed to operational risks

The operational risks that the Bank faces include the possibility of inadequate or failed internal or external processes or systems failures, human error, natural disasters, regulatory breaches, employee misconduct or external events, such as fraud. The Bank's business inherently generates operational risks. The business depends on processing numerous complex transactions. The recording and processing of these transactions are potentially exposed to the risk of human and technological errors, including miscalculations, or a breakdown in internal controls relating to the due authorisation of transactions. Given the volume of transactions processed by the Bank, errors may be repeated or compounded before they are discovered and rectified, and no assurance can be given that risk assessments made in advance will adequately estimate the costs of these errors. Errors or misconduct can have a particularly significant impact with respect to funds and portfolios managed by the Bank or its wholly owned independent subsidiary Stefmir given the volume of assets under management in any particular fund or portfolio and the consequent magnitude of any errors or misconduct.

The Bank has implemented controls designed to detect, monitor and mitigate operational risks. However, these controls cannot completely eliminate such risks as some can be difficult to detect, recommendations and suggestions of surveillance units of the Bank (such as the compliance and internal audit functions) could be ignored, misunderstood or misapplied, and mitigation may fail to be effective. Failures in internal controls could subject the Bank to regulatory scrutiny and could ultimately lead to losses or impairments. See "*—The Bank is exposed to credit risk and its customer loan portfolio contains certain problem and impaired loans*" and "*Management and Employees—Internal Audit*". Such events could harm the Bank's reputation and have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank relies on its reputation and brands and those of its subsidiaries

The success of the Bank's business depends significantly on the Bank's reputation with customers as well as the strength and appeal of the brand of the Bank. The Bank's reputation is one of its most important assets and its ability to attract and retain customers and staff and conduct business with its counterparties could be materially adversely affected to the extent that its reputation or the reputation of its brand is damaged. Failure to address, or a perception that the Bank has failed to address, various issues that could give rise to reputational risk could cause harm to the Bank and its business prospects. Reputational issues could include:

- poor customer service or IT failures or interruptions that impact customer services and accounts (see "*—The Bank is exposed to the risk of failure and breaches of its information technology systems*");
- failure, or allegations of having failed, to maintain appropriate standards of customer privacy, customer service and record keeping and disclosure of confidential information (see "*- Unauthorised disclosure of confidential information and personal data, whether through cyber security breaches, computer viruses or otherwise, could expose the Bank to liability and protracted and costly litigation and damage its reputation*");
- failure to appropriately address potential conflicts of interest and acting, or allegations of having acted, unethically in the conduct of its business;
- breaching, or allegations of having breached, legal and regulatory requirements, including anti-money laundering and anti-terrorism financing requirements (see "*- The Bank is involved in a number of ongoing legal proceedings and is subject to investigations by governmental authorities*" and "*- The*

Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences”);

- failure to properly identify legal, regulatory, compliance, reputational, credit, operational, liquidity and market risks inherent in the Bank’s products and services (see “- *The Bank is exposed to a range of other typical financial institution market risks, including interest rate risk, equity price risk and inflation risk*” and “- *The Bank is exposed to operational risks*”);
- third parties on whom the Bank relies for information, products and services failing to provide the required information, products and services;
- adverse impacts on customers of the Bank which had invested in or had exposures to companies whose loans are determined by the Bank to be problem loans, and experienced losses as a result;
- the fact that the Bank is privately owned, while its principal competitors Íslandsbanki and Landsbankinn are majority owned by the government (although Íslandsbanki’s shares are, following a partial divestiture of the government’s 100 per cent. stake in June 2021 and March 2022, listed on Nasdaq Iceland); and
- generally poor business performance.

Failure to address these or any other relevant issues appropriately could damage the Bank’s reputation and make customers, depositors and investors less willing to do business with the Bank, which may have a material adverse effect on the Bank’s business, prospects, financial position and/or results of operations.

In addition, the Bank believes that its brand and the brands of its subsidiaries Stefnir and Vördur, are one of the key differentiators from competitors and provide a key competitive advantage. However, no assurance can be given that the Bank and its subsidiaries will be successful in further developing their respective brands and leveraging them into market share growth over competitors. Any circumstance that causes real or perceived damage to the Bank’s brand or the brands of its subsidiaries, including the occurrence of any of the risks or events described in these “*Risk Factors*”, could have a material adverse effect on the Bank’s ability to retain existing customers and attract new customers. An inability by the Bank or its subsidiaries to manage the risks to their brands could have a material adverse effect on the Bank’s business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank’s risk management methods may leave it exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

The Bank’s risk management strategies may fail under certain circumstances, particularly when confronted with risks that have not been identified or anticipated. Risk methodologies and techniques that the Bank adopts to assess credit risk, market risk, liquidity risk and operational risk may be flawed or may not take all risks into account, and it is possible that the methods for assessing these risks are not sound or are based on faulty information. They can also be misunderstood, not communicated properly to front-line staff, not implemented correctly or misapplied by the Bank’s personnel, and supervision by management could also be insufficient. In addition, the Bank’s risk management policies are constantly being re-evaluated and there may be a lag in implementation. Furthermore, some of the Bank’s qualitative tools and metrics for managing risk are based upon the use of observed historical market behaviour. The Bank may apply statistical and other tools to these observations to arrive at quantifications of risk exposures. These tools and metrics may fail to predict future risk exposures.

The Bank’s losses thus could be significantly greater than its risk management measures would indicate. In addition, the Bank’s quantified modelling does not take all risks into account. Unanticipated or incorrectly quantified risk exposures could have a material adverse effect on the Bank’s business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank relies on third party service providers

The Bank relies on the services, products and knowledge of third party service providers in the operation of its business. For example, the Bank relies on RB for deposit account and payment infrastructure. The Bank also relies on third party service providers in connection with its IT systems and is currently in the process of outsourcing its cash centre operations in order to benefit from scale synergies with the other Icelandic banks. Accordingly, the Bank 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 Bank's operations or result in vulnerability of its IT systems, exposing the Bank to operational failures, additional costs or cyber-attacks. The Bank may need to replace a third party service provider on short notice to resolve any potential problems, and the search for and payment to a new third party service provider on short notice or any other measures to remedy such potential problems could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

In addition, no assurance can be given that the third party service providers selected by the Bank will be able to provide the products and services for which they have been contracted, for example, as a result of failing to have the relevant capabilities, products or services 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 Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The asset management operations of the Bank may fail to sustain or increase their level of assets under management and is subject to pressure on fee margins

For the year ended 31 December 2022, the Bank generated ISK 5,768 million, or 10.08 per cent. of its operating income, from net fee and commission income of the Markets segment, comprising the Markets division of the Bank and its wholly owned independent subsidiary Stefnir. Stefnir manages open-ended funds, which allow investors to reduce the aggregate amount of their investment in open-ended funds, or to withdraw altogether from such funds, without notice. Similarly, portfolio management mandates and fiduciary mandates as well as discretionary and advisory mandates can typically be reduced or cancelled on short notice. Fee margins for asset management are generally under pressure as a result of competition in the market. If markets are declining, the investment performance of Stefnir's products and third party products provided by the Bank are seen as unsatisfactory and/or if customers are dissatisfied with the quality of the Bank's services or Stefnir's products (for instance, in respect of performance, reporting or compliance with customer instructions), this could lead to significant redemptions and withdrawals of assets under management. Funds provided by the Bank or managed by Stefnir could underperform the market or otherwise generate poor performance, undermining growth in assets under management, negatively affecting net fee and commission income as well as contributing to redemptions and withdrawals. In addition, reputational risk or potential conflicts of interest may result in a loss of key clients. Redemptions or withdrawals of assets under management would have an immediate impact on net fee and commission income and, therefore, operating income and, depending on the extent of such redemptions or withdrawals, could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes. Historical investment performance is not an indicator of the level of the Bank's future performance, and it may not be able to sustain successful performance over time. Results and performance levels in later periods may differ significantly from prior results and performance for various reasons, such as macroeconomic factors, performance of new funds compared with old funds, the departure of fund managers or other key staff members, loss of key clients, market conditions and a lack of investment opportunities.

Some of the pension funds that are fully managed by the Bank invested in the equity of United Silicon and consequently lost their investment following the bankruptcy of the company. There has been media coverage regarding the investment in light of the link between the pension funds and the Bank. The FSA has investigated

this investment and recommended some operational changes which the Bank and the relevant funds have complied with. The key changes are (i) to adjust the fund's investment processes in order to improve the assessment of potential conflicts of interest and reputational risk and (ii) to maintain more detailed documentation of the meetings and decisions of the fund's board of directors. This has also caused members of certain pension funds managed by the Bank to challenge the Bank's role in management of these funds, for example in terms of board representation by the Bank on the pension funds. The Bank believes that the potential for reputational risk involving possible or perceived conflicts of interest in respect of the operations of its Markets segment is increasing, and may have a negative impact on the Bank's relationships with its pension fund customers and their members or other clients and possibly result in loss of pension fund customers.

The Bank and Stefnir manage assets for retail and institutional investors, corporations and high net worth individuals in a broad range of asset classes. Certain of these asset classes may be viewed more or less favourably by potential customers at different times and in different markets with different regulatory and fiscal frameworks. Moreover, the overall proportion of customer assets across the asset management industry sector that is dedicated to actively managed funds of the type managed by the Bank and Stefnir is decreasing in favour of passively managed funds such as index funds, trackers and other similar low-fee alternatives, such as robo-advisers. In addition, new asset classes and categories of actively managed funds may be developed by competitors, some of which might not be among the principal products and services offered by the Bank and Stefnir. The entry into new products and services with potentially higher margins could also subject the Bank and Stefnir to potential losses, as a result of lack of experience with such products and services, greater inherent risk in the products and services or otherwise. The reduction in the number of pension funds in Iceland, and the recent trend on the part of certain Icelandic pension funds to bring asset management responsibilities back in-house rather than relying on third-party asset managers like the Bank, has had an impact on the fund management market in Iceland and is expected to have a negative effect on the fund management industry, especially in traditional funds, for the foreseeable future. Other imminent changes in the asset management industry include the arrival of new competition in the form of fintech companies, leading to more intense competition and putting pressure on commissions in various financial services. Responding to these changes will require the Bank to incur additional costs, hire employees with new expertise and change its business processes and services.

In addition, regulatory changes, in particular the implementation in Iceland on 13 June 2021 of MiFID II and Regulation (600/2014) on Markets in Financial Instruments, which replaced, extended and improved existing European rules on markets in financial instruments and strengthened investor protection by introducing additional organisational and conduct requirements, and which came into force on 1 September 2021, when the relevant Act of Parliament came into force, give more extensive powers to regulators and introduce the possibility of imposing higher fines in case of infringement of the requirements of such regulations.

The Bank could incur unforeseen liabilities from prior and future acquisitions and disposals

During the last few years, the Bank has made various acquisitions (in particular, the acquisition of the insurance subsidiary Vördur) and it has divested a number of assets, primarily non-core assets, which consist of legacy equity holdings of non-core subsidiaries and other assets, such as investment property, which it had acquired through restructuring processes following the financial crisis in 2008. See "*Description of Bank – History – 2010-2012: Restructuring of the Bank and its customers*". The Bank also acquired a majority interest in United Silicon as a result of its default. In the future, the Bank may make additional acquisitions and may decide to divest certain parts of its current businesses. The Bank may encounter difficulties integrating entities it has acquired into its operations or the combination of the businesses may not perform as well as anticipated. Failure to complete announced business combinations or failure to successfully integrate acquired businesses could lead to departures of key employees and have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

Acquisitions expose the Bank to the risk of unforeseen expenses, losses, tax liabilities or obligations with respect to employees, clients and business partners of acquired businesses, governmental authorities and other

parties. Before making an investment in a company or business, the Bank assesses the value or potential value of such company or business and the potential return on such an investment. In making the assessment and otherwise conducting due diligence, the Bank relies on the resources available and, in some cases, an investigation by third parties. However, no assurance can be given that due diligence examinations carried out by the Bank or by third parties in connection with equity interests in companies or businesses that the Group has acquired or will acquire are sufficient or will reveal all of the risks associated with such companies and businesses or the full extent of such risks. In addition, acquired companies or businesses may have hidden liabilities that are not apparent at the time of acquisition. Although the Bank normally obtains certain warranties and indemnities from the seller, these warranties and indemnities may not cover all of the liabilities that may arise following the acquisition, and any indemnification may not fully compensate the Bank for any diminution in the value of its interest in such companies or businesses. The Bank may also encounter difficulties enforcing warranties or indemnities against a seller for various reasons, including the insolvency of the seller, legal technicalities, such as the relevant jurisdiction or evidence requirements, or expiry of claim periods for such warranties or indemnities.

When divesting businesses or assets, the Bank may not always be able to pass on the entire risk relating to the divested business or assets to the purchaser, which may lead to additional risks, such as liability related to legacy obligations. The Bank could also face reputational issues or negative public sentiment upon a disposal, whether as a result of a sale at a discount to perceived value or for other reasons.

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

The Bank maintains customary insurance policies for its operations, including insurance for its liquid assets, money transport and directors' and officers' liability, as well as insurance against computer crimes and for employee dishonesty and mistakes. Due to the nature of the Bank's operations and the nature of the risks that it faces, no assurance can be given that the coverage that the Bank maintains is adequate to cover the losses for which it believes it is insured and, in the event the Bank's insurance is not adequate, this could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank's accounting policies and methods are critical to how it reports its financial condition and results of operations. They require management to make estimates about matters that are uncertain.

Accounting policies and methods are fundamental to how the Bank records and reports its financial condition and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods so they comply with IFRS.

Management has identified certain accounting policies in the notes to its financial statements as being critical because they require management's judgement to ascertain the valuations of assets, liabilities, commitments and contingencies. See note 4 to the H1 2023 Interim Financial Statements.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Bank has established detailed policies and control procedures that are intended to ensure that these critical accounting estimates and judgements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding the Bank's judgements and the estimates pertaining to these matters, the Bank cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

The Bank is subject to additional taxes beyond corporate income tax, which impose costs and competitive disadvantages

In addition to the basic corporate income tax rate of 20 per cent. in Iceland, the Bank is subject to certain other taxes which are specific to financial institutions in Iceland and increase its effective tax rate and its effective

cost of funding, which in turn can inhibit its ability to compete effectively with domestic and foreign lenders who are not subject to such additional taxes.

Under Act No. 155/2010 on Special Tax on Financial Institutions, certain types of financial institutions, including the Bank, are required to pay an annual levy (the **Bank Levy**), which, prior to the COVID-19 pandemic had, since the year ended 31 December 2013, been calculated at 0.376 per cent. on the total debt of the Bank in excess of ISK 50.0 billion as of the end of the applicable period. Non-financial subsidiaries are exempt from the Bank Levy. Whereas the Bank Levy was originally introduced as a temporary measure, there is currently no fixed date for its removal. The Bank Levy was lowered in 2020 from 0.376 per cent. to 0.145 per cent.

In addition, according to Act No. 165/2011 on Financial Activities Tax, certain types of financial institutions, including the Bank, are currently required to pay a special additional 5.5 per cent. tax levied on all remuneration paid to employees (the **Financial Activity Tax**). Under Income Tax Act No. 90/2003, as amended (the **Income Tax Act**), the Bank is subject to an additional tax of 6.0 per cent. as a financial institution in respect of taxable profit exceeding ISK 1.0 billion irrespective of joint taxation or carry-forward losses (the **Special Financial Activity Tax**). The Bank Levy, the Financial Activity Tax and the Special Financial Activity Tax place an increased cost burden on the Bank and subject it to a competitive disadvantage relative to other lenders not subject to such taxes, including international banks, domestic pension funds and the Housing Financing Fund. In addition, the Bank's results of operations could be harmed by changes in tax laws and tax treaties or the interpretation thereof, changes in corporate tax rates and the refusal of tax authorities to issue or extend advanced tax rulings, any of which could result in the Bank being subject to a higher effective tax rate. The unavailability of tax rulings could also diminish the range of structured transactions the Bank can enter into with its customers.

Moreover, the Bank may be subject to additional taxes or levies in the future. For example, the governor of the Icelandic Central Bank has suggested the possible imposition of a levy on banks to help fund the negative carry costs of the significant foreign currency reserves which the Icelandic Central Bank maintains, which, if enacted, could impose significant additional costs on financial institutions in Iceland, including the Bank.

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

The Bank could face tax liabilities or competitive disadvantages in respect of VAT on some of its services

The services of banks, savings banks and other credit institutions are currently exempt from value added tax (VAT) under the Value Added Tax Act no. 50/1988. The tax authorities in Iceland have historically construed the exemption to be limited to the services that banks and other credit institutions provide according to the Financial Undertakings Act. For certain of the services provided by the Bank to customers and under the terms of its intra-Group arrangements with subsidiaries, the Bank has not historically collected VAT, and there is uncertainty whether VAT should be collected for some of such services. While the Bank believes that its practices with respect to collection of VAT are common among financial institutions in Iceland, there can be no assurance that Icelandic tax authorities will not reassess VAT on services provided by the Bank and conclude that the Bank has failed to collect VAT properly on certain services in the past. Should this occur, the Bank could be liable retroactively for six years' unpaid amounts, plus penalties and interest. To the extent that, going forward, the Bank decided, or was obliged, to start claiming VAT in respect of such services but its competitors did not, it would be at a competitive disadvantage and could be priced out of competing effectively for provision of certain services. Any of the foregoing could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations.

RISKS RELATING TO THE REGULATORY ENVIRONMENT IN WHICH THE BANK OPERATES

There are regulatory, compliance and legal risks inherent in the Bank's businesses

The Bank's operations entail considerable regulatory, compliance and legal risks, including litigation and liability risk. The Bank and certain of its subsidiaries are subject to government regulation and supervision as financial institutions in Iceland, and regulations may be extensive and may change piecemeal, rapidly, at times unexpectedly and with only a very short period of notice and consultation, as they have done since the global financial crisis in 2008. The regulatory and compliance risks faced by the Bank and its subsidiaries arise not only from regulation within Iceland or specific to financial services firms, but also from other, more broadly applicable regulations and from risks relating to the ability of Icelandic authorities to adopt, implement and administer applicable regulations and to supervise Icelandic banks. The implementation of new European directives and regulations into Icelandic legislation will be subject to the ability of the Icelandic ministries, legislature and regulators to apply additional, more stringent requirements where they are permitted or required to do so, for example with respect to capital requirements. The Bank and its subsidiaries are also subject to regulatory scrutiny from certain other supervisory bodies, such as the ICA and the Data Protection Authority. In addition, the Bank's ability to conduct certain of its and its subsidiaries' operations is contingent upon licences issued by financial authorities. Compliance with the requirements of these licences, or with an administrative decision or supervisory guidance or any new or revised law, regulation or licensing requirement, may require significant resources and manpower, impose significant costs on the Bank and require changes in the Bank's operations and management. Failure to comply with any of the above could potentially expose the Bank to civil or criminal liability, reputational damage and sanctions including fines, the loss or limitation of licences, authorisations or permits necessary for the Bank's business and stricter regulatory scrutiny or supervision by Icelandic authorities. Such failures may arise despite the Bank's risk management system.

Leading up to the financial crisis in 2008, there was a significant imbalance between the resources of the FSA and those of Icelandic banks, which may have limited the ability of the FSA to adequately supervise such banks. Although these resource constraints have since been addressed through measures such as the appointment of more staff at the FSA and revision and expansion of the regulatory framework surrounding the banking industry, there can be no assurance that the FSA or other regulatory authorities will be able to successfully identify and remedy weaknesses in Iceland's financial services sector. Prior to the financial crisis, Icelandic banks engaged in activities of which the FSA was aware and on which it did not offer negative comment, but which have since been found unlawful by the Icelandic courts. Despite the increased FSA resources and expanded regulatory framework, the possibility exists that employees of the Bank could, in good faith, engage in activities, which may be widespread and might later be found to conflict with regulations. Pursuant to the introduction of the Act on the European System of Financial Supervision on 9 May 2017, Iceland has adopted the European framework for financial supervision which aims to enhance stability and the health of the financial system. See "*The Financial Supervisory Authority, the European System of Financial Supervision, the Icelandic Central Bank and the Iceland Stock Exchange*" for details on the merger of the FSA with the Icelandic Central Bank.

In addition, as a result of a lack of a formally defined procedural protocol for correspondence, discussions and meetings between the FSA and the Bank, at times the FSA has sought to communicate with management in preference to the Board of Directors, or to individual Icelandic members of the Board of Directors as opposed to the Board of Directors as an entity. These circumstances create a risk that the Bank might be unable to have a complete overview of all the correspondence with the FSA or that information relevant to the Bank could be lost in translation, delayed or not relayed to the Board of Directors. Inaccurate or insufficient information can prevent the Board of Directors from carrying out its supervisory function and could lead to failure by the Bank to comply with corporate governance requirements.

Violations of rules and regulations, whether intentional or unintentional, or failure to comply with licensing or other requirements, may adversely affect the Bank's reputation or financial condition, results of operations and prospects. In addition, existing laws and regulations could be amended, the manner in which laws and

regulations are enforced or interpreted could change and new laws or regulations could be adopted in ways unfavourable to the Bank's operations, which could adversely affect the way the Bank operates its business and its market reputation. See “- *Public sentiment and political activity in Iceland could impair the Bank's operations*” and “*Description of the Bank – Legal Proceedings*”.

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

Iceland's national implementation of the EEA rules may not be comprehensive in all circumstances and incorporation of the relevant EU rules into the EEA Agreement may be delayed

As a contracting party to the EEA Agreement (as defined below), Iceland is obligated to implement single market EU legislation which has been incorporated into the EEA Agreement, including legislation relating to financial markets. Where Iceland has failed to amend national law to conform to EEA rules, citizens may be unable to rely on them and the Icelandic courts barred from applying them, unless Icelandic legislation may be interpreted in conformity with the relevant EEA rules. In this respect, the Icelandic legislation on financial undertakings, securities transactions and other relevant fields are mostly implemented from EEA rules. There can be errors in such implementations which can result in a lack of uniformity between EU law and the corresponding Icelandic legislation. In such cases, Icelandic law will be deemed to prevail in the Icelandic courts. Such errors can cause confusion and debate as to precisely which rules the Bank is required to follow and can result in time consuming and resource intensive discourse with regulators.

The EEA Agreement provides that EU legislation of EEA relevance is to be incorporated into the EEA Agreement and implemented into national law by the EEA EFTA States (as defined below). Delays in incorporation of EU legislation related to the financial markets may create regulatory discrepancy between the EEA EFTA States and the EU Member States. Delays in the full implementation of European directives and regulations into Icelandic legislation may also give rise to uncertainty as to the applicable requirements. Icelandic government authorities, as well as the Bank's counterparties, may seek to mitigate delays in formal implementation into national law by seeking to apply in practice requirements equivalent to those under EEA rules. As a result, the Bank may be unable to rely on the precise wording of statutes or draw guidance from legislative preparatory works. Complying with regulation that is in flux can be resource intensive and exposes the Bank to a risk of non-compliance, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes.

The Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences

The Bank is subject to laws regarding money laundering and the financing of terrorism as well as laws that prohibit the Bank or its employees or intermediaries from making improper payments or offers of payment to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. Compliance with anti-money laundering and anti-bribery regulations can place a significant financial burden on banks and other financial institutions and requires significant technical capabilities. The Icelandic government has implemented the Fourth Money Laundering Directive (2015/849/EU) by Act No 140/2018, which came into effect in Iceland on 1 January 2019. However, the Bank cannot predict the nature, scope or effect of future regulatory requirements to which it might be subject or the manner in which existing laws might be administered or interpreted. Although the Bank believes that its current policies and procedures are sufficient to comply with applicable anti-money laundering, anti-bribery and sanctions rules and regulations, it cannot guarantee that such policies completely prevent situations of money laundering or bribery, including actions by the Bank's employees, for which the Bank might be held responsible. Any such events may have severe consequences, including sanctions, fines and reputational consequences, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes. In October 2019, the Financial Action Task Force (FATF) decided

to place Iceland on its list of jurisdictions with strategic Anti-Money Laundering and Countering the Financing of Terrorism deficiencies. In October 2020, Iceland was removed from the monitoring list. The FATF concluded that Iceland had strengthened the effectiveness of its AML/CFT regime and addressed related technical deficiencies to meet the commitments in its action plan regarding the strategic deficiencies that the FATF identified in October 2019. There can be no assurance that the aforementioned decision will not have negative effect on the Bank's operation and/or reputation.

Application of CRD IV (and the CRD V Directive when implemented) could adversely affect the Bank

In 2013, the European Parliament and the European Council adopted a legislative package (**CRD IV**) for the implementation of the Basel III framework in the EU. The CRD IV package has been incorporated into the EEA Agreement and implementation in Iceland has now been largely completed. Any failure by the Bank to maintain any increased regulatory capital requirements or to comply with any other requirements introduced by regulators could result in intervention by regulators or the imposition of sanctions, which could have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations, and its ability to make payments in respect of the Notes, and could have other effects on the Bank's financial performance, both with or without the intervention by regulators or the imposition of sanctions, and could also require raising additional capital.

On 7 June 2019, Directive 2019/879/EU (the **CRD V Directive**) of the European Parliament and of the European Council of 20 May 2019 and Regulation (EU) No. 2019/876 of the European Parliament and of the Council of 20 May 2019 (**CRR II**) were published amending CRD IV. The CRD V Directive and CRR II provide for extensive changes to the EU regulatory framework, including the Fundamental Review of the Trading Book (**FRTB**), the Net Stable Funding Ratio, the minimum requirements for own funds and eligible liabilities (**MREL**) and the Pillar 2 framework. Eligible liabilities for these purposes means the liabilities and capital instruments that do not qualify as CET1, Additional Tier 1 or Tier 2 instruments of the relevant entity and that are not excluded from the scope of the bail-in tool, and that fulfil the applicable conditions under CRR II. EU Member States are required to adopt the measures necessary to comply with the CRD V Directive by 28 December 2020 and these measures are to be applied by EU Member States from 29 December 2020, although certain provisions are only to be applied by EU Member States from 1 January 2022. CRR II was to be applied by EU Member States from 28 June 2021 with certain exceptions and was fully implemented into Icelandic law following incorporation into the EEA Agreement on 29 October 2021. The CRD V Directive has been incorporated into the EEA Agreement by EEA Joint Committee Decision No 145/2022, which entered into force on 1 August 2023 and is to be implemented in Iceland following entry into force of that decision. The Bank is closely monitoring the implementation process of CRR II and the CRD V Directive in Iceland.

RISKS RELATING TO THE NOTES

Risks related to the structure of a particular issue of Notes

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

Risks applicable to all Notes

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

A judgment entered against a company incorporated in Iceland in the courts of a state which is not a party to the Convention on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters made in Lugano on 30 October 2007 (the **Lugano Convention**) as a Contracting State (as defined in the Lugano Convention), would not be recognised or enforceable in Iceland as a matter of law without a retrial

on its merits (but will be of persuasive authority as a matter of evidence before the courts of law of Iceland). As at the date of this Base Prospectus, the UK and Iceland are not bound by any agreement, treaty or other instrument on mutual recognition and enforcement of judgments applicable in relation to the Notes.

As a result, a final judgment in civil or commercial matters relating to the Notes obtained in the courts of England against the Bank, will, in principle, neither be recognised nor enforceable in Iceland. However, if a Noteholder brings a new action in a competent court in Iceland, the final judgment rendered in an English court may be submitted to the Icelandic court, but will only be regarded as evidence of the outcome of the dispute to which it relates, and the Icelandic court has full discretion to rehear the dispute ab initio. Any retrial on a judgment's merits could therefore significantly delay or prevent the enforcement by Noteholders of the Bank's obligations under the Notes.

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

An optional redemption feature (including any redemption of the Notes (i) upon the occurrence of a Tax Event pursuant to Condition 6.2, (ii) upon the occurrence of a Capital Event pursuant to Condition 6.9 in the case of Subordinated Notes and (iii) upon the occurrence of an MREL Disqualification Event pursuant to Condition 6.11 in the case of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes and Subordinated Notes (where redemption upon the occurrence of a MREL Disqualification Event in the case of Subordinated Notes is specified as being applicable in the applicable Final Terms)) may limit the market value of Notes. During any period when the Bank may elect to redeem Notes, or during which there is an actual or perceived increased likelihood that the Bank may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

In the case of Notes which specify "Issuer Residual Call" as applicable in the applicable Final Terms, the Bank's optional redemption right will become operative where, at any time, the outstanding aggregate nominal amount of the Notes is 25 per cent. or less of the aggregate nominal amount of the relevant Series of Notes issued (or such other lower percentage amount as specified in the applicable Final Terms). Holders of any such Notes may find that their Notes are redeemed by the Bank prior to the relevant Maturity Date.

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

If the Notes include a feature to convert the interest basis from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.

Fixed/Floating Rate Notes are Notes which bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Such a feature to convert the interest basis, and any conversion of the interest basis, may affect the secondary market in, and the market value of, such Notes as the change of interest basis may result in a lower interest return for Noteholders. Where the Notes convert from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. Where the Notes convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on those Notes and could affect the market value of an investment in the relevant Notes.

The interest rate on Fixed Reset Notes will reset on each Reset Date, which can be expected to affect interest payments on an investment in Fixed Reset Notes and could affect the secondary market and the market value of the Fixed Reset Notes concerned

Fixed Reset Notes will initially bear interest at the Initial Interest Rate (as specified in the applicable Final Terms) until (but excluding) the Reset Date (as specified in the applicable Final Terms). On the Reset Date and each Subsequent Reset Date (as specified in the applicable Final Terms) (if any) thereafter, the interest rate will be reset to the sum of the applicable Reset Reference Rate and the Reset Margin (each as specified in the applicable Final Terms) as determined by the Fiscal Agent (in the case of Fixed Reset Notes other than ISD Notes) or the ISD Agent (in the case of Fixed Reset Notes which are ISD Notes) on the relevant Reset Determination Date (each such interest rate, a **Reset Rate**). The Reset Rate for any Reset Period could be less than the Initial Interest Rate or the Reset Rate for prior Reset Periods and could affect the market value of an investment in the Fixed Reset Notes.

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

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

The implementation of the BRRD in Iceland provides for a range of actions to be taken in relation to a relevant entity considered to be at risk of failing. The taking of any action under the BRRD as implemented in Iceland could materially affect the value of any Notes

Under Directive 2014/59/EU providing for the establishment of a EU and EEA-wide (and in the UK, the Banking Act 2009, as amended, has implemented the majority of provisions of Directive 2014/59/EU) framework for the recovery and resolution of credit institutions and investment firms (the **Bank Recovery and Resolution Directive** or **BRRD**, including as amended by Directive 2019/879/EU of the European Parliament and of the European Council of 20 May 2019 (**BRRD II**), as applicable), resolution authorities have the power, among other things, to write down certain claims of unsecured creditors of a failing relevant entity (which write-down may result in the reduction of such claims to zero) and to convert certain unsecured debt claims (including Notes) to equity or other instruments of ownership (the **general bail-in tool**), which equity or other instruments could also be subject to any future cancellation, transfer or dilution. Following the implementation of the BRRD in Iceland (see “*Financial Markets in Iceland – The BRRD in Iceland*”), the Notes may be subject to the exercise of the general bail-in tool by the Relevant Resolution Authority (as defined in Condition 18 under “Terms and Conditions of the Notes”) and the Notes include a contractual consent to the application of any Bail-in and Loss Absorption Powers (as defined in Condition 18 under “Terms and Conditions of the Notes”).

In addition to the general bail-in tool, the BRRD provides for resolution authorities to have the further power to permanently write-down or convert into equity capital instruments such as the Subordinated Notes at the point of non-viability and before any other resolution action is taken (**non-viability loss absorption**). Any shares issued to holders of Subordinated Notes upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

Any application of the general bail-in tool under the BRRD shall be in accordance with the hierarchy of claims in normal insolvency proceedings. Accordingly, the impact of such application on holders of the Notes will depend on their ranking in accordance with such hierarchy, including any priority given to other creditors such as depositors. To the extent any resulting treatment of holders of the Notes pursuant to the exercise of the general bail-in tool is less favourable than would have been the case under such hierarchy in normal insolvency proceedings, a holder has a right to compensation under the BRRD based on an independent valuation of the

relevant entity (which is referred to as the “no creditor worse off safeguard” under the BRRD). Any such compensation is unlikely to compensate that holder for the losses it has actually incurred and there is likely to be a considerable delay in the recovery of such compensation. Compensation payments (if any) are also likely to be made considerably later than when amounts may otherwise have been due under the Notes.

The BRRD was fully implemented in Iceland on 24 May 2020 by legislation which entered into force on 1 September 2020. Accordingly, holders of Notes may be subject to the application of the general bail-in tool and, in the case of Subordinated Notes, non-viability loss absorption, which may result in such holders losing some or all of their investment (in the case of Subordinated Notes, see further “*-There is a real risk that holders of Subordinated Notes will lose some or all of their investment should the Bank become insolvent or subject to resolution or at the point of non-viability of the Bank*”). Such application of the general bail-in tool could also involve modifications to or the disapplication of provisions in the conditions of the Notes, including alteration of the principal amount or any interest payable on the Notes, the maturity date or any other dates on which payments may be due, as well as the suspension of payments for a certain period. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Bank to satisfy its obligations under any Notes.

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

Under the terms of the Notes, investors will agree to be bound by and consent to the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority

By acquiring Notes, each Noteholder and each beneficial owner acknowledges, accepts, consents and agrees to be bound by (a) the effect of the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority, that may include and result in any of the following, or some combination thereof: (i) the reduction of all, or a portion, of the principal amount of, or any interest on, the Notes or any other outstanding amounts due under, or in respect of, the Notes; (ii) the conversion of all, or a portion, of the principal amount of, or any interest on, the Notes or any other outstanding amounts due under, or in respect of, the Notes into shares, other securities or other obligations of the Bank or another person (and the issue to or conferral on the Noteholder of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Notes; (iii) the cancellation of the Notes; (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and (b) the variation of the terms of the notes as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority. See Condition 18 under “*Terms and Conditions of the Notes*”.

In certain circumstances, other than in the case of Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms, the Bank can substitute or vary the terms of the Notes

If at any time a Capital Event (in the case of Subordinated Notes), an MREL Disqualification Event (in the case of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes and Subordinated Notes (where redemption upon the occurrence of a MREL Disqualification Event in the case of Subordinated Notes is specified as being applicable in the applicable Final Terms)) or a Tax Event (in the case of any Notes other than Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) occurs, or if required (in the case of any Notes other than Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) in order to ensure the effectiveness or enforceability of Condition 18, the Bank may, subject to obtaining the prior written consent of the Relevant Regulator (if such consent is required), but without the requirement for the consent or approval of the Noteholders, either substitute all, but not some only, of the relevant Notes for, or vary the terms of the relevant Notes, as the case may be, so that they remain or, as appropriate, become, in the case of Subordinated Notes, Subordinated Qualifying Securities (as defined in Condition 6.12), in the case of Senior Non-Preferred Notes, Senior Non-Preferred Qualifying Securities (as defined in Condition 6.13) or, in the case of Senior Preferred Notes, Senior Preferred Qualifying Securities (as defined in Condition 6.13), as further provided in Condition 6.12 and Condition 6.13, as applicable.

The terms and conditions of such substituted or varied Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, may have terms and conditions that contain one or more provisions that are substantially different from the terms and conditions of the original Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, provided that the relevant Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes remain or, as appropriate, become, in the case of Senior Preferred Notes, Senior Preferred Qualifying Securities, in the case of Senior Non-Preferred Notes, Senior Non-Preferred Qualifying Securities or, in the case of Subordinated Notes, Subordinated Qualifying Securities, in accordance with the Terms and Conditions of the Notes. While the Bank cannot make changes to the terms of the Notes that are materially less favourable to the holders of the relevant Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, as a class, no assurance can be given as to whether any of these changes will negatively affect any particular holder. In addition, the tax and stamp duty consequences of holding such substituted or varied Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, could be different for some categories of Noteholders from the tax and stamp duty consequences for those Noteholders of holding the Senior Preferred Notes, Senior Non-Preferred Notes or Subordinated Notes, as the case may be, prior to such substitution or variation.

The terms of the Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes and Subordinated Notes contain a waiver of set-off rights

No holder of any Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note, as the case may be, may at any time exercise or claim any Set-Off Rights (as defined in Condition 3.4 under “*Terms and Conditions of the Notes*”) against any right, claim or liability of the Bank or that the Bank may have or acquire against such holder, directly or indirectly and howsoever arising (and including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any kind or any non-contractual obligation, whether or not relating to those Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes or Subordinated Notes).

The Terms and Conditions of the Notes provide that holders of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes and Subordinated Notes shall be deemed to have waived all Set-Off Rights to the fullest extent

permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. As a result, those Noteholders will not at any time be entitled to set-off the Bank's obligations under such Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note, as the case may be, against obligations owed by them to the Bank.

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

The terms of the Notes contain provisions for calling meetings (including by way of conference call or by use of a videoconference platform) of Noteholders 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 Noteholders including Noteholders 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 Noteholders who voted in a manner contrary to the majority.

In addition, certain changes may be made to the interest calculation provisions of (i) Floating Rate Notes other than where the Reference Rate is specified in the applicable Final Terms as being Compounded Daily SOFR or Fixed Reset Notes in the circumstances set out in Condition 4.4 and (ii) Floating Rate Notes where the Reference Rate is specified in the applicable Final Terms as being Compounded Daily SOFR or Fixed Reset Notes in the circumstances set out in Condition 4.3(b)(iii), in each case, without the requirement for consent of the Noteholders.

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

The terms of the Bearer Notes and the Registered Notes are based on English law (other than Condition 3 and Condition 18 of the Bearer Notes and the Registered Notes, which are based on Icelandic law), as in effect as at the date of this Base Prospectus. The terms of the ISD Notes are based on Icelandic law, as in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, Icelandic law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

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

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in their account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes 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 their account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed or issued) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

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

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

The Icelandic statutory exemption from withholding only applies to Notes held through a securities depository in an OECD state, an EU state, an EFTA state or the Faroe Islands. If Notes in definitive form are issued, holders should be aware that the tax exemption may not be available. However, the Bank will be required to pay the necessary additional amounts under Condition 7 in such circumstances to cover any resulting amounts deducted or withheld. See "*Taxation – Iceland – Non-Icelandic Tax Residents*".

Reliance on Euroclear and Clearstream, Luxembourg procedures

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

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

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

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

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

Risks related to Senior Preferred and Senior Non-Preferred Notes

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

In Iceland, Article 102 of the Act on Financial Undertakings provides that, should a financial institution holding bank deposits, such as the Bank, enter into winding-up proceedings pursuant to Article 101 of the Act on Financial Undertakings, then the claims of holders of senior unsecured unsubordinated debt will be subordinated to the claims of all of the Bank's depositors. Moreover, the Hierarchy of Claims Act was recently enacted into law by the Icelandic Parliament on 4 May 2021. The Hierarchy of Claims Act amends the Act on Financial Undertakings and introduces a new Article 85(a) to the Act on Recovery and Resolution which provides in part that, in a winding-up: (a) claims of certain types of the Bank's depositors will have priority over other kinds of bank deposits (i.e. the inner ranking within deposits will change), but (b) all types of bank

deposits will, as a group, rank higher than the claims of the Bank's senior unsecured unsubordinated debt obligations.

Accordingly, under current Icelandic law, the claims of holders of senior unsecured debt (which would include Senior Preferred Notes as well as Senior Non-Preferred Notes) are subordinated to the claims of all of the Bank's depositors in a Winding-up (as defined in Condition 3.1) of the Bank. If a Winding-up of the Bank were to occur, there may not be sufficient assets in the resulting estate to pay the claims of such Noteholders after the claims of depositors have been paid.

Any such general depositor preference could also impact upon any application of the general bail-in tool, as such application is to be carried out in the order of the hierarchy of claims in normal insolvency proceedings. Accordingly, any resulting write-down or conversion of the Senior Preferred Notes by the Relevant Resolution Authority would be carried out before any write-down or conversion of the claims of depositors such as those of large corporates that previously would have been written-down or converted alongside the Senior Preferred Notes. By removing the requirement for such deposits to be written-down or converted in this manner, this may reduce the likelihood of deposits generally needing to be included in any such write-down or conversion upon any application of the general bail-in tool. This may have the corresponding impact of increasing the likelihood of any write-down or conversion of the Senior Preferred Notes.

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

The Hierarchy of Claims Act introduces a new class of "senior non-preferred notes" that meet specified criteria, which class will, upon a credit institution's bankruptcy, rank junior to its senior unsubordinated debt obligations and rank senior to its subordinated notes as well as regulatory capital and common shares. As further set out in Condition 3.2 (*Status of the Senior Non-Preferred Notes*), the Senior Non-Preferred Notes will constitute part of this new, lower-ranking (unpreferred) 'senior' unsecured class that will rank junior to its Senior Preferred Notes but senior to the Subordinated Notes.

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

On the Winding-Up of the Bank, all claims in respect of the Senior Non-Preferred Notes will rank *pari passu* without any preference among themselves, *pari passu* with all other Senior Non-Preferred Liabilities of the Bank (as defined in Condition 3.2), senior to holders of all classes of share capital of the Bank and any subordinated obligations or other securities of the Bank which rank, or are expressed to rank, junior to the Senior Non-Preferred Liabilities of the Bank (including, without limitation, any Subordinated Notes) and will rank junior to present or future claims of (a) depositors of the Bank and (b) other unsubordinated creditors of the Bank. If, on a Winding-Up, the assets of the Bank are insufficient to enable the Bank to repay the claims of the unsubordinated creditors in full, the Noteholders will lose their entire investment in the Senior Non-Preferred Notes. If there are sufficient assets to enable the Bank to pay the claims of unsubordinated creditors in full but insufficient assets to enable it to pay claims in respect of its obligations in respect of the Senior Non-Preferred Notes or all other claims that rank *pari passu* with the Senior Non-Preferred Notes, holders of Senior Non-Preferred Notes will lose some (which may be substantially all) of their investment in the Senior Non-Preferred Notes.

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

Moreover, there is no restriction on the amount of securities or other liabilities that the Bank may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Senior Non-Preferred Notes. The issue or guaranteeing of any such securities or the incurrence of any such other liabilities may reduce the amount (if

any) recoverable by holders of Senior Non-Preferred Notes during a Winding-up of the Bank and may limit the Bank's ability to meet its obligations under the Senior Non-Preferred Notes.

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

Noteholders may only declare the Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) or the Senior Non-Preferred Notes to be due and payable in certain very limited circumstances and may only claim for payment in respect of such Notes in the liquidation (in Icelandic: slit eða gjaldþrot) of the Bank

Upon default being made in the payment of any principal or interest due in respect of the Senior Preferred Notes or the Senior Non-Preferred Notes, as the case may be, a holder of such Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) may, upon the expiry of the applicable period, institute proceedings for the Bank to be declared insolvent or its liquidation (in Icelandic: *slit eða gjaldþrot*) and prove or claim in the liquidation of the Bank. It is only upon a declaration of insolvency by a court or agency or supervisory authority with the necessary jurisdiction and/or the liquidation of the Bank, that a holder of such Notes may declare such Notes to be due and payable and that holder may then only claim payment in respect of such Notes in the liquidation of the Bank.

Holders of the Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) or the Senior Non-Preferred Notes, as the case may be, may not otherwise institute any proceedings against the Bank and do not have any other remedies against the Bank, in each case to enforce any obligation for the payment of any principal or interest in respect of such Notes. Accordingly, upon any default being made by the Bank in payment of any amount due in respect of the Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) or the Senior Non-Preferred Notes, as the case may be, a holder of such Notes will only have the limited remedies above and will not have any other remedy against the Bank.

Risk related to Green Notes

The application of the net proceeds of Green Notes as described in "Use of Proceeds" may not meet investor expectations or be suitable for an investor's investment criteria

Prospective investors in any Notes where the "Reasons for the offer" in Part B of the applicable Final Terms are stated to be for "green" purposes as described in "Use of Proceeds" below (**Green Notes**), should have regard to the information in "Use of Proceeds" regarding the use of the net proceeds of those Green Notes and must determine for themselves the relevance of such information for the purpose of any investment in such Green Notes together with any other investigation such investor deems necessary. In particular no assurance is given by the Bank or the Dealers that the use of such proceeds for any Eligible Assets (as defined in the "Use of Proceeds" section below) will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental impact of any projects or uses, the subject or related to any Eligible Assets.

Furthermore, it should be noted that the definition (legal, regulatory or otherwise) of what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label is evolving and there is currently no market consensus. No assurance can be given that such a clear definition, consensus or label will develop over time or that if it does, any Green Notes will comply with such definition, market consensus or label.

A basis for the determination of such “green” project 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 **Sustainable Finance Taxonomy Regulation**) on the establishment of a framework to facilitate sustainable investment (the **EU Sustainable Finance Taxonomy**), which is subject to phased implementation. The EU Sustainable Finance Taxonomy 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 Sustainable Finance Taxonomy Regulation (including, for example, through Commission Delegated Regulation (EU) 2021/2139). The Sustainable Finance Taxonomy Regulation was incorporated into the EEA Agreement by EEA Joint Committee Decision No 151/2022, which entered into force 15 December 2022. The Regulation was implemented into Icelandic law by Act No 25/2023 which entered into force on 1 June 2023. In addition, no assurance or representation is or can be given whether any Green Notes will be compliant with the proposed regulation of the European Parliament and of the Council on European green bonds or Regulation (EU) 2019/2088 of the European Parliament and of the European Council of 27 November 2019 on sustainability-related disclosure in the financial services sector, and any delegated or other implementing regulations and guidelines, or any similar legislation in the UK. In the meantime, while Iceland may have similar legislation in place, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Assets will meet any or all investor expectations regarding such “green” 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 Eligible Assets. In addition, the criteria for what constitutes an Eligible Asset may be changed from time to time.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any report, assessment, opinion or certification of any third party (whether or not solicited by the Bank) which may or may not be made available in connection with the issue of any Green Notes and in particular with any Eligible Assets to fulfil any environmental, sustainability and/or other criteria. Any such report, assessment, opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such report, assessment, opinion or certification is not, nor should be deemed to be, a recommendation by the Bank, the Dealers or any other person to buy, sell or hold any such Green Notes. Any such report, assessment, opinion or certification is only current as of the date it was issued. Prospective investors must determine for themselves the relevance of any such report, assessment, opinion or certification and/or the information contained therein and/or the provider of such report, assessment, opinion or certification for the purpose of any investment in such Green Notes. Currently, the providers of such reports, assessments, opinions and certifications are not subject to any specific oversight or regulatory or other regime. Investors in any Green Notes shall have no recourse against the Bank, the Dealers or the provider of any such opinion, report or certification for the content of any such report, assessment, opinion or certification. None of above reports, assessments, opinions or certifications are incorporated in or form part of this Base Prospectus.

In the event that any Green Notes are listed or admitted to trading on any dedicated “green”, “environmental”, “social” or “sustainable” or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Bank, the Dealers or any other person that such listing or admission satisfies, 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. Furthermore, the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Bank, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such Green Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Green Notes.

While it is the intention of the Bank to apply an amount equal to the net proceeds of any Green Notes and obtain and publish the relevant reports, assessments, opinions and certifications in, or substantially in, the manner described in “*Use of Proceeds*”, there can be no assurance that the Bank will be able to do this. Nor

can there be any assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Asset will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Bank.

Any such event or failure to apply an amount equal to the net proceeds of any issue of Green Notes for any Eligible Assets, or to obtain and publish any such reports, assessments, opinions and certifications, as well as the existence of any potential mismatch between the duration of the Eligible Assets and the term of any Green Notes or the failure of the Green Notes to meet investors' expectations or requirements regarding any "green", "sustainable", "social" or similar labels, will not (i) constitute an Event of Default under the relevant Green Notes, or (ii) give rise to any other claim or right (including any right to accelerate the Notes) of a holder of such Green Notes against the Bank, or (iii) lead to an obligation of the Bank to redeem such Notes or be a relevant factor for the Bank in determining whether or not to exercise any optional redemption rights in respect of any Notes, or (iv) affect the regulatory treatment of such Notes as Tier 2 capital or eligible liabilities for the purposes of MREL if such Notes are also Subordinated Notes, Senior Preferred Notes or Senior Non-Preferred Notes, as the case may be.

The Bank does not undertake to ensure that there are at any time sufficient Eligible Assets to allow for allocation of a sum equal to the net proceeds of the issue of such Green Notes in full.

The Green Notes are issued subject to their applicable terms and conditions including, without limitation, in relation to their status, interest payments, redemption and events of default as described in the "*Terms and Conditions of the Notes*" and the applicable Final Terms, regardless of the issue of such Notes as Green Notes. The Green Notes are further subject to any general bail-in tool and non-viability loss absorption that may be imposed in exactly the same manner as for any other Notes (including where such Notes are also Subordinated Notes, Senior Preferred Notes or Senior Non-Preferred Notes).

Similarly, any Green Notes, as for any other Notes, will be fully subject to the application of the CRR eligibility criteria and BRRD requirements for own funds and eligible liabilities instruments and, as such, the proceeds of Green Notes qualifying as own funds or eligible liabilities may be used to cover losses in the balance sheet of the Issuer regardless of their "green" label.

Further, the performance of the Green Notes will in no circumstances be linked to the performance of any Eligible Assets that may be identified by the Bank and no segregation of assets and liabilities regarding any Green Notes or Eligible Assets will occur at any time. Payments of principal and interest on any Green Notes shall not depend on the performance of any Eligible Assets nor will holders of any Green Notes have any preferred right against the assets of any Eligible Assets.

Any such event or failure to apply an amount equal to the net proceeds of any issue of Green Notes for any Eligible Assets or to obtain and publish any such reports, assessments, opinions and certifications, will not constitute an Event of Default under the relevant Green Notes or give rise to any other claim of a holder of such Green Notes against the Bank. The withdrawal of any report, assessment, opinion or certification as described above, or any such report, assessment, opinion or certification attesting that the Bank is not complying in whole or in part with any matters for which such report, assessment, opinion or certification is reporting, assessing, opining or certifying on, and/or any such Green Notes 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 of such Green Notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

Risks related to Subordinated Notes

There is a real risk that holders of Subordinated Notes will lose some or all of their investment should the Bank become insolvent or subject to resolution or at the point of non-viability of the Bank

The Bank's obligations under Subordinated Notes issued by it will be unsecured and subordinated. In the event of a Winding-Up, the rights of the Noteholders to payments on or in respect of the Subordinated Notes shall rank:

- (a) *pari passu* without any preference among themselves;
- (b) at least *pari passu* with payments to holders of any other Tier 2 Instruments and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, *pari passu* with the Notes;
- (c) in priority to payments to holders of any outstanding Additional Tier 1 Instruments and all classes of share capital of the Bank in their capacity as such holders, and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, junior to the Subordinated Notes; and
- (d) junior in right of payment to the payment of any present or future claims of (a) depositors of the Bank, (b) other unsubordinated creditors of the Bank (including, without limitation, creditors in respect of any Senior Non-Preferred Liabilities of the Bank) and (c) claims of any other subordinated creditors the claims of which rank, or are expressed to rank, in priority to the Notes.

Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that Noteholders will lose all or some of their investment should the Bank become insolvent or subject to resolution under the BRRD (as defined below) as implemented in Iceland or at the point of non-viability of the Bank – see further “*Subordinated Notes may be subject to loss absorption on any application of the general bail-in tool or at the point of non-viability of the Bank*” below. In the case of any application of the general bail-in tool under the BRRD, the sequence of any resulting write-down or conversion of the Subordinated Notes under Article 48 of the BRRD provides for the write-down or conversion of Subordinated Notes prior to unsubordinated Notes, which write-down or conversion shall be implemented in accordance with the hierarchy of claims in normal insolvency proceedings.

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

In addition to the application of the general bail-in tool to Subordinated Notes (see “*The implementation of the BRRD in Iceland provides for a range of actions to be taken in relation to a relevant entity considered to be at risk of failing. The taking of any action under the BRRD as implemented in Iceland could materially affect the value of any Notes*”), the BRRD contemplate that Subordinated Notes may be subject to non-viability loss absorption. As a result, resolution authorities may require the permanent write-down of capital instruments such as Subordinated Notes (which write-down may be in full) or the conversion of them into equity capital at the point of non-viability and before any other resolution action is taken. Any shares issued to holders of such Notes upon any such conversion into equity may also be subject to any future cancellation, transfer or dilution.

Even if grounds for compensation could be established, compensation may not be available under the BRRD to any holders of capital instruments subject to any write-down or conversion pursuant to non-viability loss absorption, separate from any exercise of the general bail-in toll (see “*The implementation of the BRRD in Iceland provides for a range of actions to be taken in relation to a relevant entity considered to be at risk of failing. The taking of any action under the BRRD as implemented in Iceland could materially affect the value of any Notes*”), and even if available would only take the form of shares in the Bank.

For the purposes of the application of any non-viability loss absorption measure, the point of non-viability under the BRRD is the point at which (i) the relevant authority determines that the relevant entity meets the

conditions for resolution or (ii) the relevant authority or authorities, as the case may be, determine(s) that the relevant entity or its group will no longer be viable unless the relevant capital instruments (such as the Subordinated Notes) are written-down or converted into equity or (iii) extraordinary public financial support is required by the relevant entity other than, where the entity is an institution, for the purposes of remedying a serious disturbance in the economy of an EEA member state and to preserve financial stability.

The application of the general bail-in tool or any non-viability loss absorption measure may result in Noteholders losing some or all of their investment. The exercise of any such power or any suggestion of such exercise could, therefore, materially adversely affect the rights of Noteholders, the price or value of Subordinated Notes issued under the Programme and/or the ability of the Bank to satisfy its obligations under Subordinated Notes.

Noteholders may only declare the Subordinated Notes to be due and payable in certain very limited circumstances and may only claim for payment in respect of the Subordinated Notes in the liquidation (in Icelandic: slit eða gjaldþrot) of the Bank

Upon default being made in the payment of any principal or interest due in respect of the Subordinated Notes, a holder of the Subordinated Notes may upon the expiry of the applicable period, institute proceedings for the Bank to be declared insolvent or its liquidation (in Icelandic: *slit eða gjaldþrot*) and prove or claim in the liquidation of the Bank. It is only upon a declaration of insolvency by a court or agency or supervisory authority with the necessary jurisdiction and/or the liquidation of the Bank, that a holder of the Subordinated Notes may declare the Subordinated Notes to be due and payable and that holder may then only claim payment in respect of the Subordinated Notes in the liquidation of the Bank.

Holders of the Subordinated Notes may not otherwise institute any proceedings against the Bank and do not have any other remedies against the Bank, in each case to enforce any obligation for the payment of any principal or interest in respect of the Subordinated Notes. Accordingly, upon any default being made by the Bank in payment of any amount due in respect of the Subordinated Notes, a holder of the Subordinated Notes will only have the limited remedies above and will not have any other remedy against the Bank.

The maturity of Subordinated Notes may only be accelerated in limited circumstances and, if accelerated, holders may only claim payment in the bankruptcy or liquidation of the Bank

Holders of Subordinated Notes may only accelerate the maturity of their Subordinated Notes in limited circumstances and, if accelerated, may claim payment only in the bankruptcy or liquidation of the Bank. See Condition 3.3 under “*Terms and Conditions of the Notes*”.

Risks related to Inflation Linked Notes and Inflation Linked Amortising Notes

There are particular risks associated with an investment in Inflation Linked Notes and Inflation Linked Amortising Notes. In particular, an investor might receive less interest than expected or no interest in respect of such Notes and may lose some or all of the principal amount invested by it

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

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;

- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) the effect of any multiplier or leverage factor that is applied to the Relevant Factor is that the impact of any changes in the Relevant Factor on the amounts of principal or interest payable will be magnified; and
- (vii) 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 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 Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Notes linked to a Relevant Factor and the suitability of such Notes in light of its particular circumstances.

Risks related to the market generally

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

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

Notes may have no established trading market when issued, and one may never develop. If a market for the Notes does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. In addition, liquidity may be limited if the Bank makes large allocations to a limited number of investors.

If an investor holds Notes which are not denominated in the investor's home currency, the investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

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

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

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

The regulation and reform of "benchmarks" may adversely affect the value of Notes linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks", including EURIBOR, NIBOR, STIBOR, REIBOR and CIBOR, 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 the value or liquidity of, and return on, any Floating Rate Notes, Fixed Reset Notes or any other Notes which are linked to or reference a "benchmark".

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

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

More broadly, any of the international or national 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. It is not possible to predict with certainty whether, and to what extent, EURIBOR and such other "benchmarks" will continue to be supported going forwards. Such factors may have (without limitation) the following effects on certain "benchmarks": (i) discouraging market participants from continuing to administer or contribute to a "benchmark"; (ii) triggering changes in the rules or methodologies used in the "benchmark"; and/or (iii) leading to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a "benchmark".

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

Investors should be aware that in the case of Floating Rate Notes and Fixed Reset Notes, the Conditions of the Notes provide for certain fallback arrangements in the event that a published Benchmark, including an inter-bank offered rate such as EURIBOR, NIBOR, STIBOR, REIBOR, CIBOR, SONIA or SOFR or other relevant

reference rates ceases to exist or be published or another Benchmark Event or SOFR Benchmark Transition Event occurs.

These fallback arrangements include the possibility that the Rate of Interest could be determined by reference to a Successor Rate or an Alternative Rate or a SOFR Benchmark Replacement, as applicable, and that an Adjustment Spread or a SOFR Benchmark Replacement Adjustment, respectively, may be applied to such Successor Rate or Alternative Rate or SOFR Benchmark Replacement, as the case may be, as a result of the replacement of the relevant benchmark or screen rate (as applicable) originally specified with the Successor Rate or the Alternative Rate or the SOFR Benchmark Replacement (as the case may be). Certain Benchmark Amendments or other amendments, in the case of SOFR, to the Conditions of such Notes may also be made without the consent or approval of holders of the relevant Floating Rate Notes or Fixed Reset Notes, as applicable. In the case of any Alternative Rate, any Adjustment Spread unless formally recommended or provided for and any Benchmark Amendments shall be determined by the Bank (acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser) or in the case of SOFR, the Bank or the SOFR Benchmark Replacement Agent, if any. Any Adjustment Spread or SOFR Benchmark Replacement Adjustment that is applied may not be effective to reduce or eliminate economic prejudice to investors. The use of a Successor Rate or Alternative Rate (including with the application of an Adjustment Spread) or SOFR Benchmark replacement (including with the application of a SOFR Benchmark Replacement Adjustment) may still result in any Notes linked to or referencing a benchmark performing differently (which may include payment of a lower Rate of Interest) than they would if the relevant benchmark were to continue to apply in its current form.

In certain circumstances the ultimate fallback for the purposes of calculation of interest for a particular Interest Period or Reset Period (as the case may be) may result in the Rate of Interest for the last preceding Interest Period or Reset Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page or, in the case of Fixed Reset Notes, the application of the Reset Rate for a preceding Reset Period or the initial Rate of Interest applicable to such Notes on the Interest Commencement Date. In addition, due to the uncertainty concerning the availability of any Successor Rate or Alternative Rate, any determinations that may need to be made by the Bank and the involvement of any 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 or liquidity of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Bank to meet its obligations under the Floating Rate Notes or Fixed Reset Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes or Fixed Reset Notes. Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Notes or Fixed Reset Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, and other reforms of "benchmarks" more generally, in making any investment decision with respect to any Notes linked to or referencing a "benchmark".

The market continues to develop in relation to SONIA and SOFR as a reference rate

Where the applicable Final Terms for a series of Floating Rate Notes specifies that the interest rate for such Floating Rate Notes will be determined by reference to SONIA or SOFR (**SONIA-Linked Notes** and **SOFR-Linked Notes**, respectively), interest will be determined on the basis of Compounded Daily SONIA or Compounded Daily SOFR, respectively (each as defined in the Conditions of the Notes). Compounded Daily SONIA and Compounded Daily SOFR differ from the now discontinued Sterling and U.S. dollar LIBOR, respectively, in a number of material respects, including (without limitation) that Compounded Daily SONIA and Compounded Daily SOFR are backwards-looking, compounded, risk-free or secured overnight rates, whereas Sterling LIBOR was and U.S. dollar LIBOR is expressed on the basis of a forward-looking term and

include a credit risk-element based on inter-bank lending. As such, investors should be aware that Compounded Daily SOFR may behave materially differently from U.S. dollar LIBOR and Compounded Daily SONIA may behave materially differently from how Sterling LIBOR would have behaved, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events. The use of SONIA and SOFR as reference rates for Eurobonds is also relatively recent, and subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of debt securities referencing SONIA and/or SOFR.

Each of the Bank of England and the FRBNY publish certain historical indicative secured overnight financing rates, although such historical indicative data inherently involves assumptions, estimates and approximations. Potential investors in SONIA-Linked Notes and SOFR-Linked Notes should not rely on such historical indicative data or on any historical changes or trends in SONIA or SOFR, as the case may be, as an indicator of the future performance of SONIA or SOFR, respectively. For example, since the initial publication of SOFR, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or market rates (see “SOFR and SONIA may be more volatile than other benchmarks or market rates” below). Accordingly, SONIA and SOFR over the term of any SONIA-Linked Notes or SOFR-Linked Notes, respectively, may bear little or no relation to the historical actual or historical indicative data.

Prospective investors in any Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR should be aware that the market continues to develop in relation to each of SONIA and SOFR as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR and U.S. dollar LIBOR, respectively. For example, in the context of backwards-looking SONIA and SOFR rates, market participants and relevant working groups continue, as at the date of this Base Prospectus, to assess the differences between compounded rates and weighted average rates, and such groups are also exploring forward-looking ‘term’ SONIA or SOFR reference rates (which seek to measure the market’s forward expectation of an average SONIA or SOFR rate over a designated term). The adoption of SONIA or SOFR may also see component inputs into swap rates or other composite rates transferring from Sterling LIBOR or U.S. dollar LIBOR, respectively, or another reference rate to SONIA or SOFR.

The market or a significant part thereof may adopt an application of SONIA or SOFR that differs significantly from that set out in the Conditions in the case of Floating Rate Notes for which Compounded Daily SONIA or Compounded Daily SOFR, respectively, is specified as being applicable in the applicable Final Terms. Furthermore, the Bank may in the future issue Floating Rate Notes referencing SONIA or SOFR that differ materially in terms of the interest determination provisions when compared with the provisions for such determination as set out in Conditions 4.3(b)(ii) and 4.3(b)(iii), respectively. The nascent development of Compounded Daily SONIA and Compounded Daily SOFR as an interest reference rate for the Eurobond markets, as well as continued development of SONIA and SOFR-based rates for such market and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA or SOFR-referenced Floating Rate Notes issued under the Programme from time to time.

In addition, the manner of adoption or application of SONIA and SOFR reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA or SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA or SOFR reference rates 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 Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR.

Since SONIA and SOFR are relatively new market reference rates, Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR 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 referencing Compounded Daily SONIA or Compounded Daily SOFR, such as the spread over the reference rate reflected in the interest rate provisions, may evolve over time, and trading prices of such debt

securities may be lower than those of later issued debt securities as a result. Further, if Compounded Daily SONIA or Compounded Daily SOFR do not prove to be widely used in securities, the trading price of Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR, respectively, may be lower than those of debt securities referencing other reference rates that are more widely used.

Investors in Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. There can also be no guarantee that SONIA or SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in such Notes. If the manner in which SONIA or SOFR is calculated is changed, that change may result in a reduction in the amount of interest payable on Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR, respectively, and the trading prices of such Notes.

Investors should carefully consider these matters when making their investment decision with respect to any such Floating Rate Notes.

Any failure of SONIA or SOFR to gain market acceptance could adversely affect SONIA-Linked Notes or SOFR-Linked Note

According to the Alternative Reference Rates Committee, convened by the Board of Governors of the FRB NY, SOFR was developed for use in certain U.S. dollar derivatives and other financial contracts as an alternative to U.S. dollar LIBOR in part because it is considered a good representation of general funding conditions in the overnight U.S. Treasury repurchase agreement market. However, as a rate based on transactions secured by U.S. Treasury securities, it does not measure bank-specific credit risk and, as a result, is less likely to correlate with the unsecured short-term funding costs of banks. Similar considerations apply in respect of SONIA. This may mean that market participants would not consider SOFR or SONIA a suitable replacement or successor for all of the purposes for which U.S. dollar or Sterling LIBOR historically has been used (including, without limitation, as a representation of the unsecured short-term funding costs of banks), which may, in turn, lessen market acceptance of SOFR or SONIA. Any failure of SOFR or SONIA to gain market acceptance could adversely affect the return on and value and market price of Floating Rate Notes which reference Compounded Daily SOFR or Compounded Daily SONIA and the price at which investors can sell such Notes in the secondary market.

The amount of interest payable with respect to each Interest Period will only be determined near the end of the Interest Period for SONIA-Linked Notes and SOFR-Linked Notes

The Rate of Interest on Floating Rate Notes referencing Compounded Daily SONIA and Compounded Daily SOFR is only capable of being determined at the end of the relevant SONIA Observation Period (as defined in Condition 4.3(b)(ii)) or SOFR Observation Period (as defined in Condition 4.3(b)(iii)) and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in any such Floating Rate Notes to estimate reliably the amount of interest which will be payable on such Floating Rate Notes on each Interest Payment Date, and some investors may be unable or unwilling to trade such Floating Rate Notes without changes to their information technology systems, both of which factors could adversely impact the liquidity of such Floating Rate Notes. Further, if Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR become due and payable as a result of an Event of Default under Condition 9, or are otherwise redeemed early on a date which is not an Interest Payment Date, the final rate of interest payable in respect of such Floating Rate Notes shall only be determined by reference to a shortened period ending immediately prior to the date on which the Floating Rate Notes become due and payable.

SOFR and SONIA may be more volatile than other benchmarks or market rates

Since the initial publication of SOFR, daily changes in SOFR have, on occasion, been more volatile than daily changes in other benchmark or market rates, such as U.S. dollar LIBOR. Although changes in Compounded

SOFR generally are not expected to be as volatile as changes in daily levels of SOFR, the return on and value and market price of Floating Rate Notes which reference Compounded Daily SOFR may fluctuate more than floating rate securities that are linked to less volatile rates. In addition, the volatility of SOFR has reflected the underlying volatility of the overnight U.S. Treasury repo market. The FRBNY has at times conducted operations in the overnight U.S. Treasury repo market in order to help maintain the federal funds rate within a target range. There can be no assurance that the FRBNY will continue to conduct such operations in the future, and the duration and extent of any such operations is inherently uncertain. Similar considerations may also apply in respect of SONIA. The effect of any such operations, or of the cessation of such operations to the extent they are commenced, is uncertain and could be materially adverse to investors in SOFR-Linked Notes or SONIA-Linked Notes, as applicable.

The interest rate on SONIA-Linked Notes and SOFR-Linked Notes will be based on Compounded Daily SONIA and Compounded Daily SOFR, respectively, which are relatively new in the marketplace and may be determined by reference to the SONIA Compounded Index or the SOFR Index, respectively, a relatively new market index

For each Interest Period, the interest rate on any Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR is based on Compounded Daily SONIA or Compounded SOFR, respectively, which is calculated on a daily compounded basis (or, where Index Determination is specified as being applicable in the applicable Final Terms, by reference to the relevant index) and not the SONIA or SOFR rate published on or in respect of a particular date during such Interest Period or an arithmetic average of SONIA or SOFR rates during such Interest Period. Each of the SONIA Compounded Index and the SOFR Index measures the cumulative impact of compounding SONIA or SOFR, respectively, on a unit of investment over time. The value of the SONIA Compounded Index or the SOFR Index on a particular business day reflects the effect of compounding SONIA or SOFR, respectively, on such business day and allows the calculation of Compounded Daily SONIA or SOFR averages, as applicable, over custom time periods. For this and other reasons, the interest rate on Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR during any Interest Period will not be the same as the interest rate on other SONIA or SOFR-linked investments that use an alternative basis to determine the applicable interest rate. Further, if the SONIA or SOFR rate in respect of a particular date during an Interest Period is negative, its contribution to the relevant compounded rate will be less than one, resulting in a reduction to such compounded rate used to calculate the interest payable on any Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR on the interest payment date for such Interest Period.

Limited market precedent exists for securities that use SONIA or SOFR as the interest rate and the method for calculating an interest rate based upon SONIA or SOFR in those precedents varies. In addition, the Bank of England and the FRBNY only began publishing the SONIA Compounded Index and the SOFR Index, respectively, very recently. Accordingly, the specific formulas for Compounded Daily SONIA and Compounded Daily SOFR set out in the Conditions and the use of the SONIA Compounded Index or SOFR Index for the purposes of calculating Compounded Daily SONIA or Compounded Daily SOFR, respectively, may not be widely adopted by other market participants, if at all. If the market adopts a different calculation method, this would likely adversely affect the market value of any respective SONIA-Linked Notes or SOFR-Linked Notes.

There can be no assurance that SONIA or SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of holders of SONIA-Linked Notes or SOFR-Linked Notes, respectively

SONIA and SOFR are published by the Bank of England and the FRBNY as the respective administrators of SONIA and SOFR based on data received from sources other than the Bank. The Bank has no control over the determination, calculation or publication of SONIA or SOFR. The administrator of SONIA or SOFR may make changes that could change the value of SONIA or SOFR, as the case may be, or discontinue SONIA or SOFR, respectively, and has no obligation to consider the interests of holders of SONIA-Linked Notes or SOFR-Linked Notes in doing so. Each of the Bank of England or the FRBNY (or, in each case, a successor),

as the respective administrator of SONIA and SOFR, respectively, may make methodological or other changes that could change the value of SONIA or, SOFR, including changes related to the method by which SONIA or SOFR is calculated, eligibility criteria applicable to the transactions used to calculate SONIA or SOFR, or timing related to the publication of SONIA and SOFR. In addition, the respective administrators of SONIA or SOFR may alter, discontinue or suspend calculation or dissemination of SONIA or SOFR (in which case a fallback method of determining the interest rate on any SONIA-Linked Notes or SOFR-Linked Notes, respectively, will apply, as further described in Conditions 4.3(b)(ii) and 4.3(b)(iii), respectively).

There can be no assurance that SONIA or SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of holders of SONIA-Linked Notes or SOFR-Linked Notes, respectively. If the manner in which SONIA or SOFR is calculated is changed, that change may result in a reduction of the amount of interest payable on any respective SONIA-Linked Notes or SOFR-Linked Notes, which may adversely affect the trading prices of such Notes. If the rate at which interest accrues on any SONIA-Linked Notes or SOFR-Linked Notes for any Interest Period declines to zero or becomes negative, no interest will be payable on such Notes on the Interest Payment Date for such Interest Period. The administrator of each of SONIA and SOFR has no obligation to consider the interests of holders of SONIA-Linked Notes or SOFR-Linked Notes, respectively, in calculating, adjusting, converting, revising or discontinuing SONIA or SOFR, as the case may be. In addition, the administrator of each of SONIA or SOFR may withdraw, modify or amend the published SONIA or SOFR rate or other SONIA or SOFR data, respectively, in its sole discretion and without notice.

The SONIA Compounded Index or SOFR Index may be modified or discontinued, which could adversely affect the value and market price of any Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR where Index Determination is specified as being applicable in the applicable Final Terms

The SONIA Compounded Index and the SOFR Index are published by The Bank of England and the FRBNY, respectively, based on data received by them from sources other than the Bank, and the Bank has no control over their methods of calculation, publication schedule, rate revision practices or the availability of the SONIA Compounded Index or SOFR Index at any time. There can be no guarantee, particularly given their relatively recent introduction, that the SONIA Compounded Index or the SOFR Index will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in any Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR where Index Determination is applicable. If the manner in which the SONIA Compounded Index or the SOFR Index is calculated, including the manner in which SONIA or SOFR, respectively, is calculated, is changed, that change may result in a reduction in the amount of interest payable on any Floating Rate Notes referencing Compounded Daily SONIA or Compounded Daily SOFR where Index Determination is applicable and the trading prices of such Notes. In addition, the Bank of England or the FRBNY may withdraw, modify or amend the published SONIA Compounded Index or SOFR Index, respectively, or other SONIA or SOFR data in its sole discretion and without notice. The interest rate for any Interest Period will not be adjusted for any modifications or amendments to the SONIA Compounded Index or the SOFR Index or other SONIA or SOFR data that the Bank of England or the FRBNY may publish after the interest rate for that Interest Period has been determined.

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

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes 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. 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, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under 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 Notes 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 Notes may have a different regulatory treatment, which may impact the value of the Notes and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The consolidated financial information as of and for the years ended 31 December 2022 and 2021 has, unless otherwise stated, and except for the below, been derived from the 2022 Consolidated Financial Statements and the 2022 Consolidated Financial Statements incorporated by reference in this Base Prospectus (together, the **Annual Financial Statements**). The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU (**IFRS**), and additional requirements set forth in Act No. 3/2006 on Annual Accounts, as amended (the **Annual Accounts Act**), Act No. 161/2002 on Financial Undertakings, as amended (the **Financial Undertakings Act**) and Rules No. 532/2003 on Accounting for Credit Institutions (**Rules on Accounting for Credit Institutions**).

The consolidated financial information as of and for the six months ended 30 June 2023 has, unless otherwise stated, been derived from the Bank's reviewed condensed consolidated interim financial statements for the six months ended 30 June 2023 incorporated by reference in this Base Prospectus (the **H1 2023 Interim Financial Statements**). The H1 2023 Interim Financial Statements have been prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, as adopted by the EU, and additional requirements set forth in the Annual Accounts Act, the Financial Undertakings Act and Rules on Accounting for Credit Institutions.

Financial information in this Base Prospectus is presented on a consolidated basis unless otherwise indicated.

The Annual Financial Statements have been audited and the H1 2023 Interim Financial Statements have been reviewed, in each case by Deloitte ehf. (**Deloitte**). No other information in this Base Prospectus has been audited or reviewed by Deloitte or any other independent auditors.

The sale of Valitor Holding hf. (**Valitor**) to Rapyd, a global Fintech-as-a-Service company, closed on 1 July 2022. The profit for the Bank on the sale, minus costs was ISK 5.6 billion and was recognised in the income statement in the consolidated interim financial statements for the six months ended 30 June 2022.

Operating Segment Reporting

Segment information is presented in respect of the Group's operating segments based on the Group's management and internal reporting structure. Segment performance is evaluated based on earnings before tax. In presenting geographic information, segment revenue has been based on the geographic location of customers. Inter segment pricing is determined on an arm's length basis. Operating segments pay and receive interest to and from Treasury on an arm's length basis to reflect the allocation of capital, funding costs and relevant risk premium, which intragroup metrics disappear upon consolidation.

In line with the Group's progressive focuses on the holistic optimisation of the "customer journey" a key part of this vision was to bring the operations of Vördur tryggingar hf. (**Vördur**) insurance company closer to the Bank in order that it may provide a more focused bank and insurance offering. In 2022 the operations of Vördur were split into individuals and corporates and presented as such as part of Corporate & Investment Banking and Retail banking, respectively. The Bank has the following operating segments: Retail Banking; Corporate & Investment Banking; Markets; Treasury; Subsidiaries; and Supporting Units. See "*Description of the Bank – Business*".

KPIs and Non-IFRS Information

This Base Prospectus contains certain financial measures that are not defined or recognised under IFRS, exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Bank's financial key performance indicators (**KPIs**) in this Base Prospectus comprise return on equity, return on assets, return on risk-weighted assets, net interest margin on interest-earning assets, net interest margin on total assets, cost-to-income ratio and cost-to-total assets ratio, cost of risk and loan-to-deposit ratio.

The Bank uses these indicators in its business operations, among other things, to evaluate the performance of its operations, to develop budgets and to measure the Bank's performance against those budgets. The Bank believes the Non-IFRS Information and the KPIs to be useful supplemental tools to assist in evaluating operating performance because it considers the Non-IFRS Information and KPIs to reflect its underlying business performance and believes that these measures provide additional useful information for prospective investors on its performance, enhance comparability from period to period and with other companies and are consistent with how business performance is measured internally.

The Non-IFRS Information and related measures are not measurements of performance or liquidity under IFRS and should not be considered by investors in isolation or as a substitute for measures of earnings, or as an indicator of the Bank's operating performance or cash flows from operating activities as determined in accordance with IFRS or otherwise as a substitute for analysis of the Bank's operating results reported under IFRS as set out in the 2022 Consolidated Financial Statements. The Bank has presented these supplemental measures because they are used by the Bank to monitor the underlying performance of its business and operations. The Non-IFRS Information and related measures may not be comparable to similarly titled measures disclosed by other banks and have limitations as analytical tools. The Bank does not regard the Non-IFRS Information as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS. The Non-IFRS Information described in this Base Prospectus is unaudited and has not been prepared in accordance with IFRS or any other generally accepted accounting principles.

For definitions of the non-IFRS measures included in the Non-IFRS Information and KPIs, see "*Key Financial Indicators*".

General

Capitalised terms which are used but not defined in any particular section of this Base Prospectus will have the meaning attributed to them in "*Terms and Conditions of the Notes*" or any other section of this Base Prospectus.

In addition, in this Base Prospectus, all references to:

2022 Consolidated Financial Statements means the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2022;

2021 Consolidated Financial Statements means the audited consolidated annual financial statements of the Bank for the financial year ended 31 December 2021;

References in this Base Prospectus to the **Group** are to the Bank and its consolidated subsidiaries, taken as a whole;

U.S. dollars, **U.S.\$** and **\$** refer to United States dollars;

ISK, **krona** and **kronur** refer to Icelandic Krona;

Sterling and **£** refer to pounds sterling; and

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.

Certain figures in this Base Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances (a) the sum or percentage change of such numbers may not conform exactly to the total figure given and (b) the sum of the numbers in a column or row in certain tables may not conform exactly to the total figure given for that column or row.

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.

Forward Looking Statements

This Base Prospectus contains forward looking statements that reflect the Bank'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. Forward looking statements involve all matters that are not historical facts. The Bank has tried to identify forward looking statements by using words such as "may", "will", "would", "could", "should", "expects", "intends", "estimates", "anticipates", "projects", "believes", "could", "hopes", "seeks", "plans", "aims", "objective", "potential", "goal", "strategy", "target", "continue" and similar expressions or negatives thereof or other variations thereof or comparable terminology or by discussions of strategy that involve risks and uncertainties. Forward looking statements may be found principally in sections of this Base Prospectus titled "*Risk Factors*" and "*Description of the Bank*" as well as elsewhere.

Forward looking statements are based on the Bank's beliefs, assumptions and expectations regarding future events and trends that affect the Bank's future performance, taking into account all information currently available to the Bank, and are not guarantees of future performance. These beliefs, assumptions and expectations can change as a result of possible events or factors, not all of which are known to the Bank or are within its control. If a change occurs, the Bank'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. In addition, forward looking estimates and forecasts reproduced in this Base Prospectus from third party reports could prove to be inaccurate. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties facing the Bank. Such risks, uncertainties and other important factors include, but are not limited to, those listed in the section of this Base Prospectus titled "*Risk Factors*".

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

- deterioration of the economic conditions or the banking system in Iceland, as a result of political and economic factors, either domestic or international such as the impact on the Icelandic economy of global pandemics or the Russian invasion of Ukraine;
- exposure to Iceland's key industry sectors, in particular tourism, seafood, aluminium, energy and real estate;
- an adverse shift in public sentiment and potential political or legislative action;
- exposure to liquidity, maturity, foreign exchange, and market funding risks, and various other typical financial institution market risks relating to interest rates, equity pricing and inflation;
- failure or breach of the Bank's information technology systems;
- unauthorised disclosure of confidential information and any resulting liability, litigation, and reputational damage;

- exposure to tax liabilities or competitive disadvantages in respect of VAT on the Bank's services;
- existing customer loan portfolio exposure to problem and impaired loans;
- costs and competitive disadvantages resulting from the Bank Levy and other taxes;
- domestic economic constraints on near-term growth;
- failure to implement the Bank's strategy or failure to achieve the anticipated benefits of this strategy;
- exposure to existing and increasing competition in Iceland;
- regulatory and legal risks inherent in the Bank's businesses;
- ongoing legal proceedings and investigations by government authorities;
- inadequate implementation by Iceland of the EEA rules;
- delayed incorporation of the relevant EU legislation into the EEA Agreement;
- potential inability to successfully maintain salary levels, and overrunning salaries and related expense may give rise to reputational risk while heavy cost-cutting measures may have adverse effects on operations;
- foreign exchange transactions may be subject to the Capital Controls;
- potential inability to recruit or retain experienced personnel or key members of the Executive Committee;
- credit rating downgrade or a change in outlook;
- various operational risks, including risk of systems failures, human error, regulatory breaches, and employee misconduct;
- damage to the reputation of the Bank, its subsidiaries or its shareholders;
- exposure to unidentified, unanticipated or incorrectly quantified risks as a result of risk management methods;
- reliance on third party service providers;
- violation of anti-money laundering or anti-bribery regulations;
- application of CRD IV (and the CRD V Directive when implemented);
- restriction, suspension or termination of relationships with key card scheme operators;
- failure of the Markets division to sustain or increase its level of assets under management and pressure on fee margins;
- incurrence of unforeseen liabilities from prior and future acquisitions and disposals; and
- inadequate insurance coverage.

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

Investors or potential investors should not place undue reliance on the forward looking statements in this Base Prospectus. The Bank urges investors to read the sections of this Base Prospectus titled "*Risk Factors*" and "*Description of the Bank*" for a more complete discussion of the factors that could affect the Bank's future performance and the markets in which it operates. In light of the possible changes to the Bank's beliefs, assumptions and expectations, the forward looking events described in this Base Prospectus may not occur. Additional risks currently not known to the Bank or that the Bank has not considered material as of the date of this Base Prospectus could also cause the forward looking events discussed in this Base Prospectus not to occur. Forward looking statements involve inherent risks and uncertainties and speak only as of the date they are made. The Bank undertakes no duty to and will not necessarily update any of the forward looking statements in light of new information or future events, except to the extent required by applicable law.

Information provided by third parties is as specified herein. The Bank confirms that any information provided by a third party has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Base Prospectus shall be incorporated by reference in, and form part of, this Base Prospectus:

- (a) The Annual Financial Statements, including the information set out at the following pages of the 2022 Consolidated Financial Statements (available at: <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2022/Arion%20Bank%20-%20Consolidated%20Financial%20Statements%20for%202022.pdf>) and the 2021 Consolidated Financial Statements, respectively, in particular (available at: <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2021/Arion%20Bank%20Consolidated%20Financial%20Statements%202021.pdf>):

	2022 Consolidated Financial Statements	2021 Consolidated Financial Statements
Independent Auditors' Report	Pages 11 to 13	Pages 11 to 13
Consolidated Income Statement.....	Page 14	Page 14
Consolidated Statement of Comprehensive Income.....	Page 15	Page 15
Consolidated Statement of Financial Position	Page 16	Page 16
Consolidated Statement of Changes in Equity.....	Pages 17 to 18	Pages 17 to 18
Consolidated Statement of Cash Flows....	Page 19	Page 19
Notes.....	Pages 20 to 96	Pages 20 to 93

- (b) the H1 2023 Interim Financial Statements, including the information set out at the following pages of the H1 2023 Interim Financial Statements (available at: <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2023/Arion%20Bank%20Condensed%20Consolidated%20Interim%20Financial%20Statements%201%20January%20-%2030%20June%202023.pdf>):

Review Report on the Condensed Consolidated Interim Financial Statements	Page 7
Consolidated Interim Income Statement.....	Page 8
Consolidated Interim Statement of Comprehensive Income.....	Page 9

Consolidated Interim Statement of Financial Position Page 10

Consolidated Interim Statement of Changes in Equity..... Pages 11 to 12

Consolidated Interim Statement of Cash Flows.... Page 13

Notes..... Pages 14 to 72

- (c) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 23 April 2014, pages 47 to 70 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Base%20Prospectus.PDF>).
- (d) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 5 June 2015, pages 49 to 72 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Base%20Prospectus%202015.PDF>).
- (e) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 7 June 2016, pages 48 to 71 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Base%20Prospectus%202016.PDF>).
- (f) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 19 June 2017, pages 60 to 90 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Base%20Prospectus%202017.pdf>).
- (g) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 10 July 2018, pages 67 to 102 (inclusive) prepared by the Bank in connection with the Programme (available at: https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion_Bank_EMTN_2018_-_Base_Prospectus.PDF).
- (h) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 18 July 2019, pages 68 to 104 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Base%20Prospectus%202019.pdf>).
- (i) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 6 August 2020, pages 69 to 103 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Base%20Prospectus%202020.pdf>).

- (j) the changes to the form of the Final Terms contained in the Supplement dated 6 July 2021 to the Base Prospectus dated 6 August 2020 on page 7 prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Supplement%206%20July%202021.pdf>).
- (k) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 20 August 2021, pages 74 to 108 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20bank%20EMTN%20Base%20Prospectus%202021.pdf>).
- (l) the amendments to the Terms and Conditions of the Notes on pages 13 to 28 (inclusive) and the changes to the form of the Final Terms on pages 11 to 13 (inclusive), each contained in the Supplement dated 8 December 2021 to the Base Prospectus dated 20 August 2021 prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20Supplement%20Dec%202021.pdf>).
- (m) the Terms and Conditions of the Notes contained in the previous Base Prospectus dated 2 September 2022, pages 86 to 145 (inclusive) prepared by the Bank in connection with the Programme (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Adrar-langtimaskuldir/EMTN/utgafulyising---Programme-Documents/Arion%20Bank%20EMTN%20Base%20Prospectus%202022.pdf>).

The non-incorporated parts of the documents referred to herein which, for the avoidance of doubt, means any parts not listed in the cross-reference lists above, are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

Following the publication of this Base Prospectus a supplement may be prepared by the Bank and approved by the CSSF 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, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference 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. A copy of this Base Prospectus (and when published, any supplements to this Base Prospectus) will be available at <https://www.arionbanki.is/english/about-us/investor-relations/debt-investors/funding-programmes-and-prospectuses/#Tab1>.

Copies of this Base Prospectus (and when published, any supplements to this Base Prospectus) and all documents incorporated by reference in this Base Prospectus will also be available on the website of the Luxembourg Stock Exchange, www.luxse.com.

Any websites referenced in this Base Prospectus are referenced for information purposes only and the contents of any website referenced in this Base Prospectus do not form part of (and are not incorporated by reference into) this Base Prospectus and has not been scrutinised or approved by the CSSF.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not be incorporated by reference in this Base Prospectus as they are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus

The Bank 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 Notes, prepare

a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

FORM OF THE NOTES

The Notes 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 book entry form cleared through the ISD. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Notes will be issued outside the United States in reliance on the exemption from registration provided by Regulation S.

Bearer Notes

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

- (i) If the Bearer Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**); and
- (ii) if the Bearer Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear and Clearstream, Luxembourg.

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

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

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

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

The applicable Final Terms will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, (ii) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (iii) the Bank has or will become subject to adverse tax consequences which would not be suffered were the Bearer Notes represented by the Permanent Bearer Global Note in definitive form. The Bank will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Bank may also give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes), and on all interest coupons relating to such Bearer Notes where TEFRA D is specified in the applicable Final Terms:

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

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

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

Registered Notes

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a **Registered Global Note**).

Registered Global Notes will be deposited with a common depository or, if the Registered Global Notes are to be held under the new safe-keeping structure (the NSS), electronically with a common safekeeper, as the case may be for Euroclear and Clearstream, Luxembourg, and registered in the name of the nominee for the Common Depository 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 Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Where the Registered Global Notes issued in respect of any Tranche is intended to be held under the NSS, the applicable Final Terms will indicate whether or not such Registered Global Notes are intended to be held in electronic form only in a manner which would allow Eurosystem eligibility. Any indication that the Registered Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the

Eurosystem either upon issue or at any time during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The common safekeeper for a Registered Global Note 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 Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 5.4) as the registered holder of the Registered Global Notes. None of the Bank, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes 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 Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 5.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, (ii) the Bank has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iii) the Bank has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Bank will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Bank may also give notice to the 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.

ISD Notes

Each Tranche of ISD Notes will be issued in uncertificated book entry form cleared through the ISD. On the issue of such ISD Notes, the Bank (if it is not the ISD Agent) will send a copy of the applicable Final Terms to the ISD Agent. On delivery of the applicable Final Terms by the ISD Agent to the ISD and notification to the ISD of the subscribers and their ISD account details by the Bank or the relevant Dealer, as applicable, the ISD Agent acting on behalf of the Bank will credit each subscribing account holder with the ISD with a nominal amount of ISD Notes equal to the nominal amount thereof for which it has subscribed and paid.

Settlement of sale and purchase transactions in respect of ISD Notes in the ISD will take place in accordance with market practice at the time of such transactions.

Title to the ISD Notes will pass by registration in the registers between the direct accountholders at the ISD in accordance with the rules and procedures of the ISD. The holder of an ISD Note will be the person evidenced as such by a book entry in the records of the ISD. The person evidenced (including any nominee) as a holder of the ISD Notes shall be treated as the holder of such ISD Notes for the purposes of payment of principal and interest on such ISD Notes. The expressions **Noteholders** and **holder of Notes** and related expressions shall be construed accordingly in the case of ISD Notes.

For the ISD Notes, overdue interest may be calculated in accordance with the provisions of Chapter III of the Act on Interest and Indexation No 38/2001.

Transfer of Interests

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

General

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

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

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 9. In such circumstances, where any Bearer Note or Registered Notes is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Bearer Notes or Registered Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then from 8.00 p.m. (London time) on such day holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg, as the case may be, will become entitled to proceed directly against the Bank on the basis of statements of account provided by Euroclear and/or Clearstream, Luxembourg on and subject to the terms of a deed of covenant (the **Deed of Covenant**) dated 16 October 2023 and executed by the Bank.

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

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the **EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended), 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 Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]¹

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the 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 UK domestic law by virtue of the European Union (Withdrawal) Act 2018 (**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, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of UK domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]²

[³MIFID II product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, **MiFID II**)]**[MiFID II]**; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[Consider any negative target market]*⁴. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[³UK MIFIR product governance/Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (COBS), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of [United Kingdom/UK] domestic law by virtue of the European Union (Withdrawal) Act 2018 (UK MiFIR); and (ii) all channels for distribution of the Notes to

¹ Legend to be included on front of the Final Terms if the Notes 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".

² Legend to be included on the front of the Final Terms if the Notes 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".

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

⁴ To be considered on a case-by-case basis. If a negative target market is deemed necessary, wording along the following lines could be included: "The target market assessment indicates that Notes are incompatible with the needs, characteristics and objectives of clients which are *[details to be inserted]*".

eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]⁴. Any person subsequently offering, selling or recommending the Notes (a distributor) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT 2001 (2020 REVISED EDITION) OF SINGAPORE – In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Edition) of Singapore (as amended) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the **CMP Regulations 2018**), the Bank has determined the classification of the Notes to be capital markets products other than prescribed capital markets products (as defined in the CMP Regulations 2018) and Specified Investment Products (as defined in the Singapore Monetary Authority (the **MAS**) Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).]⁵

⁵ Legend to be included on front of the Final Terms if the Notes sold into Singapore do not constitute prescribed capital markets products as defined under the CMP Regulations 2018.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme which have a denomination of €100,000 (or its equivalent in any other currency) or more.

[Date]

ARION BANK HF

Legal Entity Identifier (LEI): RIL4VBPDB0M7Z3KXSF19

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €3,000,000,000
Euro Medium Term Note Programme**

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 16 October 2023 [and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus in order to obtain all the relevant information. [The Base Prospectus has been published on the Bank's website (<https://www.arionbanki.is/english/about-us/investor-relations/debt-investors/funding-programmes-and-prospectuses/#Tab1>).]

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

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated [23 April 2014/5 June 2015/7 June 2016/19 June 2017/10 July 2018/18 July 2019/6 August 2020 and the supplement to it dated 6 July 2021/20 August 2021 and the supplement to it dated 8 December 2021/2 September 2022]. This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus dated 16 October 2023 [and the supplement[s] to it dated [date] [and [date]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation (the **Base Prospectus**), including the Conditions incorporated by reference in the Base Prospectus, in order to obtain all the relevant information. The Base Prospectus has been published on the Bank's website (<https://www.arionbanki.is/english/about-us/investor-relations/debt-investors/funding-programmes-and-prospectuses/#Tab1>).

1. (a) Series Number: []
 - (b) Tranche Number: []
 - (c) Date on which the Notes will be consolidated and form a single Series: The Notes will be consolidated and form a single Series with [provide issue amount/ISIN/maturity date/issue date of earlier Tranches] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 20 below, which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency or Currencies: []

3. Aggregate Nominal Amount:
- (a) Series: []
- (b) Tranche: []
4. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* (if applicable)]
5. (a) Specified Denominations: []
- (N.B. Notes must have a minimum denomination of €100,000 (or equivalent))*
- (Note – where multiple denominations above [€100,000] or equivalent are being used the following sample wording should be followed:*
- "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")*
- (b) Calculation Amount (in relation to calculation of interest in global form see Conditions): []
- (If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations. The Calculation Amount is not relevant for Registered Notes.)*
6. (a) Issue Date: []
- (b) Interest Commencement Date: *[specify/Issue Date/Not Applicable]*
(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)
7. Maturity Date: *[Specify date or for Floating Rate Notes Interest Payment Date falling in or nearest to [specify month and year]]*
8. Interest Basis: [[] per cent. Fixed Rate]
 [Fixed Reset]
 [[[] month
 [EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR/Compounded Daily SONIA/Compounded Daily SOFR]]
 +/- [] per cent. Floating Rate]
 [Zero coupon]
 [Inflation Linked]
 (see paragraph [13]/[14]/[15]/[16]/[17]/[18] below)

9. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100]/[] per cent. of their nominal amount/[Inflation linked redemption in accordance with item 14 below, and Conditions 4.5 and 6.14]/[Inflation linked redemption in accordance with Condition 6.15]
10. Change of Interest Basis: [For the period from (and including) the Interest Commencement Date, up to (but excluding) *[date]* paragraph [13/15] applies and for the period from (and including) *[date]*, up to (and including) the Maturity Date, paragraph [13/15] applies][Not Applicable]
11. Call Options: [Issuer Call]
[Issuer Residual Call]
[Not Applicable]

[(see paragraph [19]/[20]/[22] below)]
12. Status of Notes: [Senior Preferred/Senior Non-Preferred/Subordinated]

(If Senior Preferred Notes include)
- (i) Unrestricted Events of Default: [Applicable – Condition 9.1 applies/Not Applicable – Condition 9.2 applies]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [] in each year up to and including the Maturity Date
(Amend appropriately in the case of irregular coupons)
- (c) Fixed Coupon Amount(s) for Notes in definitive form. (and in relation to Notes in global form see Conditions) [] per Calculation Amount
- (d) Broken Amount(s) for Notes in definitive form. (and in relation to Notes in global form see Conditions) [[] per Calculation Amount, payable on the Interest Payment Date falling [in/on] []][Not Applicable]
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]

- (f) Determination Date(s): [[] in each year][Not Applicable]
(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
14. Inflation Linked Amortising Notes: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
- (b) Interest Payment Date(s): The [] day in each month/[[] in each year] up to and including the Maturity Date
- (c) Number of Interest Payments in a year: []
- (d) Total number of annuity payments on the relevant Notes: []
- (e) Base Index: []
- (f) Day Count Fraction: [30/360 or Actual/360 or Actual/Actual (ICMA)]
15. Fixed Reset Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Initial Interest Rate: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear on each Interest Payment Date]
- (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]
- (c) Fixed Coupon Amount to (but excluding) the First Reset Date for Notes in definitive form (and in relation to Notes in global form see Conditions): [[] per Calculation Amount/Not Applicable]
- (d) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [[] per Calculation Amount payable on the Interest Payment Date falling [in/on] []][Not Applicable]
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA)]
- (f) Determination Date(s): [[] in each year][Not Applicable]

[Insert interest payment dates except where there are long or short periods. In these cases, insert regular interest payment dates]

(NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))

- (g) Reset Date: []
- (h) Subsequent Reset Date(s): [] [and []]
- (i) Reset Reference Rate: [Mid-Swap Rate][Reset Reference Bond Rate][CMT Rate]
- (j) Reset Margin: [+/-][] per cent. per annum
- (k) [Relevant Screen Page: []]⁶
- (l) [Floating Leg Reference Rate: []]⁷
- (m) Floating Leg Screen Page: []
- (n) Initial Mid-Swap Rate: [] per cent. per annum (quoted on a[n annual/semi-annual basis])
- (o) [Initial Reference Rate: [] per cent.]⁸
- (p) [Original Reset Reference Rate Payment Basis: [Annual/Semi-annual/Quarterly/Monthly/Other-specify/Not Applicable]]⁹
16. Floating Rate Note Provisions: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: [], subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]][Not Applicable]
- (c) Additional Business Centre(s): []
- (d) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent): [] (the **Calculation Agent**)

⁶ Delete if the Reset Reference Rate is not the Mid-Swap Rate or Reset Reference Bond Rate.

⁷ Delete sub-paragraphs (l) through (n) if the Reset Reference Rate is not the Mid-Swap Rate.

⁸ Delete if the Reset Reference Rate is the Mid-Swap Rate.

⁹ Delete if the Reset Reference Rate is not the Reset Reference Bond Rate.

(e) Screen Rate Determination:

(i) Reference Rate: [currency][] month
[EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR/Com
pounded Daily SONIA/Compounded Daily
SOFR/STIBOR].

(ii) Interest Determination []
Date(s): *(The second day on which T2 is open prior to the start of each Interest Period if EURIBOR, the second Oslo, Stockholm, Reykjavik or Copenhagen (as the case may be) business day prior to the start of each Interest Period if NIBOR, STIBOR, REIBOR or CIBOR, the day falling "p" London Banking Days or "p" U.S. Government Securities Business Days prior to the Interest Payment Date for the relevant Interest Period or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period), if Compounded Daily SONIA or Compounded Daily SOFR, respectively)*

(iii) Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

(iv) Observation Method: [Not Applicable/Lag/Shift]¹⁰

(v) Observation Look-Back [] [London Banking/U.S. Government Securities
Period: Business] Day[s]¹¹

(NB: If the Reference Rate is Compounded Daily SONIA or Compounded Daily SOFR, a minimum of 5 London Banking Days or 5 U.S. Government Securities Business Days, respectively, should be specified unless otherwise agreed with the Fiscal Agent or the Calculation Agent, as applicable)

(vi) Index Determination: [Applicable/Not Applicable]

(vii) Specified Time: []

(N.B. Delete for all Reference Rates other than Compounded Daily SONIA or Compounded Daily SOFR where Index Determination is specified as being applicable and a time other than that set out in the Conditions is to be specified)

¹⁰ Only relevant for Floating Rate Notes which specify the Reference Rate as being "Compounded Daily SONIA" and Index Determination is not applicable.

¹¹ Only relevant for Floating Rate Notes which specify the Reference Rate as being "Compounded Daily SONIA" or "Compounded Daily SOFR" and Index Determination is not applicable.

- (f) Linear Interpolation: [Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (g) Margin(s): [+/-][] per cent. per annum
- (h) Minimum Rate of Interest: [] per cent. per annum
- (i) Maximum Rate of Interest: [] per cent. per annum
- (j) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
[30/360][360/360][Note Basis]
[30E/360][Eurobond Basis]
30E/360 (ISDA)]
17. Zero Coupon Note Provisions: [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]
18. Inflation Linked Notes: [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (a) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly/other (specify)] in arrear]
- (b) Interest Payment Date(s): The [] day in each month/[] in each year up to and including the Maturity Date
- (c) Base Index: [], being the value of the CPI on []
- (d) Day Count Fraction: [30/360 or Actual/Actual (ICMA)]

PROVISIONS RELATING TO REDEMPTION

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

[Set out appropriate variable details in this pro forma, for example reference obligation]

- (c) If redeemable in part:
- (i) Minimum Redemption Amount: []
 - (ii) Maximum Redemption Amount: []
- (d) Notice periods: Minimum period: [] days
Maximum period: [] days
(N.B. When setting notice periods, the Bank is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Bank and the Fiscal Agent)
20. Issuer Residual Call: [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Issuer Residual Call Percentage: [25 per cent./[●]]
 - (b) Residual Call Early Redemption Amount: [] per Calculation Amount
 - (c) Notice periods (if other than as set out in the Conditions): Minimum period: [] days
Maximum period: [] days
(N.B. When setting notice periods, the Bank is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Bank and the Fiscal Agent)
21. Redemption upon the occurrence of a MREL Disqualification Event¹² [Applicable/Not Applicable]
22. Final Redemption Amount: [[] per Calculation Amount/[[] for the Inflation Linked Amortising Notes]/[In accordance with Condition 6.15 per Calculation Amount]

¹² Only applicable for Subordinated Notes

23. Early Redemption Amount payable on [] per Calculation Amount redemption for taxation reasons, upon the occurrence of a Capital Event or a MREL Disqualification Event or following an Event of Default:

(N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes:

(a) Form:

[Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event]

[Notes shall not be physically delivered in Belgium, except to a clearing system, a depository or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.¹³]

[Registered Notes:

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

(N.B. The option for an issue of Notes to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]")

¹³

Include for Notes that are to be offered in Belgium.

[ISD Notes

ISD Notes issued in uncertificated and dematerialised book entry form. See further paragraph 7 of Part B below.]

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

(N.B. If ISD Notes, insert "No")

25. Additional Financial Centre(s): [Not Applicable/]
(Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraph 15(c) relates)

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

THIRD PARTY INFORMATION

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

Signed on behalf of **ARION BANK HF.:**

By:

Duly authorised

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading Application has been made by the Bank (or on its behalf) for the [Notes/ISD Notes] to be admitted to trading on [the Luxembourg Stock Exchange's regulated market/Nasdaq Iceland Main Market/]¹⁴ [and listed on the Official List of [the Luxembourg Stock Exchange/]]¹⁵ with effect from [.]

[Application is expected to be made by the Bank (or on its behalf) for the [Notes/ISD Notes] to be admitted to trading on [the Luxembourg Stock Exchange's regulated market/ Nasdaq Iceland Main Market/] and [listed on the Official List of [the Luxembourg Stock Exchange/]]¹⁶ with effect from [.]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)

- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings: [The Notes to be issued will not be rated]/[The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

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

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

[Each of [insert defined term(s) the relevant credit rating agency entity(ies)] is established in the [European Union/United Kingdom] and is registered under [Regulation (EC) No. 1060/2009 (as amended)/Regulation (EC) No. 1060/2009 as it

¹⁵ Not required for listing on Nasdaq Iceland Main market.

¹⁶ Not required for listing on Nasdaq Iceland Main market.

forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.]

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

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

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

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

4. USE OF PROCEEDS AND ESTIMATED NET PROCEEDS

- (i) Reasons for the offer: See ["Use of Proceeds"] in the Base Prospectus/ []/[An amount equal to the net proceeds of the issue of the Notes shall be used for green purposes (as described in the Base Prospectus) and therefore the Notes are Green Notes as described, and as this term is defined, in the Base Prospectus.][An amount equal to the net proceeds of the issue of the Notes will be used by the Bank to finance and/or refinance, in part or in full, new and/or existing [description of relevant projects to be inserted].][]]

(See ["Use of Proceeds"] wording in Base Prospectus – if reasons for offer are different from general corporate and there is a particular identified use of proceeds, this will need to be stated here.)

- (ii) Estimated net proceeds: []

5. YIELD (Fixed Rate Notes and Fixed Reset Notes only)

Indication of yield: [[] per cent.][Not Applicable]

6. PERFORMANCE OF FORMULA/CPI, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (Inflation Linked Notes and Inflation Linked Amortising Notes only)

[Not Applicable]

[Need to include details of where past and future performance and volatility of the formula/CPI can be obtained.]

The Notes are linked to the performance of the Icelandic Consumer Price Index (CPI) produced based on data from Statistics Iceland

Information about the CPI can be obtained from the website of Statistics of Iceland being [<http://www.statice.is/Statistics/Prices-and-consumption/Indices-overview>]

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

7. OPERATIONAL INFORMATION

- (i) ISIN: []
- (ii) Common Code: []
- (iii) CFI Code: [*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/Not Available]
- (iv) FISN: [*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/Not Available]
- (v) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/*give name(s), address(es) and number(s)*/Icelandic Securities Depository, Iceland. The Bank shall be entitled to obtain certain information from the register maintained by the ISD for the purpose of performing its obligations under the issue of ISD Notes. The ISD Agent shall be entitled to obtain such information as is required to perform its duties under the Conditions of the Notes and rules and regulations of, and applicable to, the ISD.]
- (vi) Delivery: Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any) or, in the case of ISD Notes, the ISD Agent: [] [Not Applicable]
- (viii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper, [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include for Registered Notes which are to be held under the NSS*]] and does not

necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the 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 Notes are capable of meeting them the Notes 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 for Registered Notes which are to be held under the NSS]*. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.]

8. DISTRIBUTION

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

(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the EEA, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

- (viii) Prohibition of Sales to UK Retail Investors: [Applicable/Not Applicable]

(If the Notes clearly do not constitute “packaged” products or the Notes do constitute “packaged” products and a key information document will be prepared in the UK, “Not Applicable” should be specified. If the Notes may constitute “packaged” products and no key information document will be prepared, “Applicable” should be specified.)

- (ix) Prohibition of Sales to Belgian Consumers: [Applicable/Not Applicable]

(N.B. advice should be taken from Belgian counsel before disapplying this selling restriction)

- (x) Relevant Benchmark:

[[EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR/[]]] is provided by [European Money Markets Institute/Norske Finansielle Referanser AS/Swedish Financial Benchmark Facility/Central Bank of Iceland/Danish Financial Benchmark Facility ApS/[]]. As at the date hereof, [[EURIBOR/NIBOR/STIBOR/REIBOR/CIBOR/[]]] [[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 (as amended, the **EU Benchmarks Regulation**) [[As far as the Bank 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/Norske Finansielle Referanser AS/Swedish Financial Benchmark Facility/Danish Financial Benchmark Facility ApS/[]]] is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or to benefit from an equivalence decision)] OR [[Central Bank of Iceland/[]]] does not fall within the scope of the EU Benchmarks Regulation]]/[Not Applicable]

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by Arion Bank hf. (the **Bank**).

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

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in the Specified Currency;
- (b) any Global Note;
- (c) any definitive Notes in bearer form (**Bearer Notes**) issued in exchange for a Global Note in bearer form;
- (d) any definitive Notes in registered form (**Registered Notes**) (whether or not issued in exchange for a Global Note in registered form); and
- (e) any Notes issued in uncertificated book entry form cleared through the Icelandic Securities Depository (the **ISD Notes** and the **ISD**, respectively). ISD Notes are in dematerialised form. Any references in these Terms and Conditions (the **Conditions**) to Coupons and Talons shall not apply to ISD Notes and no global or definitive Note will be issued in respect of ISD Notes.

The Notes (other than ISD Notes) and the Coupons (as defined below) have the benefit of an Agency Agreement dated 16 October 2023 (as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) each as made between the Bank and Citibank N.A., London Branch as fiscal agent (the **Fiscal Agent**, which expression shall include any successor agent) and the other paying agents named therein. In relation to the ISD Notes, Arion Bank hf. will act as the ISD system account manager (the **ISD Agent**, which expression shall include any additional agent appointed by the Bank from time to time in relation to the ISD Notes). The Fiscal Agent, the other paying Agents and the ISD Agent are together referred to as the **Paying Agents**, which expression shall include any additional or successor paying agents, Citibank N.A., London Branch, as registrar (the **Registrar**, which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents) The Fiscal Agent, the Calculation Agent (if any is specified in the applicable Final Terms), the Registrar, the Paying Agents and the other Transfer Agents together referred to as the **Agents**.

If so specified in the applicable Final Terms, the Bank will also appoint a calculation agent with respect to a Series (the **Calculation Agent**, which expression shall include any successor calculation agent and any other calculation agent specified in the applicable Final Terms).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms which are (except in the case of ISD Notes) attached to or endorsed on this Note which complete these Conditions. References to the **applicable Final Terms** are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) which are (except in the case of ISD Notes) attached to or endorsed on this Note

and (in the case of the ISD Notes) which are deposited with the ISD and the ISD Agent. The expression **Prospectus Regulation** means Regulation (EU) 2017/1129.

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

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and (in the case of ISD Notes) the persons who are for the time being shown in the records of the ISD as the holders of the Notes, and shall, in relation to any Notes represented by a Global Note and any ISD Notes, be construed as provided below. Any reference herein to Couponholders shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

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

The Noteholders (except in the case of ISD Notes) and the Couponholders are entitled to the benefit of the Deed of Covenant (such Deed of Covenant as amended and/or supplemented and/or restated from time to time, the **Deed of Covenant**) dated 16 October 2023 and made by the Bank. The original of the Deed of Covenant is held by the common depository for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement and the Deed of Covenant (i) are available for inspection or collection during normal business hours at the specified office of each of the Paying Agents or (ii) may be provided by email to a Noteholder following their prior written request to any Paying Agent or the Bank and provision of proof of holding and identity (in a form satisfactory to the relevant Paying Agent or the Bank, as the case may be). If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange (www.luxse.com). The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

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

1. FORM, DENOMINATION AND TITLE

The Notes are in (i) bearer form (ii) registered form as specified in the applicable Final Terms or, (iii) in the case of ISD Notes, uncertificated book entry form, as specified in the applicable Final Terms, and, in the case of definitive Notes, in the currency (the **Specified Currency**) and the denominations (the **Specified Denomination(s)**) specified in the applicable Final Terms and (other than ISD Notes) serially numbered. Notes of one Specified Denomination may not be exchanged for Notes of another

Specified Denomination. The Notes in bearer form may not be exchanged for either Registered Notes or ISD Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Fixed Reset Note, a Floating Rate Note, a Zero Coupon Note, an Inflation Linked Note, an Inflation Linked Amortising Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms. This Note may be an Inflation Linked Note or an Inflation Linked Amortising Note depending on the Redemption/Payment Basis shown in the applicable Final Terms.

This Note may be a Senior Preferred Note, a Senior Non-Preferred Note or a Subordinated Note, depending on the Status shown in the applicable Final Terms.

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

Subject as set out below, title to the Bearer Notes in bearer form and Coupons will pass by delivery, title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement, and title to ISD Notes will pass by registration in the registers between the direct or indirect accountholders at the ISD in accordance with the rules and procedures of the ISD. The Bank and the Paying Agents will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon, the registered holder of any Registered Note and the registered holder of any ISD Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

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

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

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes 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 Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note of the same series only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement.

2.2 Transfers of Registered Notes in definitive form

Subject as provided in paragraph 2.3 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note 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 Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Bank 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 Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 6, the Bank shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders 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 Bank 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. STATUS OF THE NOTES

3.1 Status of the Senior Preferred Notes

This Condition 3.1 is applicable in relation to Notes specified in the applicable Final Terms as being Senior Preferred Notes.

- (a) The Notes and any relative Coupons are direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* without any preference among themselves.

- (b) In the event of the winding-up (in Icelandic: slitameðferð) of the Bank (a **Winding-Up**), the rights and claims of the Noteholders to payments on or in respect of the Notes shall rank:
 - (i) (save for certain obligations required to be preferred by law, including any present or future claims of depositors) equally with all other unsecured obligations (other than subordinated obligations) of the Bank from time to time outstanding; and
 - (ii) senior to any Senior Non-Preferred Liabilities of the Bank.

3.2 Status of the Senior Non-Preferred Notes

This Condition 3.2 is applicable in relation to Notes specified in the applicable Final Terms as being Senior Non-Preferred Notes.

- (a) The Notes are direct, unconditional, unsubordinated and unsecured obligations of the Bank and rank *pari passu* without any preference among themselves.
- (b) In the event of a Winding-Up, the rights and claims of the Noteholders to payments on or in respect of the Notes shall rank:
 - (i) *pari passu* without any preference among themselves;
 - (ii) *pari passu* with all other Senior Non-Preferred Liabilities of the Bank;
 - (iii) in priority to payments to holders of all classes of share capital of the Bank in their capacity as such holders and any subordinated obligations or other securities of the Bank which rank, or are expressed to rank, junior to the Senior Non-Preferred Liabilities of the Bank (including, without limitation, any Additional Tier 1 Instruments and any Subordinated Notes); and
 - (iv) junior in right of payment to the payment of any present or future claims of (a) depositors of the Bank and (b) other unsubordinated creditors of the Bank that are not creditors in respect of Senior Non-Preferred Liabilities of the Bank.

3.3 Status of the Subordinated Notes

This Condition 3.3 is applicable in relation to Notes specified in the applicable Final Terms as being Subordinated Notes. In such case, the Notes constitute direct, unsecured and subordinated obligations of the Bank.

In the event of a Winding-Up, the rights and claims of the Noteholders to payments on or in respect of the Notes shall rank:

- (a) *pari passu* without any preference among themselves;
- (b) at least *pari passu* with payments to holders of any other Tier 2 Instruments and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, *pari passu* with the Notes;
- (c) in priority to payments to holders of any Additional Tier 1 Instruments and all classes of share capital of the Bank in their capacity as such holders, and claims of any other subordinated creditors the claims of which rank, or are expressed to rank, junior to the Notes; and
- (d) junior in right of payment to the payment of any present or future claims of (a) depositors of the Bank, (b) other unsubordinated creditors of the Bank (including, without limitation,

creditors in respect of any Senior Non-Preferred Liabilities of the Bank) and (c) claims of any other subordinated creditors the claims of which rank, or are expressed to rank, in priority to the Notes,

subject, in all cases, to mandatory provisions of Icelandic law.

In these Conditions:

Additional Tier 1 capital means Additional Tier 1 capital as defined in Applicable Banking Regulations;

Additional Tier 1 Instruments means at any time any debt instruments of the Bank that comply with the then current requirements under Applicable Banking Regulations in relation to Additional Tier 1 capital;

Applicable Banking Regulations means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy, prudential supervision or resolution then in effect in Iceland and applicable to the Bank, including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy, prudential supervision or resolution of the Relevant Regulator, in each case to the extent then in effect in Iceland (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank);

Applicable MREL Regulations means, at any time, the laws, regulations, requirements, guidelines and policies then in effect in Iceland giving effect to any MREL Requirement or any successor regulations then applicable to the Bank or the Group (as defined in Condition 9.3), as the case may be, including, without limitation to the generality of the foregoing, CRD and the BRRD (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank or the Group, as the case may be);

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

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

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

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

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

Hierarchy of Claims Act means Act No. 38/2021, which amended Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms, and was passed by the Icelandic Parliament

on 4 May 2021 and subsequently enacted into law, as the same may be amended or replaced from time to time;

FSA means the Financial Supervisory Authority of the Central Bank of Iceland (*Fjármálaeftirlitið*) or such other or successor authority in Iceland having primary bank supervisory authority with respect to the Bank;

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

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

Relevant Regulator means (to the extent applicable to the relevant Notes at the relevant time) (i) (in respect of the Subordinated Notes) the FSA and (ii) (in respect of the Senior Preferred Notes and the Senior Non-Preferred Notes) the Relevant Resolution Authority (as defined in Condition 18) and/or such other authority tasked with matters relating to the qualification of securities of the Bank and/or the Group, as the case may be, under the Applicable MREL Regulations;

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

Senior Non-Preferred Ranking means the ranking for senior non-preferred notes or senior non-preferred debt instruments as described in Article 85 (a) of Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms, as amended by the Hierarchy of Claims Act, that expressly provides that upon the insolvency of a financial institution regulated under Act No. 70/2020 on Recovery and Resolution of Credit Institutions and Investment Firms such senior non-preferred notes or senior non-preferred debt instruments will rank below other unsubordinated and unsecured liabilities with higher priority ranking of the financial institution; and in addition, with respect to Senior Non-Preferred Liabilities that constitute Senior Non-Preferred Notes, the ranking set forth in Condition 3.2;

Tier 2 capital means Tier 2 capital as defined in Applicable Banking Regulations; and

Tier 2 Instruments means at any time any debt instruments of the Bank that comply with the then current requirements under Applicable Banking Regulations in relation to Tier 2 capital.

3.4 Waiver of all Set-Off Rights

No holder of a Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note, as the case may be, may at any time exercise or claim any Set-Off Rights against any right, claim or liability of the Bank or that the Bank may have or acquire against such holder, directly or indirectly and howsoever arising (and including all such rights, claims and liabilities arising under or in relation to any and all agreements or other instruments of any kind or any non-contractual obligation, whether or not relating to that Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note, as the case may be) and each holder of any Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note, as the case may be, shall be deemed to have waived all Set-Off Rights to the fullest extent permitted by applicable law in relation to all such actual and potential rights, claims and liabilities. Notwithstanding the preceding sentence, if any amount payable by the Bank in respect of, or arising under or in connection with, any Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final

Terms), Senior Non-Preferred Note or Subordinated Note, as the case may be, to any holder of such Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note is discharged by set-off or any netting, such holder shall, subject to applicable law, immediately pay an amount equal to the amount of such discharge to the Bank and, until such time as payment is made, shall hold an amount equal to such amount in trust for the Bank and, accordingly, any such discharge shall be deemed not to have taken place.

Nothing in this Condition 3.4 is intended to provide, or shall be construed as acknowledging, any Set-Off Rights or that any such Set-Off Right is or would be available to any holder of any Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note but for this Condition 3.4.

In this Condition 3.4, **Set-Off Rights** means any and all rights or claims of any holder of any Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note against the Bank for deduction, set-off, netting, compensation, retention or counterclaim arising directly or indirectly under or in connection with any Senior Preferred Note (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Note or Subordinated Note, as the case may be.

4. INTEREST

4.1 Interest on Fixed Rate Notes

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

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

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

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

- (a) in the case of Fixed Rate Notes which are (i) represented by a Global Note, (ii) Registered Notes in definitive form or (iii) Fixed Rate Notes which are ISD Notes, the aggregate outstanding nominal amount of the (A) Fixed Rate Notes represented by such Global Note; (B) such Registered Notes in definitive form or (C) ISD Notes; or
- (b) in the case of Fixed Rate Notes which are Bearer Notes in definitive form, the Calculation Amount;

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

The resultant figure (including after application of any Fixed Coupon Amount or Broken Amount, as applicable, to the aggregate outstanding nominal amount of Fixed Rate Notes which are Registered Notes in definitive form or the Calculation Amount in the case of Fixed Rate Notes which are Bearer Notes in definitive form) shall be rounded to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note which is a Bearer Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 4.1:

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

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

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

4.2 Interest on Fixed Reset Notes

- (a) The applicable Final Terms contains provisions applicable to the determination of the resetting of the Rate of Interest for Fixed Reset Notes and must be read in conjunction with this Condition 4.2 for full information on the manner in which interest is calculated on Fixed Reset Notes. In particular, the applicable Final Terms will specify the Interest Commencement Date, the Reset Date, any Subsequent Reset Date(s), the Reset Margin, the Specified Currency, the Relevant Screen Page, the Floating Leg Reference Rate, the Floating Leg Screen Page and the Initial Mid-Swap Rate.
- (b) If the Notes are specified in the applicable Final Terms as being Fixed Reset Notes, the Notes shall bear interest:
- (i) from (and including) the Interest Commencement Date to (but excluding) the Reset Date at the rate per annum equal to the Initial Interest Rate; and
 - (ii) from (and including) the Reset Date to (but excluding) either (a) the Maturity Date or (b) if applicable, the first Subsequent Reset Date and each successive period from (and including) any Subsequent Reset Date to (but excluding) the next succeeding Subsequent Reset Date (if any) (each period in (a) and (b) being a **Reset Period**), in each case at the rate per annum equal to the relevant Reset Rate,

(in each case rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) (each a **Rate of Interest**) payable, in each case, in arrear on the Interest Payment Date(s) in each year up to and including the Maturity Date or, if none, the redemption, or purchase and cancellation, of the Notes.

The provisions of this Condition 4.2 shall apply, as applicable, in respect of any determination by the Fiscal Agent (in the case of Fixed Reset Notes other than ISD Notes) or the ISD Agent (in the case of Fixed Reset Notes which are ISD Notes) of the Rate of Interest for a Reset Period in accordance with this Condition 4.2 as if the Fixed Reset Notes were Floating Rate Notes. The Rate of Interest for each Reset Period shall otherwise be determined by the Fiscal Agent (in the case of Fixed Reset Notes other than ISD Notes) or the ISD Agent (in the case of Fixed Reset Notes which are ISD Notes) on the relevant Reset Determination Date in accordance with the provisions of this Condition 4.2. Once the Rate of Interest is determined for a Reset Period, the provisions of Condition 4.1 shall apply to Fixed Reset Notes, as applicable, as if the Fixed Reset Notes were Fixed Rate Notes.

In these Conditions, with respect to any Fixed Reset Notes:

Reset Determination Date means the second Business Day immediately preceding the Reset Date or relevant Subsequent Reset Date, as the case may be; and

Reset Rate means the sum of the Reset Margin and the Reset Reference Rate for the relevant Reset Period, converted, if applicable, to a semi-annual or quarterly rate in accordance with market convention, in the case of semi-annual or quarterly Interest Payment Dates, respectively.

If the Reset Reference Rate specified in the applicable Final Terms is the Mid-Swap Rate:

Mid-Swap Rate means, in relation to the Reset Date or relevant Subsequent Reset Date, as the case may be, and the Reset Period commencing on the Reset Date or that Subsequent Reset Date, the rate for the Reset Date or that Subsequent Reset Date of, in the case of semi-annual or annual Interest Payment Dates, the semi-annual or annual swap rate, respectively (if available) for swap transactions in the Specified Currency maturing on the last day of such Reset Period, expressed as a percentage, which appears on the Relevant Screen Page as of approximately 11.00 a.m. in the principal financial centre of the Specified Currency on such Reset Determination Date. If such rate does not appear on

the Relevant Screen Page, the Mid-Swap Rate for the Reset Date or relevant Subsequent Reset Date, as the case may be, will be the Reset Reference Bank Rate for the Reset Period;

Relevant Screen Page means the display page on the relevant service as specified in the applicable Final Terms or such other page as may replace it on that information service, or on such other equivalent information service as determined by the Bank for the purpose of displaying equivalent or comparable rates to the relevant swap rates for swap transactions in the Specified Currency with an equivalent maturity to the Reset Period;

Representative Amount means an amount that is representative for a single transaction in the relevant market at the relevant time;

Reset Period Mid-Swap Rate Quotations means the bid and offered rates for the semi-annual or annual, as applicable, fixed leg (calculated on the day count basis customary for fixed rate payments in the Specified Currency), of a fixed-for-floating interest rate swap transaction in the Specified Currency with a term equal to the Reset Period commencing on the Reset Date or relevant Subsequent Reset Date, as the case may be, and in a Representative Amount with an acknowledged dealer of good credit in the swap market, where the floating leg (in each case calculated on the day count basis customary for floating rate payments in the Specified Currency), is equivalent to the Rate of Interest that would apply in respect of the Notes if (a) the Reference Rate was the Floating Leg Reference Rate and (b) the Relevant Screen Page was the Floating Leg Screen Page;

Reset Reference Bank Rate means, in relation to the Reset Date or relevant Subsequent Reset Date, as the case may be, and the Reset Period commencing on the Reset Date or that Subsequent Reset Date, the percentage determined on the basis of the arithmetic mean of the Reset Period Mid-Swap Rate Quotations provided by the Reset Reference Banks at approximately 11.00 in the principal financial centre of the Specified Currency on the Reset Determination Date. The Bank (in the case of Fixed Reset Notes other than ISD Notes) or the ISD Agent (in the case of Fixed Reset Notes which are ISD Notes) will request the principal office of each of the Reset Reference Banks to provide a quotation of its rate. If at least three quotations are provided to the Fiscal Agent (in the case of Fixed Reset Notes other than ISD Notes) or the ISD Agent (in the case of Fixed Reset Notes which are ISD Notes), the rate for the Reset Date or relevant Subsequent Reset Date, as the case may be, will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, it will be the arithmetic mean of the quotations provided. If only one quotation is provided, it will be the quotation provided. If no quotations are provided, the Mid-Swap Rate will be the Mid-Swap Rate for the immediately preceding Reset Period or, if none, the Initial Mid-Swap Rate; and

Reset Reference Banks means five leading swap dealers in the interbank market for swap transactions in the Specified Currency with an equivalent maturity to the Reset Period as selected by the Bank.

If the Reset Reference Rate specified in the applicable Final Terms is the Reset Reference Bond Rate, unless otherwise specified in the applicable Final Terms:

Reset Determination Time means, in relation to a Reset Determination Date, 11.00 a.m. in the principal financial centre of the Specified Currency (which, if the Specified Currency is euro, shall be Frankfurt, Germany) on such Reset Determination Date;

Reset Reference Bond means, in relation to any Reset Period, a government security or securities issued by the government of the state responsible for issuing the Specified Currency (which, if the Specified Currency is euro, shall be Germany) (a **Relevant Government Bond**) selected by the Bank as having the nearest actual or interpolated maturity comparable with such Reset Period and that (in the opinion of the Bank) would be utilised, at the time of selection and in accordance with customary

financial practice, in pricing new issuances of corporate debt securities denominated in the Specified Currency and of a comparable maturity to such Reset Period;

Reset Reference Bond Yield means, in respect of any Reset Determination Date, the arithmetic average of the Reset Reference Government Bond Dealer Quotations for such Reset Determination Date, as determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, after excluding the highest and lowest such Reset Reference Government Bond Dealer Quotations; provided, however, that (A) if fewer than five but more than one Reset Reference Government Bond Dealer Quotations are received, the Reset Reference Bond Yield shall be equal to the arithmetic average of all such quotations, or (B) if only one Reset Reference Government Bond Dealer Quotation is received, the Reset Reference Bond Yield shall be equal to such quotation, or (C) if no Reset Reference Government Bond Dealer Quotations are received, the Reset Reference Bond Yield will be the Reset Reference Bond Rate for the immediately preceding Reset Period or, if none, the Initial Reference Rate;

Reset Reference Bond Rate means, in relation to any Reset Period, the rate per annum equal to the annual yield to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reset Reference Bond, expressed as a percentage, which equals the Reset Reference Bond Yield for the relevant Reset Determination Date;

Reset Reference Government Bond Dealers means five banks or other financial institutions that are (A) primary dealers in Relevant Government Bonds, or (B) market makers in pricing corporate bond issues denominated in the Specified Currency, in each case as selected by the Bank and notified in writing to the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable; and

Reset Reference Government Bond Dealer Quotations means, with respect to each Reset Reference Government Bond Dealer and any Reset Determination Date, the bid and offered yields to maturity or interpolated yields to maturity (on the relevant day count basis) for the Reset Reference Bond (expressed as a percentage) as at or around the Reset Determination Time on such Reset Determination Date, and, if relevant, on a dealing basis for settlement that is customarily used for such Reset Reference Bond at such time, quoted in writing to the Bank by such Reset Reference Government Bond Dealer.

If the Reset Reference Rate specified in the applicable Final Terms is the CMT Rate, unless otherwise specified in the applicable Final Terms:

Business Day means a U.S. Government Securities Business Day (as defined in Condition 4.3(b)(iii)(C));

CMT Rate means in relation to any Reset Determination Date:

- (i) the Original Reset Reference Rate Payment Basis yield for U.S. Treasury Securities at "constant maturity" for a period of maturity which is equal or comparable to the duration of the relevant Reset Period, as published in H.15 under the caption "Treasury constant maturities (nominal)", as that yield is displayed on such Reset Determination Date, on the Relevant Screen Page;
- (ii) if the yield referred to in paragraph (i) above is not published on the Relevant Screen Page on such Reset Determination Date, the Original Reset Reference Rate Payment Basis yield for U.S. Treasury Securities at "constant maturity" having a period to maturity which is equal or comparable to the duration of the relevant Reset Period as published in H.15 under the caption "Treasury constant maturities (nominal)" on such Reset Determination Date; or

- (iii) if neither the yield referred to in paragraph (i) above nor the yield referred to in paragraph (ii) above is published on such Reset Determination Date, the Reset Reference Bank Rate on such Reset Determination Date,

in each case, all as determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable;

H.15 means the daily statistical release designated as H.15, or any successor publication, published by the Board of Governors of the Federal Reserve System at <http://www.federalreserve.gov/releases/H15> or any successor site or publication;

Original Reset Reference Rate Payment Basis has the meaning specified in the applicable Final Terms;

Reference Bond Quotation means, with respect to each Reset Reference Bank and any Reset Determination Date, the rate of the Original Reset Reference Rate Payment Basis yield-to-maturity based on the secondary market bid price of the relevant Reset U.S. Treasury Security as determined by the Reset Reference Bank at approximately the Reset Determination Time on the Business Day following such Reset Determination Date;

Reset Reference Bank Rate means, with respect to any Reset Period and any Reset Determination Date, the rate (expressed as a percentage rate per annum and rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards) determined on the basis of the Reference Bond Quotations requested by the Bank to be provided by the Reset Reference Banks to the Fiscal Agent at approximately the Reset Determination Time on the Business Day following such Reset Determination Date.

If at least three such Reference Bond Quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean (rounded as aforesaid) of the Reference Bond Quotations provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two Reference Bond Quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean (rounded as aforesaid) of the Reference Bond Quotations provided. If fewer than two Reference Bond Quotations are provided, the Reset Reference Bank Rate for the relevant Reset Period will be the last observable Original Reset Reference Rate Payment Basis yield for U.S. Treasury Securities at "constant maturity" for a period of maturity which is equal or comparable to the duration of the relevant Reset Period, as published in H.15 under the caption "Treasury constant maturities (nominal)", as that yield is displayed on the Relevant Screen Page;

Reset Reference Banks means the principal office in the principal financial centre of the Specified Currency of five major banks which are primary U.S. Treasury Securities dealers or market makers in pricing corporate bond issues determined in U.S. dollars, as published on the Federal Reserve Bank of New York's website at <http://www.newyorkfed.org>, or any successor source; and

U.S. Treasury Securities means securities that are direct obligations of the United States Treasury, issued other than on a discount basis.

4.3 Interest on Floating Rate Notes

(a) Interest Payment Dates

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

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

Such interest will be payable in respect of each Interest Period. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date or the relevant payment date if the Notes become payable on a date other than an Interest Payment Date.

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

- (a) in any case where Specified Periods are specified in accordance with Condition 4.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (b) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (c) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (d) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, **Business Day** means:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre (other than T2) specified in the applicable Final Terms;
- (b) 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 (**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 (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the T2 is open.

(b) **Rate of Interest**

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

- (i) Screen Rate Determination for Floating Rate Notes not referencing Compounded Daily SONIA or Compounded Daily SOFR

The Rate of Interest for each Interest Period will, subject as provided below, be either:

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

(expressed as a percentage rate per annum) for the Reference Rate (being EURIBOR, NIBOR, STIBOR, REIBOR or CIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR and Copenhagen time, in the case of CIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Fiscal Agent or the Calculation Agent or the ISD 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 (A) above, no offered quotation appears or, in the case of (B) above, fewer than three offered quotations appear, in each case as at 11.00 a.m. (Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR), the Bank, shall request each of the Reference Banks to provide the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable.

If on any Interest Determination Date one only or none of the Reference Banks provides the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, with an offered

quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, at the request of Bank, by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the Euro-zone inter-bank market (if the Reference Rate is EURIBOR), the Norwegian inter-bank market (if the Reference Rate is NIBOR), the Swedish inter-bank market (if the Reference Rate is STIBOR), the Icelandic inter-bank market (if the Reference Rate is REIBOR) or the Danish inter-bank market (if the Reference Rate is CIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (Brussels time, in the case of EURIBOR, Oslo time, in the case of NIBOR, Stockholm time, in the case of STIBOR, Reykjavik time, in the case of REIBOR or Copenhagen time, in the case of CIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Bank suitable for the purpose) informs the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, it is quoting to leading banks in the the Euro-zone inter-bank market (if the Reference Rate is EURIBOR), the Norwegian inter-bank market (if the Reference Rate is NIBOR), the Swedish inter-bank market (if the Reference Rate is STIBOR), the Icelandic inter-bank market (if the Reference Rate is REIBOR) or the Danish inter-bank market (if the Reference Rate is CIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

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

- (ii) Screen Rate Determination for Floating Rate Notes referencing Compounded Daily SONIA
 - (A) Where the Reference Rate is specified as being *Compounded Daily SONIA*, the Rate of Interest with respect to each Interest Period will, subject as provided below, be Compounded Daily SONIA for such Interest Period plus or minus the Margin (if any) as specified in the applicable Final Terms, all as determined and calculated by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable.

Compounded Daily SONIA means, with respect to an Interest Period,

- I. if Index Determination is specified as being applicable in the applicable Final Terms, the rate determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, on the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards):

$$\left(\frac{\text{SONIA Compounded Index}_y}{\text{SONIA Compounded Index}_x} - 1 \right) \times \frac{365}{d}$$

where:

SONIA Compounded Index_x is the SONIA Compounded Index value for the day falling *p* London Banking Days prior to the first day of the relevant Interest Period;

SONIA Compounded Index_y is the SONIA Compounded Index value for the day falling *p* London Banking Days prior to the Interest Payment Date for the relevant Interest Period or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period);

d is the number of calendar days in the relevant SONIA Observation Period;

provided that if the SONIA Compounded Index value required to determine SONIA Compounded Index_x or SONIA Compounded Index_y does not appear on the Relevant Screen Page or, if not so published or the Relevant Screen Page is unavailable, the Bank of England's Interactive Statistical Database, or any successor source on which the compounded daily SONIA rate is published by the Bank of England (or any successor administrator of SONIA)), at the Specified Time on the relevant London Banking Day (or by 5:00 p.m. London time or such later time falling one hour after the customary or scheduled time for publication of the SONIA Compounded Index in accordance with the then-prevailing operational procedures of the administrator of the SONIA Reference Rate or SONIA authorised distributors, as the case may be), then Compounded Daily SONIA for such Interest Period shall be *Compounded Daily SONIA* determined in accordance with paragraph (II) below and for these purposes the "Observation Method" shall be deemed to be *Shift*; or

- II. if either (x) Index Determination is specified as being not applicable in the applicable Final Terms, or (y) this Condition 4.3(b)(ii)(II) applies to such Interest Period pursuant to the proviso in Condition 4.3(b)(ii)(I) above, the rate determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, on the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards):

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{\text{SONIA}_{i-p\text{LBD}} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

d is the number of calendar days in (where in the applicable Final Terms "Lag" is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms "Shift" is specified as the Observation Method) the SONIA Observation Period;

d_o is the number of London Banking Days in (where in the applicable Final Terms "Lag" is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms "Shift" is specified as the Observation Method) the SONIA Observation Period;

i is a series of whole numbers from one to *d_o*, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in (where in the applicable Final Terms "Lag" is specified as the Observation Method) the relevant Interest Period or (where in the applicable Final Terms "Shift" is specified as the Observation Method) the relevant SONIA Observation Period;

n_i, for any London Banking Day *i*, is the number of calendar days from (and including) such London Banking Day *i* up to (but excluding) the following London Banking Day;

SONIA_{i-pLBD} means:

- (a) where in the applicable Final Terms "Lag" is specified as the Observation Method, in respect of any London Banking Day *i* falling in the relevant Interest Period, the SONIA Reference Rate for the London Banking Day falling *p* London Banking Days prior to such London Banking Day *i*; or
- (b) where in the applicable Final Terms "Shift" is specified as the Observation Method, SONIA_{i-pLBD} shall be replaced in the above formula with SONIA_i, where SONIA_i means, in respect of any London Banking Day *i* falling in the relevant SONIA Observation Period, the SONIA Reference Rate for such London Banking Day *i*.

(B) In the event that Compounded Daily SONIA for any Interest Period cannot be determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, in accordance with the foregoing provisions, the Rate of Interest shall be:

- I. determined as at the last preceding Interest Determination Date (though substituting, where a different Margin, Maximum Rate of Interest and/or the Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin, the Maximum Rate of Interest and/or Minimum Rate of Interest (as the case may be) relating to the relevant Interest Period, in place of the Margin, Maximum Rate of Interest and/or Minimum Rate of Interest (as applicable) relating to that last preceding Interest Period); or
- II. if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Notes for the first scheduled Interest Period had the Notes been in issue for a period equal in duration to the first scheduled Interest Period but ending on (and excluding) the Interest Commencement Date (and applying the Margin and, if applicable,

any Maximum Rate of Interest and/or Minimum Rate of Interest, applicable to the first scheduled Interest Period).

(C) For the purposes of this Condition 4.3(b)(ii)

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

Observation Look-Back Period means the period specified as such in the applicable Final Terms;

p means the number of London Banking Days included in the Observation Look-Back Period, as specified in the applicable Final Terms;

Relevant Screen Page means the display page on the relevant service as specified in the applicable Final Terms or such other page as may replace it on that information service, or on such other equivalent information service as determined by the Bank for the purpose of displaying the SONIA Compounded Index or SONIA Reference Rate, as applicable;

SONIA has the meaning given to such term in the definition of SONIA Reference Rate;

SONIA Compounded Index means, in respect of any London Banking Day, the compounded daily SONIA rate as published by the Bank of England (or any successor administrator of SONIA) as such rate appears on the Relevant Screen Page or, if not so published or the Relevant Screen Page is unavailable, as published on the Bank of England's Interactive Statistical Database (or any successor source on which the compounded daily SONIA rate is published by the Bank of England (or such successor administrator)), in each case at the Specified Time on such London Banking Day;

SONIA Observation Period means, in respect of any Interest Period, the period from (and including) the date falling *p* London Banking Days prior to the first day of such Interest Period to (but excluding) the date falling *p* London Banking Days prior to the Interest Payment Date for such Interest Period or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period);

SONIA Reference Rate means, in respect of any London Banking Day, the daily Sterling Overnight Index Average (**SONIA**) rate for such London Banking Day as provided by the Bank of England, as administrator of such rate (or any successor administrator of such rate) to authorised distributors (the **SONIA authorised distributors**) and as then published on the Relevant Screen Page (or, if not so published or the Relevant Screen Page is unavailable, as otherwise published by the SONIA authorised distributors) on the London Banking Day immediately following such London Banking Day, *provided* that if, in respect of any London Banking Day, the applicable SONIA Reference Rate is not made available on the Relevant Screen Page (or has not otherwise been published by the SONIA authorised distributors) by 5.00 p.m, London time, then (unless the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, has been notified of any Successor Rate or Alternative Rate (and any related Adjustment Spread and/or Benchmark Amendments) pursuant to

Condition 4.4 below, if applicable) the SONIA Reference Rate in respect of such London Banking Day shall be:

- I. the sum of (i) the Bank of England's Bank Rate (the **Bank Rate**) prevailing at 5.00p.m. London time (or, if earlier, close of business) on such London Banking Day; and (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five London Banking Days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and the lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads); or
- II. if the Bank Rate described in sub-clause (I) above is not available at such time on such London Banking Day, (i) the SONIA Reference Rate published on the Relevant Screen Page (or as otherwise published by the SONIA authorised distributors) for the first preceding London Banking Day on which the SONIA Reference Rate was published on the Relevant Screen Page (or otherwise published by the SONIA authorised distributors) or (ii) if the Bank Rate described in sub-clause (I) is more recently available, the rate determined pursuant to sub-clause (I) by reference to such most recently available Bank Rate; and

Specified Time means 10:00a.m., London time, or such other time as is specified in the applicable Final Terms.

- (iii) Screen Rate Determination for Floating Rate Notes referencing Compounded Daily SOFR
 - (A) Where the Reference Rate is specified as being Compounded Daily SOFR, the Rate of Interest for each Interest Period will, subject as provided below, be Compounded Daily SOFR for such Interest Period plus or minus (as specified in the applicable Final Terms) the Margin (if any), all as determined and calculated by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable.

Compounded Daily SOFR means, with respect to an Interest Period,

- I. if Index Determination is specified as being applicable in the applicable Final Terms, the rate determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, on the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards):

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1 \right) \times \frac{360}{d}$$

where:

SOFR Index_{Start} is the SOFR Index value for the day falling *p* U.S. Government Securities Business Days prior to the first day of the relevant Interest Period;

SOFR Index_{End} is the SOFR Index value for the day falling *p* U.S. Government Securities Business Days prior to the Interest Payment Date for

the relevant Interest Period or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period); and

d is the number of calendar days in the relevant SOFR Observation Period;

provided that, if the SOFR Index value required to determine SOFR Index_{Start} or SOFR Index_{End} does not appear on the Relevant Screen Page or, if not so published or the Relevant Screen Page is unavailable, the SOFR Administrator's Website at the Specified Time on the relevant U.S. Government Securities Business Day (or by 3:00 pm New York City time on the immediately following US Government Securities Business Day or such later time falling one hour after the customary or scheduled time for publication of the SOFR Index value in accordance with the then-prevailing operational procedures of the administrator of SOFR Index), "Compounded Daily SOFR" for such Interest Period will be determined in accordance with Condition 4.3(b)(iii)(II) below; or

- II. if either (x) Index Determination is specified as being not applicable in the applicable Final Terms, or (y) this Condition 4.3(b)(iii)(II) applies to such Interest Period pursuant to the proviso in Condition 4.3(b)(iii)(I) above, the rate determined by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, on the relevant Interest Determination Date in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the fifth decimal place, with 0.000005 being rounded upwards):

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{SOFR \times n_i}{360} \right) - 1 \right] \times \frac{360}{d}$$

where:

d is the number of calendar days in the relevant SOFR Observation Period;

d₀ is the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

i is a series of whole numbers from one to "d₀", each representing the relevant U.S. Government Securities Business Days in chronological order from, and including, the first U.S. Government Securities Business Day in the relevant SOFR Observation Period;

n_i, for any U.S. Government Securities Business Day "i", in the relevant SOFR Observation Period, is the number of calendar days from (and including) such U.S. Government Securities Business Day "i" up to (but excluding) the following U.S. Government Securities Business Day ("i+1"); and

SOFR_i means, in respect of any U.S. Government Securities Business Day "i" falling in the relevant SOFR Observation Period, the SOFR Reference Rate for such U.S. Government Securities Business Day.

- (B) If the SOFR Benchmark Replacement is at any time required to be used pursuant to paragraph (3) of the definition of SOFR Reference Rate, then the Bank or the SOFR Benchmark Replacement Agent, if any, will determine the

SOFR Benchmark Replacement in accordance with the definition thereof with respect to the then-current SOFR Benchmark and, if the Bank or the SOFR Benchmark Replacement Agent has so determined the SOFR Benchmark Replacement, then:

- I. the Bank or the SOFR Benchmark Replacement Agent, as applicable, shall also determine the method for determining the rate described in subparagraph (a) of paragraph (1), (2) or (3) of the definition of SOFR Benchmark Replacement, as applicable (including (i) the page, section or other part of a particular information service on or source from which such rate appears or is obtained (the **Alternative Relevant Source**), (ii) the time at which such rate appears on, or is obtained from, the Alternative Relevant Source (the **Alternative Specified Time**), (iii) the day on which such rate will appear on, or is obtained from, the Relevant Source in respect of each U.S. Government Securities Business Day (the **Alternative Relevant Date**), and (iv) any alternative method for determining such rate if is unavailable at the Alternative Specified Time on the applicable Alternative Relevant Date), which method shall be consistent with industry-accepted practices for such rate;
- II. from (and including) the Affected Day, references to the Specified Time in these Conditions shall be deemed to be references to the Alternative Specified Time;
- III. if the Bank or the SOFR Benchmark Replacement Agent, as applicable, determines that (i) changes to the definitions of Business Day, Business Day Convention, Compounded Daily SOFR, Day Count Fraction, Interest Determination Date, Interest Payment Date, Interest Period, Observation Look-Back Period, SOFR Observation Period, SOFR Observation Shift Period, SOFR Reference Rate or U.S. Government Securities Business Day and/or (ii) any other technical changes to any other provision in this Condition 4.3(b), are necessary in order to implement the SOFR Benchmark Replacement (including any alternative method described in subparagraph (iv) of paragraph (I) above) as the SOFR Benchmark in a manner substantially consistent with market practice (or, if the Bank or the SOFR Benchmark Replacement Agent, as the case may be, decides that adoption of any portion of such market practice is not administratively feasible or if the Bank or the SOFR Benchmark Replacement Agent, as the case may be, determines that no market practice for use of the SOFR Benchmark Replacement exists, in such other manner as the Bank or the SOFR Benchmark Replacement Agent, as the case may be, determines is reasonably necessary), the Bank and the Fiscal Agent and/or the Calculation Agent and/or the ISD Agent, as applicable, shall agree without any requirement for the consent or approval of Noteholders to the necessary modifications to these Conditions and/or the Agency Agreement in order to provide for the amendment of such definitions or other provisions to reflect such changes;
- IV. notwithstanding any other provision of this Condition 4.3(b)(iii), no SOFR Benchmark Replacement will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made to effect the SOFR Benchmark Replacement, if and to the extent that, in the determination of the Bank, the same could reasonably be expected to prejudice the treatment of any relevant Series of (i) Subordinated Notes as Tier 2 capital; (ii) Senior Preferred Notes (other than where Unrestricted Events of Default is specified

as being applicable in the applicable Final Terms) as MREL Eligible Liabilities; or (iii) Senior Non-Preferred Notes as MREL Eligible Liabilities; and

V. the Bank will give notice or will procure that notice is given as soon as practicable to the Fiscal Agent and/or the Calculation Agent and/or the ISD Agent, as applicable, and to the Noteholders in accordance with Condition 14, specifying the SOFR Benchmark Replacement, as well as the details described in paragraph (A) above and the amendments implemented pursuant to paragraph (III) above.

(C) For the purposes of this Condition 4.3(b)(iii):

Corresponding Tenor means, with respect to a SOFR Benchmark Replacement, a tenor (including overnight) having approximately the same length (disregarding any applicable Business Day Convention) as the applicable tenor for the then-current SOFR Benchmark;

ISDA Definitions means the 2021 ISDA Definitions published by ISDA or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time by ISDA;

ISDA Fallback Adjustment means, with respect to any ISDA Fallback Rate, the spread adjustment, which may be a positive or negative value or zero, that would be applied to such ISDA Fallback Rate in the case of derivative transactions referencing the ISDA Definitions that will be effective upon the occurrence of an index cessation event with respect to the then-current SOFR Benchmark for the applicable tenor;

ISDA Fallback Rate means, with respect to the then-current SOFR Benchmark, the rate that would apply for derivative transactions referencing the ISDA Definitions that will be effective upon the occurrence of an index cessation date with respect to the then-current SOFR Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

Observation Look-Back Period means the period specified as such in the applicable Final Terms;

p means the number of U.S. Government Securities Business Days included in the Observation Look-Back Period, as specified in the applicable Final Terms;

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

Relevant Screen Page means the display page on the relevant service as specified in the applicable Final Terms or such other page as may replace it on that information service, or on such other equivalent information service as determined by the Bank for the purpose of displaying the SOFR Index or the SOFR Reference Rate, as applicable;

SOFR means, in respect of any U.S. Government Securities Business Day, the daily secured overnight financing rate for such U.S. Government Securities Business Day

as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate);

SOFR Administrator means the Federal Reserve Bank of New York (or a successor administrator of the daily Secured Overnight Financing Rate or the SOFR Index, as applicable);

SOFR Administrator's Website means the website of the Federal Reserve Bank of New York, or any successor source;

SOFR Benchmark means SOFR, provided that if a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred with respect to SOFR or such other then-current SOFR Benchmark, then "SOFR Benchmark" means the applicable SOFR Benchmark Replacement;

SOFR Benchmark Replacement means, with respect to the then-current SOFR Benchmark, the first alternative set forth in the order presented below that can be determined by the Bank or the SOFR Benchmark Replacement Agent, if any, as of the SOFR Benchmark Replacement Date with respect to the then-current SOFR Benchmark:

- (1) the sum of: (a) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current SOFR Benchmark for the applicable Corresponding Tenor and (b) the SOFR Benchmark Replacement Adjustment; or
- (2) the sum of (a) the ISDA Fallback Rate and (b) the SOFR Benchmark Replacement Adjustment;
- (3) the sum of: (a) the alternate rate of interest that has been selected by the Bank or the SOFR Benchmark Replacement Agent, if any, as the replacement for the then-current Benchmark for the applicable Corresponding Tenor and (b) the SOFR Benchmark Replacement Adjustment, provided that, (i) if the Bank or the SOFR Benchmark Replacement Agent, as the case may be, determines that there is an industry-accepted replacement rate of interest for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time, it shall select such industry-accepted rate, and (ii) otherwise, it shall select such rate of interest that it has determined is most comparable to the then-current Benchmark, and the SOFR Benchmark Replacement Adjustment;

SOFR Benchmark Replacement Adjustment means, with respect to any SOFR Benchmark Replacement, the first alternative set forth in the order below that can be determined by the Bank or the SOFR Benchmark Replacement Agent, if any, as of the SOFR Benchmark Replacement Date with respect to the then-current Benchmark:

- (1) the spread adjustment, or method for calculating or determining such spread adjustment, which may be a positive or negative value or zero, that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;
- (2) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment;

- (3) the spread adjustment, which may be a positive or negative value or zero, that has been selected by the Bank or the SOFR Benchmark Replacement Agent, if any, to be applied to the applicable Unadjusted SOFR Benchmark Replacement in order to reduce or eliminate, to the extent reasonably practicable under the circumstances, any economic prejudice or benefit (as applicable) to Noteholders as a result of the replacement of the then-current SOFR Benchmark with such Unadjusted SOFR Benchmark Replacement for the purposes of determining the SOFR Reference Rate, which spread adjustment shall be consistent with any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, applied to such Unadjusted SOFR Benchmark Replacement where it has replaced the then-current SOFR Benchmark for U.S. dollar denominated floating rate notes at such time;

SOFR Benchmark Replacement Agent means any person that has been appointed by the Bank to make the calculations and determinations to be made by the SOFR Benchmark Replacement Agent described in this Condition 4.3(b)(iii) that may be made by either the SOFR Benchmark Replacement Agent or the Bank, so long as such person is a leading bank or other financial institution or a person with appropriate expertise, in each case that is experienced in such calculations and determinations;

SOFR Benchmark Replacement Date means, with respect to the then-current SOFR Benchmark, the earliest to occur of the following events with respect thereto:

- (1) in the case of sub-paragraph (1) or (2) of the definition of SOFR Benchmark Transition Event, the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the SOFR Benchmark permanently or indefinitely ceases to provide the SOFR Benchmark; or
- (2) in the case of sub-paragraph (3) of the definition of SOFR Benchmark Transition Event, the date of the public statement or publication of information referenced therein.

If the event giving rise to the SOFR Benchmark Replacement Date occurs on the same day as, but earlier than, the Specified Time in respect of any determination, the SOFR Benchmark Replacement Date will be deemed to have occurred prior to the Specified Time for such determination;

SOFR Benchmark Transition Event means, with respect to the then-current SOFR Benchmark, the occurrence of one or more of the following events with respect thereto:

- (1) a public statement or publication of information by or on behalf of the administrator of the SOFR Benchmark announcing that such administrator has ceased or will cease to provide the SOFR Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the SOFR Benchmark;
- (2) a public statement or publication of information by the regulatory supervisor for the administrator of the SOFR Benchmark, the central bank for the currency of the SOFR Benchmark, an insolvency official with jurisdiction over the administrator for the SOFR Benchmark, a resolution authority with

jurisdiction over the administrator for the SOFR Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the SOFR Benchmark, which states that the administrator of the SOFR Benchmark has ceased or will cease to provide the SOFR Benchmark permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the SOFR Benchmark; or

- (3) a public statement or publication of information by the regulatory supervisor for the administrator of the SOFR Benchmark announcing that the SOFR Benchmark is no longer representative;

SOFR Index means, in respect of any U.S. Government Securities Business Day, the compounded daily SOFR rate as published by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) as such rate appears on the Relevant Screen Page or, if not so published or the Relevant Screen Page is unavailable, on the SOFR Administrator's Website, in each case at the Specified Time on such U.S. Government Securities Business Day;

SOFR Observation Period means, in respect of any Interest Period, the period from (and including) the date falling "p" U.S. Government Securities Business Days prior to the first day of such Interest Period to (but excluding) the date falling *p* U.S. Government Securities Business Days prior to the Interest Payment Date for such Interest Period or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period); and

SOFR Reference Rate means, in respect of any U.S. Government Securities Business Day:

- (1) a rate equal to SOFR for such U.S. Government Securities Business Day appearing on the Relevant Screen Page or, if not so published or the Relevant Screen Page is unavailable, the SOFR Administrator's Website on or about the Specified Time on the U.S. Government Securities Business Day immediately following such U.S. Government Securities Business Day; or
- (2) if SOFR in respect of such U.S. Government Securities Business Day does not appear as specified in paragraph (1) above, unless the Bank or the SOFR Benchmark Replacement Agent, if any, determines that a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred with respect to SOFR on or prior to the Specified Time on the U.S. Government Securities Business Day immediately following such U.S. Government Securities Business Day, SOFR in respect of the last U.S. Government Securities Business Day for which such rate was published on the Relevant Screen Page or, if not so published or the Relevant Screen Page was unavailable, the SOFR Administrator's Website; or
- (3) if the Bank or SOFR Benchmark Replacement Agent, if any, determines that a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred with respect to the then-current SOFR Benchmark on or prior to the Specified Time on the U.S. Government Securities Business Day immediately following such U.S. Government Securities Business Day (or, if the then-current SOFR Benchmark is not SOFR, on or prior to the Specified Time on the Alternative Relevant Date),

then (subject to the subsequent operation of this paragraph (3)) from (and including) the U.S. Government Securities Business Day immediately following such U.S. Government Securities Business Day (or the Alternative Relevant Date, as applicable) (the **Affected Day**), the SOFR Reference Rate shall mean, in respect of any U.S. Government Securities Business Day, the applicable SOFR Benchmark Replacement for such U.S. Government Securities Business Day appearing on, or obtained from, the Alternative Relevant Source at the Alternative Specified Time on the Alternative Relevant Date;

Specified Time means 3:00 p.m., New York City time or such other time as is specified in the applicable Final Terms;

Unadjusted SOFR Benchmark Replacement means the SOFR Benchmark Replacement excluding the SOFR Benchmark Replacement Adjustment; and

U.S. Government Securities Business Day means any day, (other than a Saturday or Sunday) that is not a day on which the Securities Industry and Financial Markets Association or any successor organisation recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(D) Notwithstanding the other provisions of this Condition 4.3(b), in the event the SOFR Benchmark Replacement Agent determines it appropriate, in its sole discretion, to consult with an Independent Adviser in connection with any determination to be made by the SOFR Benchmark Replacement Agent pursuant to this Condition 4.3(b), the Bank shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, for the purposes of any such consultation.

An Independent Adviser appointed pursuant to this Condition 4.3(b) shall act in good faith in a commercially reasonable manner but shall have no relationship of agency or trust with the Noteholders and (in the absence of fraud) shall have no liability whatsoever to the SOFR Benchmark Replacement Agent or the Noteholders or the Couponholders for any determination made by it or for any advice given to the SOFR Benchmark Replacement Agent in connection with any determination made by the SOFR Benchmark Replacement Agent pursuant to this Condition 4.3(b)(iii) or otherwise in connection with the Notes.

If the SOFR Benchmark Replacement Agent consults with an Independent Adviser as to the occurrence of any SOFR Benchmark Transition Event and/or the related SOFR Benchmark Replacement Date, a written determination of that Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error, and (in the absence of fraud) the SOFR Benchmark Replacement Agent shall have no liability whatsoever to any Noteholders or Couponholders in respect of anything done, or omitted to be done, in relation to that matter in accordance with any such written determination or otherwise in connection with the Notes.

(E) Any determination, decision or election that may be made by the Bank or the SOFR Benchmark Replacement Agent, if any, pursuant to this Condition 4.3(b)(iii), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event (including any determination that a SOFR Benchmark Transition Event and its related SOFR

Benchmark Replacement Date have occurred with respect to the then-current SOFR Benchmark), circumstance or date and any decision to take or refrain from taking any action or any selection, will be made in the sole discretion of the Bank or the SOFR Benchmark Replacement Agent, as the case may be, acting in good faith and in a commercially reasonable manner.

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

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

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

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

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

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

The Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

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

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

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 4.2:

- (i) 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);

- (ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if "30/360", "360/360" or "Note Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(e) **Linear Interpolation**

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, by straight line linear interpolation by reference to two rates based on the relevant Reference Rate, one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Bank (acting in good faith and in a commercially reasonable manner) shall instruct the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, as to such rate, at such time and by reference to such sources as the Bank determines appropriate for the purposes of the calculation of the applicable rate of interest.

Designated Maturity means the period of time designated in the Reference Rate.

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

The Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Bank and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to (i) each stock exchange on which the relevant Floating Rate Notes are for the time being listed by no later than the first day of each Interest Period and (ii) the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) **Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 by the Fiscal Agent or the Calculation Agent, as applicable, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Fiscal Agent or the Calculation Agent, as applicable, the other Paying Agents, the ISD Agent (in the case of ISD Notes) and all Noteholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Bank, the Noteholders or the Couponholders shall attach to the Fiscal Agent or the Calculation Agent, as applicable, in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.4 Benchmark Discontinuation

Notwithstanding the provisions in Conditions 4.2 or 4.3, as the case may be, above, (in the case of Floating Rate Notes other than where the Reference Rate is specified in the applicable Final Terms as being Compounded Daily SOFR, in which case the provisions of this Condition 4.4 shall not apply), if the Bank determines that a Benchmark Event has occurred in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to that Original Reference Rate, then the following provisions of this Condition 4.4 shall apply.

(a) **Successor Rate or Alternative Rate**

If there is a Successor Rate, then the Bank shall promptly notify the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, in accordance with Condition 13, the Noteholders of such Successor Rate and that Successor Rate shall (subject to adjustment as provided in Condition 4.4(b)) subsequently be used by the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, in place of the Original Reference Rate to determine the relevant Rate(s) of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 4.4).

If there is no Successor Rate but the Bank, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser, determines that there is an Alternative Rate, then the Bank shall promptly notify the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, and, in accordance with Condition 13, the Noteholders of such Alternative Rate and that Alternative Rate shall (subject to adjustment as provided in Condition 4.4(b)) subsequently be used in place of the Original Reference Rate to determine the relevant Rate(s)

of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the further operation of this Condition 4.4).

(b) **Adjustment Spread**

If, in the case of a Successor Rate, an Adjustment Spread is formally recommended or proposed in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body, then the Bank shall promptly notify the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, and, in accordance with Condition 13, the Noteholders of such Adjustment Spread and the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, shall apply such Adjustment Spread to the Successor Rate for each subsequent determination of a relevant Rate of Interest (or a component part thereof) by reference to such Successor Rate.

If, in the case of a Successor Rate where no such Adjustment Spread is formally recommended or proposed by any Relevant Nominating Body, or in the case of an Alternative Rate, the Bank, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser, determines that there is an Adjustment Spread in customary market usage in the international debt capital markets for transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be), then the Bank shall promptly notify the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, and, in accordance with Condition 13, the Noteholders of such Adjustment Spread and the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, shall apply such Adjustment Spread to the Successor Rate and the Alternative Rate (as the case may be) for each subsequent determination of a relevant Rate of Interest (or a component part thereof) by reference to such Successor Rate or Alternative Rate (as applicable).

If no such recommendation or option has been made (or made available) by any Relevant Nominating Body, or the Bank so determines that there is no such Adjustment Spread in customary market usage in the international debt capital markets and the Bank further determines, acting in good faith, in a commercially reasonable manner and following consultation with an Independent Adviser, that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be), then the Adjustment Spread shall be:

- (i) the Adjustment Spread determined by the Bank, acting in good faith, in a commercially reasonable manner and following consultation with an Independent Adviser, as being the Adjustment Spread recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or
- (ii) if there is no such industry standard recognised or acknowledged, such Adjustment Spread as the Bank, acting in good faith, in a commercially reasonable manner and following consultation with an Independent Adviser, determines to be appropriate, having regard to the objective, so far as is reasonably practicable in the circumstances, of reducing or eliminating any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be).

Following any such determination of the Adjustment Spread, the Bank shall promptly notify the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, and, in accordance with Condition 13, the Noteholders of such Adjustment Spread and the Fiscal Agent shall

apply such Adjustment Spread to the Successor Rate or the Alternative Rate (as the case may be) for each subsequent determination of a relevant Rate of Interest (or a component part thereof) by reference to such Successor Rate or Alternative Rate (as applicable).

(c) **Benchmark Amendments**

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 4.4 and the Bank, acting in good faith, in a commercially reasonable manner and by reference to such sources as it deems appropriate, which may include consultation with an Independent Adviser, determines in its discretion (A) that amendments to these Conditions and/or the Agency Agreement are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the **Benchmark Amendments**) and (B) the terms of the Benchmark Amendments, then the Bank and the Fiscal Agent shall, subject to the Bank having to give notice thereof to the Noteholders in accordance with Condition 13, without any requirement for the consent or approval of Noteholders, agree to the necessary modifications to these Conditions and/or the Agency Agreement to give effect to such Benchmark Amendments with effect from the date specified in such notice.

In connection with any such modifications in accordance with this Condition 4.4(c), the Bank shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading. Notwithstanding any other provision of this Condition 4.4, no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the Bank, the same could reasonably be expected to prejudice the treatment of any relevant Series of Subordinated Notes as Tier 2 capital.

In addition and notwithstanding any other provision of this Condition 4.4, no Successor Rate, Alternative Rate or Adjustment Spread will be adopted, nor will any other amendment to the terms and conditions of any Series of Notes be made to effect the Benchmark Amendments, if and to the extent that, in the determination of the Bank, the same could reasonably be expected to prejudice the treatment of any relevant Series of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) or Senior Non-Preferred Notes as MREL Eligible Liabilities.

Any Benchmark Amendments determined under this Condition 4.4(c) shall be notified promptly by the Bank to the Fiscal Agent or the Calculation Agent or the ISD Agent, as applicable, and, in accordance with Condition 13, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of such Benchmark Amendments.

(d) **Independent Adviser**

In the event the Bank is to consult with an Independent Adviser in connection with any determination to be made by the Bank pursuant to this Condition 4.4, the Bank shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, for the purposes of any such consultation.

An Independent Adviser appointed pursuant to this Condition 4.4 shall act in good faith, in a commercially reasonable manner and (in the absence of fraud or wilful default) shall have no liability whatsoever to the Bank or the Noteholders for any determination made by it or for any advice given to the Bank in connection with any determination made by the Bank pursuant to this Condition 4.4 or otherwise in connection with the Notes.

If the Bank consults with an Independent Adviser as to whether there is an Alternative Rate and/or any Adjustment Spread is required to be applied and/or in relation to the quantum of, or any formula or methodology for determining such Adjustment Spread and/or whether any Benchmark Amendments are necessary and/or in relation to the terms of any such Benchmark Amendments, a written determination of that Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error, and (in the absence of fraud or wilful default) the Bank shall have no liability whatsoever to the Noteholders in respect of anything done, or omitted to be done, in relation to that matter in accordance with any such written determination.

No Independent Adviser appointed in connection with the Notes (acting in such capacity), shall have any relationship of agency or trust with the Noteholders.

(e) **Survival of Original Reference Rate Provisions**

Without prejudice to the obligations of the Bank under this Condition 4.4, the Original Reference Rate and the fallback provisions provided for in Conditions 4.2, 4.3, the Agency Agreement and the applicable Final Terms, as the case may be, will continue to apply unless and until the Bank has determined the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with the relevant provisions of this Condition 4.4.

(f) **Definitions**

In this Condition 4.4:

Adjustment Spread means either a spread, or the formula or methodology for calculating a spread and the spread resulting from such calculation, which spread may in either case be positive or negative and is to be applied to the Successor Rate or the Alternative Rate (as the case may be) where the Original Reference Rate is replaced with the Successor Rate or the Alternative Rate (as the case may be);

Alternative Rate means an alternative benchmark or screen rate which the Bank determines in accordance with this Condition 4.4 is used in place of the Original Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) for a commensurate interest period and in the same Specified Currency as the Notes;

Benchmark Event means:

- (i) the Original Reference Rate ceasing to be published for at least five Business Days or ceasing to exist or be administered;
- (ii) the later of (A) the making of a public statement by the administrator of the Original Reference Rate that it will, by a specified date, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and (B) the date falling six months prior to such specified date;
- (iii) the making of a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been permanently or indefinitely discontinued or is prohibited from being used or is no longer representative or will no longer be representative, or that its use is subject to restrictions or adverse consequences or, where such discontinuation, prohibition, restrictions or adverse

consequences are to apply from a specified date after the making of any public statement to such effect, the later of the date of the making of such public statement and the date falling six months prior to such specified date; or

- (iv) it has or will prior to the next Interest Determination Date or Reset Determination Date, as applicable, become unlawful for the Calculation Agent, any Paying Agent or the Bank to determine any Rate of Interest and/or calculate any Interest Amount using the Original Reference Rate (including, without limitation, under Regulation (EU) No. 2016/1011, if applicable).

Independent Adviser means an independent financial institution of international repute or other independent adviser of recognised standing with appropriate expertise appointed by the Bank at its own expense;

Original Reference Rate means the benchmark or screen rate (as applicable) originally specified in the applicable Final Terms for the purposes of determining the relevant Rate of Interest (or any component part thereof) in respect of the Notes (provided that if, following one or more Benchmark Events, such originally specified Reference Rate (or any Successor Rate or Alternative Rate which has replaced it) has been replaced by a (or a further) Successor Rate or Alternative Rate and a Benchmark Event subsequently occurs in respect of such Successor Rate or Alternative Rate, the term **Original Reference Rate** shall include any such Successor Rate or Alternative Rate);

Relevant Nominating Body means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (C) a group of the aforementioned central banks or other supervisory authorities, or (D) the Financial Stability Board or any part thereof; and

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

4.5 Interest on Inflation Linked Notes

Each Inflation Linked Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest multiplied by the Index Ratio (as defined in Condition 5.9(b) (*Payments in respect of Inflation Linked Amortising Notes*)) below. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date or any earlier Interest Payment Date on which the Notes are redeemed in full.

If interest is required to be calculated for a period other than an Interest Period, such interest shall be calculated in respect of any period by applying the Rate of Interest multiplied by the Index Ratio (as defined in Condition 5.9(b) (*Payments in respect of Inflation Linked Amortising Notes*)) to:

- (a) in the case of Inflation Linked Notes which are represented by a Global Note or Inflation Linked which are ISD Notes, the aggregate outstanding nominal amount of the Inflation Linked Notes; or

(b) in the case of Inflation Linked Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 4.1), and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of an Inflation Linked Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Inflation Linked Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

4.6 Interest on Inflation Linked Amortising Notes

Each Inflation Linked Amortising Note bears interest from (and including) the Interest Commencement Date at the rate per annum equal to the Rate of Interest 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 applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 4.3(d) (*Determination of Rate of Interest and calculation of Interest Amounts*)), 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.

4.7 Accrual of interest

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

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Fiscal Agent, the Registrar or the ISD Agent, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 13.

5. PAYMENTS

5.1 Method of payment

Subject as provided below:

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

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 Bank or its Agents are subject, but

without prejudice to the provisions of Condition 7 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

5.2 Presentation of definitive Bearer Notes and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 5.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Fixed Rate Notes, Inflation Linked Notes and Inflation Linked Amortising Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Note or Long Maturity Note 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. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached, Inflation Linked Notes or an Inflation Linked Amortising Note) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

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

5.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of

any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

5.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (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 Note 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 Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the 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 Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (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 Note appearing in the 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 Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

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 Notes.

None of the Bank 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 Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

5.5 General provisions applicable to payments

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

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

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

5.6 Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 8) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) in the case of Notes in definitive form only, in the relevant place of presentation; and
 - (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 T2 is open, and
- (c) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which T2 is open.

5.7 Interpretation of principal and interest

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

- (a) any additional amounts which may be payable with respect to principal under Condition 7;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;

- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) any premium and any other amounts (other than interest) which may be payable by the Bank under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7.

5.8 Payments in respect of ISD Notes

Payments of principal and interest in respect of ISD Notes will be made to the Noteholders shown in the relevant records of the ISD in accordance with and subject to the rules and regulations from time to time governing the ISD.

5.9 Payments in respect of Inflation Linked Amortising Notes

- (a) If this is an Inflation Linked Amortising Note, the Bank shall, on each relevant Interest Payment Date, make a combined payment of principal due under Condition 6.14, interest due under Condition 4.6 and any indexation amount (together, the **Annuity Amount**) as calculated by the Calculation Agent in accordance with the following formula:

$$P = \frac{r}{1-(1+r)^{-n}} \times IR \times d$$

where:

P = The combined payment of principal, interest and indexation amount of the relevant Notes;

$$r = \frac{c}{[\textit{insert number of interest payment per year}]};$$

c = The Rate of Interest applicable to the relevant Notes;

d = The Specified Denomination of the relevant Notes;

n = [*Insert total number of annuity payments on the relevant Notes*]; and

IR = The Index Ratio as determined in accordance with subparagraph (b) below

- (b) The value of the Index Ratio (**Index Ratio** or **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 Calculation Agent:

$$\textit{being } IR = \frac{RI}{BI}$$

where:

Reference Index or **RI** means:

- (i) for the first day of the relevant calendar month, the value of the Consumer Price Index (the **CPI**) for the relevant month as calculated by Statistics Iceland pursuant to the Consumer Price Index Act of 1995 (*lög um vísitölu neysluverðs nr. 12/1995*) and published monthly in the Legal Gazette (*Lögbirtingarblaðið*);

- (ii) for each day in the relevant calendar month other than the first day:
- (A) if the CPI for the calendar month immediately succeeding the month in which the relevant Interest Payment Date falls (the **Succeeding Month CPI**) has been published as at the relevant Interest Payment Date:

$$RI = CPI_t + (CPI_{t+1} - CPI_t) \frac{d}{30}$$

- (B) if the Succeeding Month CPI has not been published as at the relevant Interest Payment Date:

$$RI = CPI_t \times (1 + i)^{\frac{d}{360}}$$

where:

RI = Reference Index;

CPI_t = CPI value for the first day of the relevant calendar month;

CPI_{t+1} = Succeeding Month CPI;

d = number of days since the first day of the month; and

i = annualised inflation forecast of the Central Bank of Iceland

and

Base Index means the value specified in the Final Terms of the relevant Tranche of Notes, being the value of the CPI on the relevant date specified in such Final Terms.

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

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

6. REDEMPTION AND PURCHASE

6.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Bank at its Final Redemption Amount of 100 per cent. or more of its nominal amount calculated as follows:

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

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

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

6.2 Redemption for tax reasons

Subject to Condition 6.5 and, in the case of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes or Subordinated Notes only, to the provisions of Condition 6.10 below, the Notes may be redeemed at the option of the Bank in whole, but not in part, at any time (if this Note is not a Floating Rate Note, an Inflation Linked Note nor an Inflation Linked Amortising Note) or on any Interest Payment Date (if this Note is a Floating Rate Note, an Inflation Linked Note or an Inflation Linked Amortising Note), on giving not less than 30 and not more than 60 days' notice to the Fiscal Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if:

- (a) either (i) on the occasion of the next payment due under the Notes, the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 7 or (ii) in the case of Subordinated Notes only, the Bank would not be entitled to claim a deduction in computing its taxation liabilities in any Tax Jurisdiction (as defined in Condition 7) in respect of any payment of interest to be made on the Notes on the occasion of the next payment due under the Notes (or the amount of such deduction would be materially reduced), in each case as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after (a) (in the case of Senior Preferred Notes or Senior Non-Preferred Notes) the date on which agreement is reached to issue the last Tranche of the Notes; or (b) (in the case of Subordinated Notes) the Issue Date; and
- (b) such obligation, loss of entitlement (or reduction) cannot be avoided by the Bank taking reasonable measures available to it,

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

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

Notes redeemed pursuant to this Condition 6.2 will be redeemed at their Early Redemption Amount referred to in Condition 6.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

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

Subject to, in the case of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes or

Subordinated Notes, the provisions of Condition 6.10 below, if Issuer Call is specified as being applicable in the applicable Final Terms, the Bank may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (Redeemed Notes) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption; (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) and (iii) in the case of Redeemed Notes which are ISD Notes, in accordance with the rules of the ISD. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption.

6.4 Issuer Residual Call

Subject to Condition 6.10, if Issuer Residual Call is specified as being applicable in the applicable Final Terms and, at any time, the outstanding aggregate nominal amount of the Notes is 25 per cent. (or such other lower percentage as may be specified in the applicable Final Terms) or less of the aggregate nominal amount of the Series issued as the Issuer Residual Call Percentage, the Notes may be redeemed at the option of the Bank in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than 15 and not more than 60 days' notice (or such other notice period as may be specified in the applicable Final Terms) to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption) at the Residual Call Early Redemption Amount together, if appropriate, with interest accrued to (but excluding) the date of redemption.

6.5 Early Redemption Amounts

For the purpose of Condition 6.2 above, Conditions 6.9 below, Condition 6.11 below and Condition 9 below:

- (a) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount specified in the applicable Final Terms; and
- (b) each Zero Coupon Note will be redeemed at its Early Redemption Amount calculated in accordance with the following formula:

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

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated

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

6.6 Purchases

Subject to the provisions of Condition 6.10 below, the Bank or any Subsidiary of the Bank may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Bank, surrendered to any Paying Agent and/or the Registrar for cancellation.

6.7 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6.6 above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

6.8 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 6.1, 6.2 or 6.3 above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 6.5(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Fiscal Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 13.

6.9 Redemption upon a Capital Event – Subordinated Notes

If the Notes are Subordinated Notes, then upon the occurrence of a Capital Event, the Bank may, at its option, having given not less than 30 days' nor more than 60 days' notice to the Fiscal Agent and the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for such redemption), at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is not a Floating Rate Note) redeem all (but not some only) of the Subordinated Notes then outstanding at the Early Redemption Amount specified in the applicable Final Terms, together, if appropriate, with interest accrued to (but excluding) the date of redemption.

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

In these Terms and Conditions, a **Capital Event** means the determination by the Bank after consultation with the FSA that, as a result of a change in Icelandic law or Applicable Banking Regulations or any change in the official application or interpretation thereof becoming effective on or after the Issue Date, the aggregate outstanding nominal amount of the Subordinated Notes is excluded in whole or in part from inclusion in the Tier 2 capital of the Bank, other than where such exclusion is only as a result of any applicable limitation on such capital.

6.10 Relevant Regulator Approval

Any redemption or purchase of Subordinated Notes pursuant to Conditions 6.2, 6.3, 6.4, 6.6 and 6.9 or substitution or variation pursuant to Condition 6.12 is subject to the prior approval of the Relevant Regulator (if, and to the extent then required, by the Relevant Regulator).

Any redemption or purchase of Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) and Senior Non-Preferred Notes, as the case may be, pursuant to Conditions 6.2, 6.3, 6.4, 6.6 and 6.11 or substitution or variation pursuant to Condition 6.13 is subject to the prior approval of the Relevant Regulator (if, and to the extent then required, by the Relevant Regulator).

6.11 Redemption upon a MREL Disqualification Event – Senior Preferred Notes, Senior Non-Preferred Notes and Subordinated Notes

This Condition 6.11 applies to Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms), Senior Non-Preferred Notes and Subordinated Notes (where redemption upon the occurrence of a MREL Disqualification Event in the case of Subordinated Notes is specified as being applicable in the applicable Final Terms).

Upon the occurrence of a MREL Disqualification Event, the Bank may, at its option having given not less than 30 days' nor more than 60 days' notice to the Fiscal Agent and the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for such redemption), at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note) redeem all (but not some only) of the Notes then outstanding at the Early Redemption Amount specified in the applicable Final Terms, together, if appropriate, with interest accrued to (but excluding) the date of redemption.

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

In these Conditions, **MREL Disqualification Event** means the determination by the Bank that, as a result of a change in any Applicable MREL Regulations becoming effective on or after the date on which agreement is reached to issue the last Tranche of the Notes, the Notes will be fully excluded or partially excluded from the "eligible liabilities" (or any equivalent or successor term) available to meet any MREL Requirement (however called or defined by then Applicable MREL Regulations) if the Bank or the Group is then or, as the case may be, will be subject to such MREL Requirement; provided that a MREL Disqualification Event shall not occur where such exclusion is or will be caused by (i) the remaining maturity of the Notes being less than any period prescribed by any applicable eligibility criteria under the Applicable MREL Regulations, (ii) the Notes being purchased by or on behalf of the

Bank or (iii) any applicable limits on the amount of “eligible liabilities” (or any equivalent or successor term) permitted or allowed to meet any MREL Requirement(s) being exceeded.

6.12 Substitution or Variation – Subordinated Notes

This Condition 6.12 applies only to Subordinated Notes.

Upon the occurrence of a Tax Event or a Capital Event, or if required in order to ensure the effectiveness or enforceability of Condition 18, subject to the provisions of Condition 6.10, the Bank may, at its option and without any requirement for the consent or approval of the Noteholders, having given not less than 30 days’ nor more than 60 days’ notice to the Fiscal Agent and the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), at any time either substitute all, but not some only, of the Notes for, or vary the terms of the Notes so that they remain, or, as appropriate, become, Subordinated Qualifying Securities, provided that such substitution or variation does not itself give rise to any right of the Bank to redeem the substituted or varied securities.

In these Conditions, **Subordinated Qualifying Securities** means securities issued directly or indirectly by the Bank that:

- (a) other than in the case of a change in the governing law of the Notes under Condition 18 from English to Icelandic law in order to ensure the effectiveness and enforceability of Condition 18, have terms not materially less favourable to the Noteholders as a class than the terms of the Notes and, subject thereto, they shall (i) have a ranking at least equal to that of the Notes prior to the relevant substitution or variation; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes prior to the relevant substitution or variation; (iii) have the same redemption rights as the Notes prior to the relevant substitution or variation; (iv) comply with the then current requirements of the FSA in relation to Tier 2 capital; (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date, and (vi) be assigned (or maintain) at least the same solicited credit ratings, if any, as were assigned to the Notes immediately prior to the relevant substitution or variation (or, if a solicited credit rating assigned to the Notes was, as a result of Condition 18 becoming ineffective or unenforceable, amended prior to such substitution or variation, the solicited credit rating that was assigned to the Notes prior to such amendment); and
- (b) are listed on a recognised stock exchange, if the Notes were listed immediately prior to the relevant substitution or variation, as selected by the Bank.

6.13 Substitution or Variation – Senior Preferred Notes and Senior Non-Preferred Notes

This Condition 6.13 applies only to Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms) and Senior Non-Preferred Notes.

Upon the occurrence of a Tax Event or a MREL Disqualification Event, or if required in order to ensure the effectiveness or enforceability of Condition 18, subject to the provisions of Condition 6.10, the Bank may, at its option and without any requirement for the consent or approval of the Noteholders, having given not less than 30 days’ nor more than 60 days’ notice (which notice shall be irrevocable) to the Fiscal Agent and the Noteholders in accordance with Condition 13, at any time either substitute all, but not some only, of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, in the case of Senior Preferred Notes, Senior Preferred Qualifying Securities or, in the case of Senior Non-Preferred Notes, Senior Non-Preferred Qualifying Securities (as defined below), as the case may be.

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

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

- (a) other than in the case of a change in the governing law of the Notes under Condition 18 from English to Icelandic law in order to ensure the effectiveness and enforceability of Condition 18, have terms not materially less favourable to the Noteholders as a class than the terms of the Notes and, subject thereto, they shall (i) include a ranking at least equal to that of the Notes prior to the relevant substitution or variation; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes prior to the relevant substitution or variation; (iii) have the same redemption rights as the Notes prior to the relevant substitution or variation; (iv) comply with the then current requirements in relation to “eligible liabilities” (or any equivalent or successor term) provided for in the Applicable MREL Regulations; (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date; (vi) be assigned (or maintain) at least the same solicited credit ratings, if any, as were assigned to the Notes immediately prior to the relevant substitution or variation (or, if a solicited credit rating assigned to the Notes was, as a result of Condition 18 becoming ineffective or unenforceable, amended prior to such substitution or variation, the solicited credit rating that was assigned to the Notes prior to such amendment); and
- (b) are listed on a recognised stock exchange, if the Notes were listed immediately prior to the relevant substitution or variation, as selected by the Bank; and

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

- (a) other than in the case of a change in the governing law of the Notes under Condition 18 from English to Icelandic law in order to ensure the effectiveness and enforceability of Condition 18, have terms not materially less favourable to the Noteholders as a class than the terms of the Notes and, subject thereto, they shall (i) include a ranking at least equal to that of the Notes prior to the relevant substitution or variation; (ii) have the same interest rate and the same Interest Payment Dates as those from time to time applying to the Notes prior to the relevant substitution or variation; (iii) have the same redemption rights as the Notes prior to the relevant substitution or variation; (iv) comply with the then current requirements in relation to “eligible liabilities” (or any equivalent or successor term) provided for in the Applicable MREL Regulations; (v) preserve any existing rights under the Notes to any accrued interest which has not been paid in respect of the period from (and including) the Interest Payment Date last preceding the date of substitution or variation, as the case may be, or, if none, the Interest Commencement Date; (vi) be assigned (or maintain) at least the same solicited credit ratings, if any, as were assigned to the Notes immediately prior to the relevant substitution or variation (or, if a solicited credit rating assigned to the Notes was, as a result of Condition 18 becoming ineffective or unenforceable, amended prior to such substitution or variation, the solicited credit rating that was assigned to the Notes prior to such amendment); and
- (b) are listed on a recognised stock exchange, if the Notes were listed immediately prior to the relevant substitution or variation, as selected by the Bank.

6.14 Calculation of principal payments in respect of Inflation Linked Amortising Notes

Unless previously redeemed or purchased and cancelled, each Inflation Linked Amortising Note will, subject to Condition 5.9 (*Payments in respect of Inflation Linked Amortising Notes*), be redeemed in one or more amounts constituting payments of principal in relation to such Inflation Linked Amortising Note, in the relevant Specified Currency on the relevant Interest Payment Dates, calculated in accordance with the following formula:

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

where:

A = The amount of each instalment of the relevant Notes;

$$r = \frac{c}{[\textit{insert number of interest payment per year}]};$$

c = The Rate of Interest applicable to the relevant Notes;

d = The Specified Denomination of the relevant Notes;

n = [*Insert total number of [annuity] payments on the relevant Notes*]; and

k = The number of payments that have already taken place + 1 (*k = 1 for the first payment, k = 2 for the second payment, etc.*)

This formula does not link the principal amount calculated to inflation.

6.15 Calculation of principal payments in respect of Inflation Linked Notes

Unless previously redeemed or purchased and cancelled, each Inflation Linked Note will be redeemed in one or more amounts constituting payments of principal in relation to such Inflation Linked Note, in the relevant Specified Currency on the relevant Interest Payment Dates, calculated in accordance with the following formula:

$$P = N \times IR$$

where:

P = the Final Redemption Amount per Specified Denomination of each Inflation Linked Non-Amortising Note;

N = the Specified Denomination (as specified in the relevant Final Terms) for each Inflation Linked Non-Amortising Note; and

IR = the Index Ratio as set out in Condition 5.9(b) above.

7. TAXATION

All payments of principal and interest in respect of the Notes and Coupons by or on behalf of the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Bank will pay such additional amounts

as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) presented for payment in Iceland; or
- (b) the holder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of their having some connection with a Tax Jurisdiction other than the mere holding of such Note or Coupon; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5.6).

Notwithstanding any other provision of these Conditions, in no event will the Bank be required to pay any additional amounts in respect of the Notes and Coupons for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein:

- (i) **Tax Jurisdiction** means Iceland or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) The **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent, the Registrar or, in the case of ISD Notes, the ISD Agent, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

Other than in the case of Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms and notwithstanding the foregoing, the payment of any additional amounts by the Bank pursuant to this Condition 7 shall be limited to such payments in respect of payments of interest only and no such payments shall be made in respect of any payments of principal.

8. PRESCRIPTION

The Notes (whether in bearer or registered form) and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5.2 or any Talon which would be void pursuant to Condition 5.2.

9. EVENTS OF DEFAULT

9.1 Events of Default relating to Senior Preferred Notes, where applicable

This Condition 9.1 shall apply only to Senior Preferred Notes where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms. If any one or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) if default is made in the payment in the Specified Currency of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and 10 days in the case of interest; or
- (b) if the Bank fails to perform or observe any of its other obligations under the Conditions and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Bank of notice requiring the same to be remedied; or
- (c) if (i) any Financial Indebtedness (as defined below) of the Bank or any of its Principal Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Bank or any of its Principal Subsidiaries fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any originally applicable grace period; (iii) any security given by the Bank or any of its Principal Subsidiaries for any Financial Indebtedness becomes enforceable; or (iv) default is made by the Bank or any of its Principal Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Financial Indebtedness of any other person, provided that the aggregate nominal amount of any such Financial Indebtedness of the Bank or such Principal Subsidiary in the case of (i), (ii) and/or (iii) above, and/or amount of Financial Indebtedness in relation to which such guarantee and/or indemnity of the Bank or such Principal Subsidiary has been given in the case of (iv) above, is at least €25,000,000 (or its equivalent in any other currency);
- (d) if any order is made by any competent court or resolution passed for the winding-up or dissolution of the Bank or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution; or
- (e) if the Bank or any of its Principal Subsidiaries ceases or threatens to cease to carry on (in the case of the Bank) the whole or a substantial part of its business or (in the case of a Principal Subsidiary) the whole or substantially the whole of its business, save in each case for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution, or the Bank or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (A) proceedings are initiated against the Bank or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Bank or any of its Principal Subsidiaries or, as the case may be, in relation to all or substantially all of the undertaking or assets of any of them, or an encumbrance takes possession of all or substantially all of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force

against all or substantially all of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or

- (g) if the Bank or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors),

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

9.2 Events of Default – Senior Non-Preferred Notes, Subordinated Notes and Senior Preferred Notes, where applicable

- (a) This Condition 9.2 applies to Subordinated Notes, Senior Non-Preferred Notes and Senior Preferred Notes (other than where Unrestricted Events of Default is specified as being applicable in the applicable Final Terms). If:
 - (i) default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and ten days in the case of interest; or
 - (ii) an order is made or an effective resolution is passed for the liquidation of the Bank (except for the purposes of a merger, reconstruction or amalgamation under which the continuing entity effectively assumes the entire obligations of the Bank under the Notes) or the Bank is otherwise declared insolvent or put into liquidation, in each case by a court or agency or supervisory authority in Iceland having jurisdiction in respect of the same under the Act on Financial Undertakings, No. 161/2002 and Act on Bankruptcy, etc. No. 21/1991,

any holder of a Note may:

- (A) (in the case of (i) above) institute proceedings for the Bank to be declared insolvent or its liquidation, in each case in Iceland and not elsewhere, and prove or claim in the liquidation of the Bank; and/or
- (B) (in the case of (ii) above), prove or claim in the liquidation of the Bank, whether in Iceland or elsewhere and instituted by the Bank itself or by a third party,

but (in either case) the holder of such Note may claim payment in respect of the Note only in the liquidation of the Bank.

- (b) In any of the events or circumstances described in Condition 9.2(a)(ii) above, the holder of any Note may, by notice to the Bank, declare such Note to be due and payable, and such Note shall accordingly become due and payable at its then Prevailing Principal Amount together with accrued interest to the date of payment but subject to such Noteholder only being able to claim payment in respect of the Note in the liquidation of the Bank.

- (c) The holder of any Note may at its discretion institute such proceedings against the Bank as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Bank under the Notes (other than, without prejudice to Conditions 9.2(a) or 9.2(b) above, any obligation for the payment of any principal or interest in respect of the Notes) provided that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it, except with the prior approval of the FSA.
- (d) No remedy against the Bank, other than as provided in Conditions 9.2(a), 9.2(b) and 9.2(c) above shall be available to the Noteholders, whether for the recovery of amounts owing in respect of the Notes or in respect of any breach by the Bank of any of its obligations or undertakings under the Notes.

9.3 Definitions

For the purposes of the Conditions:

Financial Indebtedness means any indebtedness for or in respect of:

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

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

IFRS means International Financial Reporting Standards; and

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

- (a) whose gross revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, are equal to) not less than 10 per cent. of the consolidated gross revenues, or, as the

case may be, consolidated total assets, of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, non-consolidated) of such Subsidiary and the then latest audited consolidated accounts of the Bank and its Subsidiaries, provided that in the case of a Subsidiary of the Bank acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Bank and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Bank;

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

all as more particularly defined in the Agency Agreement.

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

10. REPLACEMENT OF NOTES, COUPONS AND TALONS

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

11. PAYING AGENTS

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

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

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

In addition, the Bank shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5.5. Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Bank in accordance with Condition 13.

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

12. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. NOTICES

- (a) *Notes other than ISD Notes*

All notices regarding the Notes (other than ISD Notes) will be deemed to be validly given if published (a) in a leading English language daily newspaper of general circulation in London, and (b) if and for so long as such Notes are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Bank shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes (other than ISD Notes) are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes 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 Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules.

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

(b) *ISD Notes*

All notices regarding the ISD Notes will be valid if published in a manner which complies with the rules and regulations of any stock exchange and/or any other relevant authority on which the ISD Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication. Where the Notes are ISD Notes, the Bank can additionally at its own discretion obtain information from the ISD on the Notes in order to send notices to each Noteholder directly.

(c) *Notices given by Noteholders*

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Fiscal Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Fiscal Agent 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.

14. MEETINGS OF NOTEHOLDERS AND MODIFICATION

(a) *Notes other than ISD Notes*

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

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

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

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

(b) *ISD Notes*

The Bank may, in its capacity as ISD Agent, convene meetings of the holders of ISD Notes to consider any matter affecting their interests, including sanctioning by a majority of votes a modification of the ISD Notes. Such a meeting may be convened by the Bank or by the holders of not less than 10 per cent. of the Voting ISD Notes. For the purpose of this Condition, **Voting ISD Notes** means the aggregate nominal amount of the total number of ISD Notes not redeemed or otherwise deregistered

in the ISD, less the ISD Notes owned by the Bank, any party who has decisive influence over the Bank or any party over whom the Bank has decisive influence.

The quorum at a meeting for passing a resolution is one or more persons holding at least one half of the Voting ISD Notes or at any adjourned meeting one or more persons being or representing holders of Voting ISD Notes whatever the nominal amount of the ISD Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the ISD Notes (including modifying the date of maturity of the ISD Notes or any date for payment of interest thereof, reducing or cancelling the amount of principal or the rate of interest payable in respect of the ISD Notes or altering the currency of payment of the ISD Notes), the quorum shall be one or more persons holding or representing not less than two-thirds in aggregate nominal amount of the Voting ISD Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in aggregate nominal amount of the Voting ISD Notes. A resolution passed at any meeting of the holders of ISD Notes shall be binding on all the holders, whether or not they are present at such meeting.

The Bank, in its capacity as ISD Agent, may in certain circumstances, without the consent of the holders of the ISD Notes, make decisions binding on all holders relating to the Conditions which are not in its opinion, materially prejudicial to the interests of the holders of the ISD Notes.

(c) *General*

Any modification to the Conditions is subject to the prior permission of the Relevant Regulator (if such permission is then required by the Applicable Banking Regulations and/or the Applicable MREL Regulations, as applicable).

15. FURTHER ISSUES

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

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing law

The Agency Agreement, the Deed of Covenant, the Notes, the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant, the Notes and the Coupons are governed by, and construed in accordance with, English law, except for Condition 3, Condition 18 and the ISD Notes and any non-contractual obligations arising out of or in connection with Condition 3, Condition 18 or the ISD Notes, which will be governed by, and construed in accordance with, Icelandic law.

17.2 Submission to jurisdiction

- (a) Subject to Condition 17.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes (other than the ISD Notes) and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes and/or the Coupons (a **Dispute**) and accordingly each of the Bank and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

Subject to Condition 17.2(c) below, the District Court of Reykjavik has exclusive jurisdiction to settle any Dispute arising out of or in connection with the ISD Notes, and accordingly each of the Bank and any holders of the ISD Notes in relation to any Dispute submits to the exclusive jurisdiction of the District Court of Reykjavik. Legal action taken in respect of the ISD Notes under this Condition 17.2(a) may be proceeded with in accordance with the Act on Civil Procedure No. 91/1991, chapter 17.

- (b) For the purposes of this Condition 17.2, the Bank waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

17.3 Appointment of Process Agent

The Bank irrevocably appoints Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Law Debenture Corporate Services Limited being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Bank agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

17.4 Other documents

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

18. ACKNOWLEDGEMENT OF BAIL-IN AND LOSS ABSORPTION POWERS

- 18.1 Notwithstanding and to the exclusion of any other term of the Notes, or any other agreements, arrangements or understandings between any of the parties thereto or between the Bank and any Noteholder (which, for the purposes of this Condition 18, includes each holder of a beneficial interest in the Notes), each Noteholder by its acquisition of the Notes will be deemed to acknowledge, accept, and agree, that any liability of the Bank in respect of the Notes may be subject to the exercise of Bail-in and Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

- (a) the effect of the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority, which exercise may include and result in (without limitation) any of the following, or a combination thereof:

- (i) the reduction of all, or a portion, of the principal amount of, or any interest on, the Notes or any other outstanding amounts due under or in respect of the Notes;
 - (ii) the conversion of all, or a portion, of the principal amount of, or any interest on, the Notes or any other outstanding amounts due under or in respect of the Notes into shares, other securities or other obligations of the Bank or another person, and the issue to or conferral on the Noteholder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes;
 - (iii) the cancellation of the Notes; and
 - (iv) the amendment or alteration of the maturity of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and
- (b) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority.

In this Condition 18:

Relevant Resolution Authority means the FSA or any successor authority that has the power to implement Bail-in and Loss Absorption Measures with respect to the Bank; and

Bail-in and Loss Absorption Powers mean any write-down, conversion, transfer, modification, suspension or similar or related powers existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in Iceland, including, but not limited to, the Act on Recovery and Resolution of Financial Institutions and Investment Firms No. 70/2020 and the Act on Financial Undertakings No. 161/2002 as well as secondary laws enacted on the basis of those Acts, which provides any Relevant Resolution Authority with any such powers in respect of the Notes as a result of the implementation in Iceland of, or such laws, regulations, rules or requirement otherwise containing provisions analogous to, Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, including as amended by Directive 2019/879/EU and as further amended or replaced from time to time.

- 18.2 By its acquisition of the Notes, each Noteholder (including, for these purposes, each holder of a beneficial interest in the Notes): (a) acknowledges, accepts, consents and agrees to be bound by the exercise of any Bail-in and Loss Absorption Powers as they may be exercised without any prior notice by the Relevant Resolution Authority of its decision to exercise such powers with respect to such Notes and (b) shall be deemed to have authorised, directed and requested Euroclear, Clearstream, Luxembourg, ISD, any accountholder in Euroclear, Clearstream, Luxembourg or ISD and any other intermediary through which it holds such Notes to take any and all necessary action, if required, to implement the exercise of any Bail-in and Loss Absorption Powers with respect to such Notes as it may be exercised, without any further action or direction on the part of such Noteholder, the Fiscal Agent or any Paying Agent.
- 18.3 Upon the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority with respect to the Notes, the Bank will provide written notice to the Noteholders in accordance with Condition 13 as soon as practicable regarding such exercise of the Bail-in and Loss Absorption Powers for the purpose of notifying Noteholders of such occurrence. The Bank will also deliver a copy of such notice to the Fiscal Agent and the Paying Agents for information purposes. Any failure or delay by the Bank in giving any such notice to or otherwise to so notify the Noteholders will not in any way impact on the effectiveness of, or otherwise, invalidate, any such exercise of any Bail-in and Loss

Absorption Powers by the Relevant Resolution Authority with respect to the Notes or give Noteholders any rights as a result of such failure or delay.

- 18.4 Neither a reduction or cancellation, in part or in full, of the principal or any other redemption amount of, or any interest on, the Notes or any other outstanding amounts due under or in respect of the Notes, the conversion thereof into another security or obligation of the Bank or another person, as a result of the exercise of any Bail-in and Loss Absorption Power by the Relevant Resolution Authority with respect to the Bank, nor the exercise of any Bail-in and Loss Absorption Power by the Relevant Resolution Authority with respect to the Notes will be an Event of Default or constitute the occurrence of any event related to the insolvency of the Bank or entitle Noteholders to take any action to cause the Bank to be declared bankrupt or for the liquidation of the Bank.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Bank for its general corporate purposes, which include making a profit. In addition, where the Notes are stated to be “Green” Notes in “*Reasons for the offer*” in Part B of the applicable Final Terms and it is stated that the proceeds from the issue of the Notes are intended to be used for “green” purposes as described in this “Use of Proceeds” section (**Green Notes**) an amount equal to the net proceeds from each such issue of Green Notes will be used as so described. If specified otherwise in the applicable Final Terms the net proceeds from the issue of the relevant Notes will be used as so specified.

For any Green Notes, an amount equal to the net proceeds from each issue of Green Notes will be used to finance or refinance Eligible Assets (as defined below and further described in the Bank’s Green Financing Framework).

Eligible Assets are project finance loans, general corporate loans or any equity or own investments in tangible or intangible assets which fall in at least one of the Eligible Categories. In the case of general corporate loans, at least 90 per cent. of the turnover of the corporation needs to be attributable to Eligible Categories and fulfil the respective requirements.

Eligible Assets will explicitly exclude unfunded and non-performing exposures, as well as loans to businesses or projects in the following areas:

- Fossil fuel related energy generation and related infrastructure;
- Environmentally negative resource extraction (such as rare-earth elements, metals or fossil fuels);
- Nuclear and nuclear related technologies;
- Weapons, alcohol, tobacco, gambling, and adult entertainment;
- Deforestation and degradation of forests;
- Operations which practice shark finning or trade in shark fin products;
- Operations which practice drift net fishing or deep sea bottom trawling where prohibited;
- Fishing with the use of explosives or cyanide; and
- Illegal unreported and unregulated fishing, or use of vessels known to have conducted such unreported and unregulated fishing.

Eligible Categories means the categories identified by the Bank in its Green Financing Framework, including sustainable fishery/aquaculture, certified forest carbon projects and sustainable forestry, agriculture or horticulture, renewable energy projects, equipment, technology and processes towards clean transportation, construction of new buildings, operation of existing buildings or renovation of existing buildings (with a minimum energy efficiency upgrade), construction, implementation, maintenance and operation of facilities, infrastructure or appliances that reduce the use of energy, and technologies, processes and associated infrastructure supporting waste prevention, waste reduction, waste recycling as well as wastewater management.

Green Financing Framework means the Green Financing Framework (July 2021) of the Bank published on its [website](https://www.arionbanki.is/themes/arionbanki/arionbanki/documents/Frettir/Green%20Financing%20Frame) (<https://www.arionbanki.is/themes/arionbanki/arionbanki/documents/Frettir/Green%20Financing%20Frame>

[work%20Arion%20Bank.pdf](#)), including as amended, supplemented, restated or otherwise updated on such website from time to time, relating to the issuance of Green Financing Instruments.

Green Financing Instruments include, but are not limited to (covered) bonds (including any Green Notes), loans, commercial papers, repurchase agreements and deposits.

The Bank has established a multi-step process to identify Eligible Assets which will be included in the Bank's common green asset pool. The process is governed by a Green Financing Committee that has been established and is responsible for, among other things, approving the inclusion of the Eligible Assets in the Bank's green asset pool, monitoring and managing the green asset pool and the corresponding issuances of Green Notes by the Bank and keeping abreast of any developing market conventions and guidelines that are published in relation to the issuance of Green Notes by the Banks.

The Bank intends to allocate an amount equal to the net proceeds of any Green Notes to Eligible Assets within one year after the issuance of such Green Notes. The Bank will manage the proceeds of any Green Notes on a portfolio basis and the amount corresponding to the net proceeds of any Green Notes outstanding will be used to finance the Bank's green asset pool, as further described in the Green Financing Framework. Pending the application of any net proceeds of Green Notes in financing or refinancing the relevant Eligible Assets, such proceeds will be applied by the Bank, at its own discretion, towards its liquidity portfolio, consisting of cash and/or cash equivalents, and/or other liquid marketable instruments and the same exclusion criteria as specified above will apply for these temporary investments.

The Bank will endeavour, at any point in time, to maintain a green asset pool that is larger than the total net proceeds of all Green Financing Instruments outstanding. As at 30 June 2023, the size of the green asset pool is ISK 129 billion.

The Bank has obtained an independent second-party opinion from Cicero to confirm the validity of the Green Financing Framework prior to the issuance of its first instrument under the Green Financing Framework on 14 July 2021. This independent second-party opinion is published on the Bank's website at <https://www.arionbanki.is/themes/arionbanki/arionbanki/documents/Frettir/Cicero%20SPO%20Arion%20Bank%202%20July%202021.pdf>.

In addition, the Bank intends to publish a Green Financing Report for so long as there is any Green Financing Instrument outstanding, which will be made available on the Bank's website at www.arionbanki.is/ir at least on an annual basis.

The Bank also intends to appoint as a verifier to produce, on an annual basis and starting one year after the first issuance of a Green Instrument under the Green Financing Framework, a verification report on the allocation of the proceeds to Eligible Assets.

Neither the Green Financing Framework, nor any of the above reports, opinions or contents of any of the above websites are incorporated in or form part of this Base Prospectus.

The Green Financing Framework and the above reports, verifications and amendments are subject to review and change and may be amended, updated, supplemented, replaced or withdrawn from time to time. Potential investors in Green Notes should access the latest version of the relevant document on the Bank's website.

FINANCIAL MARKETS IN ICELAND

General

Towards the end of 2008, Iceland suffered a currency and banking crisis. The Icelandic government was forced to step in and take control of the three major Icelandic banks Kaupthing, Landsbanki and Glitnir, all of which had been very active in the international financial markets, to shore up confidence in the financial sector, protect domestic deposits and maintain the orderly functioning of the payment system. Following this, certain assets and liabilities were transferred from the banks into three new entities, including the Bank, which have operated as commercial banks from that time.

Capital Controls

In response to the financial crisis, the Parliament of Iceland passed Act No. 134/2008 on 28 November 2008 relating to amendments to the Foreign Exchange Act no. 87/1992, which granted the Icelandic Central Bank powers to intervene in the currency-market with the intent of stabilising the foreign exchange rate of Icelandic Krona. The Icelandic Central Bank introduced the Capital Controls by implementing Rules No. 1082/2008, which were amended several times before the Capital Controls were enacted into primary legislation with the adoption of Act No. 127/2011, which amended the Foreign Exchange Act.

The Capital Controls have been gradually removed in recent years and most restrictions on foreign exchanges transactions were lifted in March 2017. The Foreign Exchange Act no. 70/2021 entered into force 25 June 2021. The Act replaced Act no. 87/1992 with subsequent amendments, which provided for a general prohibition on outflow of foreign currency from Iceland unless the transaction in question was expressly exempted from the prohibition in the Foreign Exchange Act or by decision of the Central Bank of Iceland. The Foreign Exchange Act now provides for free movement of capital as a general principle. However, the Central Bank of Iceland is afforded a mandate to enact rules restricting inflow of foreign currency, prohibit unhedged loans in foreign currency and provide for other restrictions on capital movements in the interest of financial stability, subject to approval by the Minister of Finance and Economic Affairs, cf. chapters II and III of the act. Moreover, in such circumstances the Central Bank may grant exemptions to the rules subject to conditions.

The establishment of the new banks

After the Icelandic government took control of Kaupthing, Glitnir and Landsbanki in October 2008, certain assets and liabilities were transferred from the banks into new entities, which have now become the Bank, Íslandsbanki and Landsbankinn. Following an agreement between the Icelandic government and the resolution committee of Kaupthing (the **Kaupthing Resolution Committee**) in July 2009, the Kaupthing Resolution Committee announced that it intended to exercise its option to purchase 87 per cent. of the Bank's equity, and a subsequent capital injection took place on 8 January 2010.

From January 2010 until March 2017, the Bank had two shareholders, Kaupthing, through its subsidiary Kaupskil ehf. (**Kaupskil**), and the National Treasury of Iceland. Following private placements in March 2017 and in February 2018, the exercise of certain options in September 2017 and in February 2018, the buy-back of shares in March 2018 and the initial public offering of the shares in the Bank on 31 May 2018 and the subsequent listing of the Bank's shares in Iceland and Sweden in June 2018, the Bank has expanded its shareholder base. On 9 July 2019, Kaupskil completed the sale of its remaining shareholding in the Bank and no longer holds any shares of the Bank. The National Treasury of Iceland also no longer holds a stake in the Bank.

Following a partial divestiture of the government's 100 per cent. stake in June 2021 and further sale in March 2022, Íslandsbanki is approximately 57.5 per cent. owned by private investors (with the government retaining the remaining 42.5 per cent. of shares). In connection with the divestiture, all of Íslandsbanki shares are now listed on Nasdaq Iceland. As at the year ended 31 December 2022, Landsbankinn was 98.20 per cent. state-owned (with the shares held by Icelandic State Financial Investments on behalf of the National Treasury of

Iceland), Landsbankinn itself held 1.58 per cent. of the total shares outstanding and other investors held the remaining 0.22 per cent.

The Icelandic financial sector before 2008

Prior to the collapse of the banking system in Iceland, the financial sector and the legislative environment in Iceland had undergone much transition. For example, in connection with the EEA Agreement, Icelandic legislation and regulations regarding commercial banks and other financial undertakings and the financial market had been adopted to implement various regulations and directives of the EU.

Before 2000 the Icelandic banking system mostly consisted of three investment banks, four commercial banks and 26 savings banks. By 2008, however, the financial market mainly consisted of three major international banks (Kaupthing, Glitnir and Landsbanki), while the number of savings banks had been reduced to 21. The total assets of the Icelandic banking system amounted to around ISK 9,739 billion at the end of December 2007.

The BRRD in Iceland

On 2 July 2014, the BRRD entered into force in the EU. The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing relevant entity so as to ensure the continuity of the relevant entity's critical financial and economic functions, while minimising the impact of a relevant entity's failure on the economy and financial system. The BRRD was applied by EU Member States from 1 January 2015, except for the general bail-in tool (see below) which was applied from 1 January 2016.

Iceland, Liechtenstein, Norway and Switzerland are members of the EFTA and Iceland, together with Liechtenstein and Norway (the **EEA EFTA States**) is also a party to the **EEA Agreement** by which the EEA EFTA States participate in the internal market of the EU. The BRRD was incorporated into the EEA Agreement on 9 February 2018 with Decision No 21/2018 of the EEA Joint Committee and was fully implemented in Iceland on 24 June 2020 by legislation which entered into force on 1 September 2020.

The BRRD contains four resolution tools and powers which may be used alone or in combination where the relevant resolution authority considers that (a) a relevant entity is failing or likely to fail, (b) there is no reasonable prospect that any alternative private sector measures would prevent the failure of such relevant entity within a reasonable timeframe, and (c) a resolution action is in the public interest: (i) sale of business – which enables resolution authorities to direct the sale of the relevant entity or the whole or part of its business on commercial terms; (ii) bridge institution – which enables resolution authorities to transfer all or part of the business of the relevant entity to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control), which may limit the capacity of the relevant entity to meet its repayment obligations; (iii) asset separation – which enables resolution authorities to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only); and (iv) the general bail-in tool. In addition to the general bail-in tool, the BRRD further provides for non-viability loss absorption in the case of capital instruments such as the Subordinated Notes.

The BRRD also provides for a Member State as a last resort, after having assessed and exploited the above resolution tools to the maximum extent possible whilst maintaining financial stability, to be able to provide extraordinary public financial support through additional financial stabilisation tools. These consist of the public equity support and temporary public ownership tools. Any such extraordinary financial support must be provided in accordance with the EU state aid framework.

A relevant entity will be considered as failing or likely to fail when: it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; its assets are, or are likely in the near future to be,

less than its liabilities; it is, or is likely in the near future to be, unable to pay its debts as they fall due; or it requires extraordinary public financial support (except in limited circumstances).

Under the BRRD, resolution authorities must set a minimum level of own funds and other eligible liabilities (**MREL**) for each bank (and/or group) based on criteria including systemic importance. Eligible liabilities may be senior or subordinated provided they have a remaining maturity of at least one year and must be able to be written-down or converted into equity upon application of the general bail-in tool.

On 7 June 2019, Directive 2019/879/EU of the European Parliament and of the European Council of 20 May 2019 (as amended or replaced, the **BRRD II**) was published, amending, among other things, the BRRD as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms. BRRD II focuses on the implementation of total loss absorbing capacity (**TLAC**) into EU legislation and the integration of the TLAC requirement with the minimum requirements for own funds and eligible liabilities (**MREL**) to avoid duplication. BRRD II was incorporated into the EEA Agreement by EEA Joint Committee Decision No 145/2022 and implemented into Icelandic law by Act No 63/2023.

Other relevant institutions

Several domestic securities houses are currently operating in Iceland. However, the operations of these securities houses have been greatly limited since the banking collapse, but many of them operate mutual funds of various kinds.

In addition, there are several insurance companies licensed to operate in Iceland. Insurance companies have been active in the financial market through their investment activities.

Pension funds receive payments from employers and employees and are an important source of long term finance in the country, including in the residential mortgage market. Membership in a pension fund is obligatory for wage earners and self-employed people, in accordance with Act No. 129/1997, on Mandatory Pension Insurance and on the Activities of Pension Funds. The pension funds are independent non-government entities. They invest mainly in domestic bond issues, equity capital and foreign securities and are a source of financing for residential and commercial property. Since July 2015, pension funds have been granted limited exemptions from Iceland's capital controls allowing, as expanded in January 2016, such funds to engage in foreign currency investments within a capped amount.

The Financial Supervisory Authority, the European System of Financial Supervision, the Icelandic Central Bank and the Iceland Stock Exchange

At the beginning of 1999, the Bank Inspectorate of the Icelandic Central Bank and the Insurance Supervisory Authority were merged into a new independent entity, the FSA (www.fme.is). The field of supervision covered by the new entity is the whole range of financial institutions as well as insurance companies and pension funds. The activities of FSA are primarily governed by Act No. 87/1998, on the Official Supervision of Financial Operations, and Act No. 98/1999, on the Payment of Cost Due to the Official Supervision of Financial Activities.

Pursuant to the introduction of the act on the European System of Financial Supervision, with effect from 9 May 2017, Iceland has incorporated regulation no 1093/2010 of the European Parliament and of the Council dated 24 November 2010 establishing the European Banking Authority, amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC; European Union regulation No 1094/2010 of the European Parliament and of the Council dated 24 November 2010 establishing the European Insurance and Occupational Pensions Authority, amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC; European Union regulation No. 1095/2010 of the European Parliament and of the Council dated 24 November 2010 establishing the European Securities and Markets Authority, amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC and European Union regulation No 1092/2010 of the European Parliament and of the Council dated 24 November 2010 on European Union macro-prudential oversight of the

financial system and establishing a European Systemic Risk Board into Icelandic law. Hence the EFTA Surveillance Authority in cooperation with the European Banking Authority, European Insurance and Occupational Pensions Authority, European Securities and Markets Authority and European Systemic Risk Board have been given certain surveillance powers in Iceland as per the aforementioned regulations.

The Icelandic Central Bank (www.sedlabanki.is) is responsible for implementing monetary policy consistent with the goal of maintaining price stability. The activities of the Icelandic Central Bank are primarily governed by Act No. 92/2019, on The Icelandic Central Bank. The Icelandic Central Bank imposes a reserve requirement on all commercial banks and savings banks. The purpose of this requirement is to ensure these credit institutions are able to meet fluctuations in their liquidity positions. The Icelandic Central Bank also oversees surveillance of the rules on foreign exchange. See "*Capital Controls*").

Following the adoption of the Act on the Central Bank of Iceland No 92/2019, the FSA merged with the Icelandic Central bank in January 2020 to create one supervisory authority for financial markets. The tasks carried out by the FSA will now be carried out by a division of the Icelandic Central Bank which shall be referred to as the FSA.

The Iceland Stock Exchange (NASDAQ Iceland) (<http://www.nasdaqomxnordic.com/nordic/Nordic.aspx>) operates under Act No. 115/2021 on Markets in Financial Instruments. In the autumn of 2000, the Iceland Stock Exchange joined NOREX, a joint project of the Nordic stock exchanges.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank was established on 18 October 2008 and is incorporated in Reykjavik and domiciled in Iceland. It is a public limited company established and operating under Act No. 2/1995 regarding Public Limited Companies, under the laws of the Republic of Iceland with ID number 581008-0150 in the Icelandic Register of Enterprises. The Bank was initially named New Kaupthing banki hf. and, on 21 November 2009, its name was changed to Arion banki hf., with foreign trading name Arion Bank hf.

The Bank is a leading, privately owned universal relationship bank in Iceland with a differentiated and innovative approach. The Bank has established itself as a broad and well-balanced bank that provides products and services which meet the needs of Icelandic households and companies. To ensure it is well-balanced and diversified in its product and services offering and expertise, the Bank has organised itself across three dedicated divisions and operates strategic subsidiaries that add valuable products and services to the business, such as payment processing and insurance. The Bank's diversified and balanced approach to its business also means that it has a broad revenue base and a balanced and diverse loan portfolio with a moderate risk profile. As a result, the Bank enjoys a strong position within domestic financial markets in terms of its return on equity, operational efficiency and product and services offering.

The Bank's focus is on building and strengthening long-term customer relationships by delivering excellent products and services and tailored solutions. Its main customers are corporations and individuals, who seek a wide variety of financial solutions and, as a universal relationship bank with a wide product and services offering (including a leading digital offering), the Bank seeks to meet those needs whatever they may be. While the Bank considers itself to be an Icelandic bank first, it is also increasingly but selectively providing financial services outside of Iceland, mainly to companies related to the seafood industry in Europe and North America. As the only privately owned major bank in Iceland, the Bank has the freedom to manage its business in accordance with this strategy and adapt to the changing needs of its customers.

The Bank aims to position itself to excel by offering smart and reliable financial solutions which create future value for its customers, shareholders and society as a whole.

The Bank's main areas of focus to achieve this are to:

Excel at what we do

through:

- a solution-oriented and performance-driven culture;
- having outstanding employees in a motivating environment, which is innovative, demanding and enjoyable; and
- working with partners who enhance the Bank's business and diversify its product offering,

Offer smart solutions

in the form of:

- diverse and value-added services for discerning customers;
- service and decisions being based on data and analysis; and
- digital solutions which make the Bank's services more convenient,

Create future value

by:

- seeing things from the Bank's customers' perspective and understanding their needs and goals;
- working responsibly, guided by sustainability; and
- being there for the Bank's customers by providing ingenuity, solutions and financial resources.

The Bank's core values (the **Cornerstones**), which were introduced in 2012 and further amended in 2021, are:

- We find solutions.
- We make a difference.
- We say what we mean.
- We get things done.

The Cornerstones guide the Bank in everything it says and does, particularly in its interaction with its main stakeholders: customers, employees, society and investors.

For the years ended 31 December 2022 and 2021, respectively, the Bank's net interest income was ISK 40,277 million and ISK 32,063 million, its net fee and commission income was ISK 16,065 million and ISK 14,673 million, its operating income was ISK 57,198 million and ISK 58,225 million, and its net earnings were ISK 25,416 million and ISK 28,615 million. As of 31 December 2022, the Bank's total assets were ISK 1,469,556 million.

In the six month period ended 30 June 2023, the Bank's net interest income was 22,420 million (compared to ISK 19,332 million in the six month period ended 30 June 2022), its operating income was ISK 32,883 million (compared to ISK 27,774 million in the six month period ended 30 June 2022) and its net earnings were ISK 13,382 million (compared to ISK 15,530 million in the six month period ended 30 June 2022). As at 30 June 2023, the Bank's total assets were ISK 1,518,226 million.

The Bank's registered address is Borgartún 19, 105 Reykjavík, Iceland and its telephone number is +354 444 7000.

HISTORY

The Bank's predecessor, Kaupthing, was the product of a merger in May 2003 of two leading Icelandic banks, Kaupthing Bank hf. and Bunadarbanki Islands hf. (the **Agricultural Bank of Iceland**). The Agricultural Bank of Iceland was established in 1929 by a law passed by the Parliament of Iceland and began operations in 1930. At the beginning of 1998, the Agricultural Bank of Iceland became a limited liability company and was privatised in stages up to the beginning of 2003. Kaupthing hf. was established in Reykjavík in 1982, coinciding with the launch of the free capital markets in Iceland. Kaupthing hf. later became an investment bank before its merger with the Agricultural Bank of Iceland in 2003. The branch network of the Agricultural Bank of Iceland became the backbone of the Bank's retail branch network.

2010-2012: Restructuring of the Bank and its customers

The Bank was established in October 2008 as the entity to which certain assets and liabilities of Kaupthing were transferred following the assumption of control of Kaupthing by the FSA. The transfer of these assets and liabilities posed a significant challenge. In March 2010, a new Board of Directors was appointed at the

Annual General Meeting and, in June 2010, the Board of Directors appointed a new CEO. In addition, a strategic plan was adopted in October 2010, which aimed to position the Bank as a universal relationship bank, providing a range of quality financial products and services and focused on improving the Bank's competitiveness. From 2010 onward, under its new leadership and in accordance with its strategy, the Bank has systematically restructured and improved the credit quality of its customer loan portfolio. Immediately following the financial crisis in 2008, the Bank emerged from restructuring with a newly valued balance sheet, reflecting a loan portfolio transferred from Kaupthing at fair value, which in most cases was a discount on the face value of the loans. As a result of the Bank's restructuring and refinancing efforts, the discounts on these legacy loans have been progressively released as the restructuring of the customer loan portfolio continued, whether as a result of prepayments, write-offs or otherwise. During this period, the Bank also began reducing its number of problem loans, defined as loans more than 90 days past due but not impaired and other problem (i.e. individually impaired) loans. The Bank also took an innovative approach to mortgage loan products, being the first Icelandic bank to introduce the fixed rate non-CPI-linked mortgage loans, a strategy which it supported through selective portfolio acquisitions.

In January 2012, the Bank acquired the mortgage portfolio managed in a special fund (the **Fund**) owned by the estate of Kaupthing. The Fund had guaranteed the covered bonds issued from 2006 to 2008 by Kaupthing to finance its mortgage loans (the **Kaupthing Covered Notes**) under the covered bond programme established by Kaupthing on 30 March 2006. As a part of this acquisition, the Bank was substituted for, and assumed all liabilities and obligations (past, present and future, other than Kaupthing's liabilities and obligations relating to withholding tax payments) of, Kaupthing in respect of each of the six series of outstanding Kaupthing Covered Notes. The Kaupthing Covered Notes series have all been prepaid, with the last remaining series being prepaid in October 2019.

2013-2014: Streamlining and building of the business

Following the success of its restructuring efforts, the Bank was in a position to begin building up its business. In 2013, the Bank launched its "lean banking initiative" and undertook a number of changes to its core banking operations, including the optimisation of its branch network by reducing total branch size and focusing on increased self-service opportunities for customers. The Bank also launched its digitalisation initiative to further drive efficiency, including the implementation of an extensive CRM system to provide better services and increase staff productivity. Digitalisation also allowed the Bank to strengthen its customer focus and decentralise credit decisions.

During this period, the Bank began to build up its Icelandic market leadership in its core products. The Corporate & Investment Banking division also established itself as an innovator in the Icelandic capital markets through its involvement in three out of five initial public offerings during 2013 and 2014. The Bank adopted a first mover approach as exemplified by its early adoption of next generation personal banking technology, which led to the Bank becoming a market leader in personal online and mobile banking.

During this period, the Bank also continued to improve its underlying asset quality and reduce the number of problem loans as part of the restructuring process of its customer loan portfolio.

2015 to present: Strengthening market leadership and harvesting full value potential

Since 2015, the Bank has been able to focus on growing and improving its business by strengthening its presence and leadership in key markets, including capital markets, project financing and asset management. The Bank managed all four initial public offerings listed on the Main Market of NASDAQ Iceland in 2015 and 2016, managed the only listing on NASDAQ Iceland First North in 2017, and provided the project financing for a new five star hotel in Reykjavík, a deal worth USD 110 million. The Bank is also in the process of optimising its capital structure and improving its risk-weighted assets profile. It continued with its first mover approach in 2015, being the first Icelandic bank to issue a benchmark eurobond since 2008. In its business divisions, the Bank has continued to drive commercial excellence in its markets and is actively exploring new business opportunities.

The Bank has also worked to improve its operational efficiency. For example, the Bank has scaled its digitalisation initiatives and continues to invest in its IT infrastructure. In addition, the Bank acquired Vördur, a universal insurance company, in 2016, which it expects will lead to increased commercial, financial and operational synergies between its banking and insurance operations as well as commercial opportunities for cross-selling. See “ - Strategy”.

SHAREHOLDERS OF THE BANK

The Bank’s listing on NASDAQ Iceland and NASDAQ Stockholm took place on 15 June 2018 following an initial public offering of 28.7 per cent. of the shares in the Bank, placed mostly with investors in Iceland, the United States, the UK, Scandinavia and Continental Europe. It was the first listing of an Icelandic bank on the main market in Iceland since 2008. During the year prior to the initial public offering, Icelandic State Financial Investments (ISFI) sold its shareholding in the Bank and, accordingly, the Bank became (and continues to be) fully privately owned. Following the initial public offering, the Bank had more than 6,000 shareholders as at 31 December 2018 with Kaupskil being the largest shareholder (and the only shareholder with more than a 10 per cent. shareholding) with a 32.67 per cent. shareholding as at that date.

At the Bank’s annual general meeting on 20 March 2019, the cancellation of 186,000,000 of the Bank’s own shares was approved, thereby reducing the issued share capital of the Bank from ISK 2,000,000,000 to ISK 1,814,000,000 at nominal value. This cancellation of the Bank’s own shares became effective in April 2019. Following the cancellation of the 186,000,000 shares, the Bank holds 0.01 per cent. of the issued share capital.

At the Bank’s annual general meeting on 17 March 2020, a proposal was passed to reduce the Bank’s share capital by ISK 84,000,000 at nominal value, totalling 84,000,000 shares, by cancelling the Bank’s own shares. This reduction has now taken place. The Bank’s share capital has therefore now been reduced from ISK 1,814,000,000 to ISK 1,730,000,000 at nominal value, divided into an equal number of shares and with one vote attached to each share.

As of 30 June 2023 there were eleven shareholders in the Bank holding more than 2.5 per cent. of the share capital, as shown in the table below.

<u>As of 12 October 2023</u>	<u>Percentage of all shares</u>
Gildi Pension Fund.....	9.85
LSR pension Fund.....	9.63
Live Pension Fund.....	9.30
Stoðir hf.....	5.38
Brú Lífeyrissjóður	4.00
Vanguard	3.97
Birta Pension Fund	3.60
Frjálsi Pension Fund.....	3.44
Stapi Pension Fund.....	3.29
Stefnir Funds	2.63
Hvalur hf.	2.52
Total	57.61

STRATEGY

The Bank strives to position itself as a universal relationship bank in Iceland, providing a diverse and well-balanced range of financial products and services which reflect broadly the composition of the Icelandic economy. This allows the Bank to provide tailored and personalised solutions to its customers, particularly those who require comprehensive and diverse financial products and services.

The Board of Directors has adopted a strategic plan for the Bank, the key points of which are summarised below. Some of the information contained in this section, including with respect to the strategic plan, contains forward-looking statements that involve risks and uncertainties. See “*Presentation of Financial and Other Information – Forward Looking Statements*”.

Build long-term business relationships

The Bank intends to increase its focus on developing long-term business relationships through regular dialogue with customers so as to fully understand their needs and responsive and pro-active development of its products and services, which the Bank believes is fundamental to its business. The Bank aims to innovate and develop products and services which respond to the changing needs of its customers and to put the interests of its customers first in all transactions. For instance, the Bank is increasingly investing in its IT division to expand its digital products and services offering to improve its customers’ experience and satisfaction when using the Bank’s digital products and services. In order to move credit authority closer to its customers, the Bank has also automated a number of credit decisions through its digital projects and decentralised certain smaller credit decisions in respect of SMEs, by providing further training to employees in branches and giving them sufficient credit authority to make credit decisions locally and in less time. This decentralisation has not affected the current structure of the Bank’s credit committees, which will continue to assess larger credit cases.

Increase operational efficiency

The Bank has recently implemented and expects to implement additional operational efficiency initiatives, which are expected to have bottom-line impact, in line with its medium-term target to reduce its cost-to-income ratio to approximately 50 per cent. (42.6 per cent. for the six months ended 30 June 2023 (which includes expenses from insurance operations) and 47.0 per cent. for the year ended 31 December 2022). The lean banking initiative aims to implement effective processes to help meet customers’ needs by eliminating waste, instability and inflexibility in the Bank’s infrastructure with the overall goal of improving customers’ experiences. In addition, the Bank plans to increasingly pursue its digitalisation initiatives in several areas, particularly onboarding for private banking and capital markets and also focusing on the corporate lending process. These initiatives are expected to enhance customer satisfaction and experience, ultimately increasing the value of the Bank’s brand, and to have bottom-line effect by reducing salary expenses and increasing customer demand and sales by streamlining product and loan delivery. The Bank has also announced cost cutting measures and plans to implement operational improvements and streamline its operations through outsourcing of non-core functions to reduce overhead and administrative costs.

Strengthen the core business

The Bank expects its core banking business (particularly with respect to net interest income, net fee and commission income and net insurance income) to benefit in the coming years from underlying market growth fuelled by anticipated growth in the Icelandic economy. For instance, the growth of private consumption in Iceland is expected to increase opportunities for mortgage lending. The Bank also expects to harness this growth to help bolster its leading position across businesses and increase its share in lending to SMEs as well as in leasing and insurance businesses. The Bank further anticipates that it will be able to capitalise on its broad revenue base to maintain the levels of fee and commission income with potential for growth, contributing to a positive outlook for the Bank’s core business development. The Bank also expects its cost of risk to decrease in the future through a focus on collateralisation and closer relationships with its customers, allowing the Bank to encourage improved lending practices and early intervention should customers face financial difficulties.

Pursue value creation opportunities

The Bank plans to improve its competitiveness by pursuing several anticipated value creation opportunities in the upcoming years and taking a proactive approach to its business. One such opportunity is for increased cooperation across the Bank’s divisions, in particular between the Retail Banking division and Vördur, for example through the use of the Bank’s branch network to sell Vördur’s products as a registered insurance

intermediary. The Bank also intends to pursue additional opportunities in the financial technology space and seeks to increase income diversification within the Corporate & Investment Banking division. With increased clarity regarding future regulatory capital requirements with the introduction of CRD IV, there is a potential for the Bank to optimise its capital structure through distributions of surplus capital to shareholders and to reduce its risk-weighted assets as a percentage of total assets.

These initiatives are expected to tie into the Bank's overall strategies by enabling the Bank to remain balanced and diverse and to meet the changing needs of its customers.

BUSINESS

In line with the Group's progression focuses on holistic customer journey optimisation introduced a key part of the vision is to bring Vördur insurance company closer to the Bank for a more focused bancassurance offering. In 2022 the operation of Vördur has been split into individuals and corporates and is presented as such as part of Corporate & Investment Banking and Retail Banking, respectively.

Retail Banking provides a comprehensive range of products and services, including mortgage loans, savings and current accounts, vehicle and equipment financing, factoring, payment cards, pension services, insurance and funds, to both individuals and SMEs. The Retail Banking division has a strong focus on digital banking solutions, using the online bank and the Arion Bank App as key channels.

Corporate & Investment Banking services large and medium-sized corporate clients and investors, both in Iceland and abroad. The division is divided into Corporate Banking and Corporate Finance. Corporate Banking's experienced account managers specialise in key economic sectors such as retail and services, seafood, energy and real estate. The division provides a full range of lending and insurance products such as guarantees, deposit accounts, payment solutions and a variety of value-added digital solutions to meet the needs of the Bank's larger corporate clients. The Corporate Banking portfolio is diversified between sectors, customers and currencies which include international exposures, partly through syndicates with other Icelandic banks and international banks. Corporate Finance works closely with Corporate Banking, providing customers with various financial advisory and capital raising services, including M&A and LBO services. Furthermore, Corporate Finance offers financial structuring advice, as well as various services on public offerings of securities.

Markets (which includes Stefmir, an independently operating financial company wholly owned by the Bank) provides a full range of asset management products and services to institutional investors, such as pension funds and insurance companies, and high net worth individuals.

Treasury is responsible for the Bank's funding, liquidity and asset and liability management. Treasury oversees transfer pricing for the internal funds of the Bank and manages the relationship with investors, credit rating agencies and financial institutions. FX brokerage is part of the Treasury unit.

Subsidiaries includes the subsidiaries Eignarhaldsfélagid Landey ehf. (**Landey**) which holds the main part of the investment property of the Group and the holding companies Eignabjarg ehf., VISA Ísland ehf., BG12 slhf. and other smaller entities of the Group. The subsidiaries Stakksberg and Sólbjarg are classified as disposal groups held for sale in accordance with IFRS 5.

Landey is the Bank's wholly owned property development company, which manages assets, such as unfinished housing developments and building lots, and maintains and increases the value of these assets.

Supporting units include the Bank's headquarters which carry out support functions such as the CEO office, Risk Management, Finance (excluding Treasury), Customer Experience and IT. The information presented relating to the supporting units does not represent an operating segment. A significant proportion of expenses from support functions is allocated to operating segments in a separate line in the operating segment overview.

The tables below set forth operating income and earnings before tax for each reportable segment and the total assets for each reportable segment for the periods and as of the dates indicated.

Six month period ended 30 June 2023							
	Retail banking including insurance ⁽¹⁾	Corporate & Investment banking including insurance ⁽¹⁾	Markets and Stefmir	Treasury ⁽²⁾	Subsidiaries excluding Stefmir and Vördur	Supporting units and elimination ⁽³⁾	Total
<i>(ISK in millions)</i>							
Operating income.....	13,250	11,936	3,520	2,416	1,607	154	32,883
Earnings before tax.....	6,248	8,782	1,117	1,224	1,468	39	18,878
Total assets.....	680,835	486,710	99,343	574,141	18,901	(341,704)	1,518,226

- (1) In 2022, the operations of Vördur has been split into individuals and corporates and is presented as such as part of Corporate & Investment banking and Retail banking respectively.
- (2) The “Treasury” reportable segment includes internal interest income and internal expense (which are eliminated upon consolidation) as well as interest income on the Group's cash, cash equivalents and other liquid assets held as a liquidity buffer.
- (3) “Supporting units and elimination” includes the netting out of intragroup accounts, dividends paid in respect of the Bank’s holdings in listed equity and valuation changes. “Headquarters” include overhead and the following support divisions: Risk Management, Finance (excluding Treasury), Legal, IT and Operations.

As of and for the year ended 31 December 2022							
	Retail banking including insurance	Corporate & Investment banking including insurance ⁽¹⁾	Markets and Stefmir	Treasury ⁽²⁾	Subsidiaries excluding Stefmir and Vördur	Supporting units and elimination ⁽³⁾	Total
<i>(ISK in millions)</i>							
Operating income.....	26,543	25,487	8,768	(4,452)	78	774	57,198
Earnings before tax.....	12,632	19,049	4,418	(6,674)	141	(884)	28,682
Total assets.....	666,875	458,090	96,108	549,574	25,473	(326,564)	1,469,556

- (1) In 2022, the operations of Vördur has been split into individuals and corporates and is presented as such as part of Corporate & Investment banking and Retail banking respectively.
- (2) The “Treasury” reportable segment includes internal interest income and internal expense (which are eliminated upon consolidation) as well as interest income on the Group's cash, cash equivalents and other liquid assets held as a liquidity buffer.
- (3) “Supporting units and elimination” includes the netting out of intragroup accounts, dividends paid in respect of the Bank’s holdings in listed equity and valuation changes. “Headquarters” include overhead and the following support divisions: Risk Management, Finance (excluding Treasury), Legal, IT and Operations.

As of and for the year ended 31 December 2021								
	Retail banking	Corporate & Investment banking	Markets and Stefmir	Treasury ⁽¹⁾	Vördur	Other subsidiaries ⁽²⁾	Supporting units and elimination ⁽³⁾	Total
<i>(ISK in millions)</i>								
<i>(ISK in millions)</i>								

Operating income	20,226	19,133	6,937	6,258	5,567	(950)	1,054	58,225
Earnings before tax	9,371	16,429	2,921	4,316	2,961	(1,620)	(375)	34,003
Total assets	574,849	372,152	80,834	499,348	34,279	38,792	(286,390)	1,313,864

- (1) The “Treasury” reportable segment includes internal interest income and internal expense (which are eliminated upon consolidation) as well as interest income on the Group's cash, cash equivalents and other liquid assets held as a liquidity buffer.
- (2) Includes Landey. Valitor is classified as a disposal group held for sale.
- (3) “Supporting units and elimination” includes the netting out of intragroup accounts, dividends paid in respect of the Bank’s holdings in listed equity and valuation changes. “Headquarters” include overhead and the following support divisions: Risk Management, Finance (excluding Treasury), Legal, IT and Operations.

RETAIL BANKING DIVISION

Overview

The Retail Banking division is a leading and innovative retail bank in Iceland that provides a comprehensive range of financial products and services to individuals and SMEs and seeks to build long-lasting and profitable relationships with its customers. In the period from 2009 to 2012, the Retail Banking division’s key focus was to work with its customers to restructure their debts. However, during 2012, market conditions improved and, accordingly, demand for traditional financial products and services increased, which enabled the Retail Banking division to switch its focus to providing such products and services. In addition, the Retail Banking division continuously strives to differentiate its product and service offerings, for example by offering factoring, or asset-based lending, to SMEs in connection with trade finance and launching a new unit in 2012, which specialises in financing vehicles and various other types of equipment for personal and commercial use. The focus in recent months has been on digital services and improving the internet bank and the Arion Bank mobile app.

Operations and Distribution Capabilities

The Retail Banking division serves its customers through its branch network and other points of contact, such as ATMs, a call centre, internet banking and the Arion Bank app, focusing on customer relationships to address different areas with different needs.

Branches

In recent years, the focus has been on making the branch network even more efficient and convenient for customers. The overall branch experience has been redefined, moving from traditional branches to more flexible units by adding new service formats. In the last four years, the Bank has opened a flagship branch in the Borgartún financial area, an airport branch in Keflavík airport and a digital branch in Kringlan shopping mall. New, flexible micro branch units were opened in new locations in 2019. In addition, the Bank has opened self-service areas which are open 24/7, remote bank services with extended opening hours and has operated a mobile ATM van.

This strategy has resulted in a flexible and optimised branch network with stronger individual branches, which the Retail Banking division believes are better suited to meet the needs of its customers. To maximise operational efficiency, the branch network is divided into five regions, each of which has its own business manager.

Owing to the Bank being an indirect successor of the Agricultural Bank, which was an old agricultural bank of Iceland, the Bank’s branches are strategically situated in key tourism areas as well as in agricultural areas. Nine of the Bank’s branches are located in major tourist towns or by the main road in Iceland and the Bank

was the only bank in the area in 10 locations. The Bank has also launched the only branch at the Keflavik international airport.

The Retail Banking division has trained and certified financial consultants within its larger branches in order to improve the level of service to its customers. The financial consultants are knowledgeable in a wide range of fields, including banking services, pensions and insurance and other financial instruments.

Internet Banking, Arion Bank App and ATMs

The Retail Banking division has continuously endeavoured to be a market leader in digital solutions to banking, increasing channel diversification to improve efficiency. Accordingly, the Retail Banking division has taken advantage of the major changes in customer behaviour in recent years, as customers have transitioned away from branches to internet and mobile banking as the preferred channel, by successfully implementing the Arion Bank app in August 2012. Internet banking enables customers to access the majority of the most utilised services available at a traditional branch, while the increasingly popular Arion Bank app allows customers to keep track of their finances with a single click. In addition, the new generation of ATMs enables customers to save time by allowing them to deposit and withdraw cash as well as pay their bills without assistance from a cashier.

The Retail Banking division plans to steadily reduce the volume of low value transactions handled at branches by putting greater emphasis on customers' experience, through the Arion Bank app and other digital solutions. By focusing on digitalisation of various processes, the Bank has reduced the internal lead time for customer onboarding by approximately 88 per cent. and launched new digital initiatives with respect to the mortgage loan application process, credit cards, leasing SME onboarding, mortgage refinancing and other services. The public response to these digital initiatives has been very positive, with the majority of credit assessments and mortgage applications being performed digitally and payment plans for credit cards, overdrafts and other functions are set up almost entirely by using the Arion Bank app.

Customers

The Retail Banking division enjoys a loyal and relatively stable customer base in Iceland. The Bank measures customer satisfaction on the basis of net promoter scores for its most important customer services.

Products and Services

The Retail Banking division offers a comprehensive range of financial products and services, including mortgage loans, savings and checking accounts, vehicle and equipment financing, payment cards, pension services, insurance and funds. The Retail Banking division also offers factoring, or trade financing, which is used by SMEs, both importers and exporters. In particular, the Bank uses factoring in connection with trade finance, where inventory financing is linked with the financing of receivables which suits the needs of exporters, such as seafood companies. The Bank also offers SME loans in cooperation with the European Investment Fund.

The Retail Banking division's goal is to provide personalised services to distinct customer segments and SME market sectors to meet its customers' needs. In addition, the Retail Banking division seeks to establish multi-product relationships with its customers by offering various financial products and services offered by the Bank's divisions through diversified delivery channels.

To increase product penetration and increase the number of products per customer, the Retail Banking division has also developed more proactive methods with respect to its product and services offering, including exploring new opportunities with Vördur's current customers (e.g. offering the Retail Banking division's mortgage loans), as well as the use of the branch network to sell Vördur's insurance products as a registered insurance intermediary.

Mortgage Loans

The Retail Banking division provides a full range of products and services relating to mortgage loans and has historically introduced innovative products and services designed for the evolving needs of its customers. This has enabled the Retail Banking division to maintain or increase its market share in an increasingly competitive market. The Bank was the first to introduce fixed five-year interest rates on non-CPI-linked mortgage loans in 2011. The Retail Banking division further strengthened its first mover advantage and competitive position in the market by offering mixed CPI-linked and non-CPI-linked mortgage loans, allowing customers to select the type of mortgage loan that best suits their risk appetite and ability to repay. Recent product developments include a mortgage product designed to temporarily lower the borrower's debt repayments during parental leave and a mortgage product for first-time home buyers with an up to 85 per cent. loan-to-value ratio. When mortgage loans are issued, the Retail Banking division strives to improve its product and services offering by implementing digitalisation initiatives.

Customer Deposits

The Retail Banking division seeks to leverage its base of mortgage loans customers to achieve further growth in its market share of customer deposits. The Retail Banking division's share of individual deposits decreased from 26.6 per cent. as of 31 December 2021 to 25.7 per cent. as of 31 December 2022 (*source: Icelandic Central Bank*).

As customers in Iceland are accustomed to keeping deposits with their main bank and because CPI-linked deposits of individual customers are generally thought to be less likely to move from bank to bank due to regulations which limit the time periods during which such deposits can be withdrawn, there is a relatively stable market for deposits from individual customers, with deposits from SME customers being more price sensitive. However, the Retail Banking division believes that there is an opportunity to attract deposits from customers who have their mortgage loans with the Retail Banking division but deposits with another bank. The cooperation of the Retail Banking division with the Markets division has enabled many cross-selling opportunities, including combining the product and services offering of the Retail Banking division with insurance and pension products. Higher levels of SME activity in Iceland also provide cross-selling opportunities for the Retail Banking division. In addition, the Bank believes that its new digital customer onboarding platform together with the comprehensive digital offering will become a catalyst for attracting new customers to the Retail Banking division.

Credit Cards

The Bank offers its customers a selection of payment cards from both Visa and MasterCard. It offers standard, gold and platinum, as well as the Bank's flagship card, the Premium World. Two types of prepaid cards are also available: the gift card for Icelandic customers and the currency card for travellers visiting Iceland.

CORPORATE & INVESTMENT BANKING DIVISION

Overview

The Corporate & Investment Banking division is a full-service Icelandic corporate bank and strategic advisory, providing a range of financial products, insurance and services to corporate customers across all industry sectors through dedicated industry sector teams. The primary focus is to selectively use own capital with increased capital market intermediation and multi-product clients. In addition, the Corporate & Investment Banking division's relationship-based model benefits from and provides synergies across the Bank's other divisions, and with other investors if it serves the need of the client.

Operations and Commercial Capabilities

The Corporate & Investment Banking division comprises teams of experienced account managers who specialise in specific industry sectors to ensure strong expertise and with a focus on key performance indicators. An incentive plan drives sales targets and the division's management focuses on targets based on key performance indicators aligned with the Bank's strategic goals. The division enjoys a large and solid customer base featuring strong and trusted relationships with Icelandic and international investors, which is the key component of the division's placement power and transaction capabilities. Leveraging the Bank's relative size, strong balance sheet and infrastructure enables the division to support its customers.

Customers

The Corporate & Investment Banking division provides products and services to corporate customers in the capital area. The loan portfolio is well-diversified across all the main Icelandic industry sectors, similar to the Icelandic economy.

Products and Services

The Corporate division provides a full range of lending and insurance products, also guarantees, deposit accounts, payment solutions, and a variety of value-added digital solutions. Corporate Finance works closely with Corporate Banking and provides the clients with financial advisory services, with a key focus on M&A advisory, private placements of equity, IPOs and other offerings of securities.

MARKETS

The Markets division has offered asset management to clients, with a full range of financial products and services to pension funds starting in 1994. The Markets division also offers private banking services to high net worth individuals, family offices and legal entities as well as a capital markets service. It has a strong relationship with the other divisions of the Bank to fulfil customers' needs. The Markets division has partnerships with three major global asset and fund managers.

The Markets division comprises the Capital Markets subdivision, the Private Banking subdivision, the Institutional Asset Management subdivision and the Pension Funds Administration subdivision. The Markets division, including the Stefnir fund management company, had ISK 1,332 billion in assets under management as of 30 June 2023.

Operations and Distribution Capabilities

Markets generates operating income through interest income and management fees, which are calculated as a percentage of assets under management and vary based on product type and other factors. In addition, Stefnir generates operating income through performance fees, which are based on the performance of its products above a certain benchmark and are reviewed bi-annually in connection with financial reporting. The performance fees are not recognised on the Bank's consolidated statement of comprehensive income until either realised or are considered highly likely to be realised.

Customers

The customers of the Markets division include institutional investors, corporations, high net worth individuals and retail investors. The Private Banking subdivision caters to individual customers. The Capital Markets subdivision's customers include institutional investors, corporations, high net worth individuals, retail investors, asset managers and pension funds. The Institutional Asset Management subdivision services pension funds, trade unions, insurance companies, government institutions and other institutional investors. The Pension Funds Administration subdivision offers full services to pension funds.

Stefnir caters to both retail and professional customers, with the aim of managing its customers' assets in the best interests of such customers. Stefnir's dedication to long-term relationships with, and its focus on providing tailored solutions to, its customers make Stefnir a preferred partner of institutional customers.

Products and Services

Markets offers a comprehensive range of investment products and services. In addition to securities brokerage, foreign exchange sales, mutual funds, alternative investment vehicles and pension plan schemes, the Markets division offers customised asset allocation strategies and managed accounts designed to meet the diverse needs of investors. It also offers funds from other leading global fund management companies.

Institutional Asset Management Subdivision

The Institutional Asset Management subdivision has developed a clear investment process and service philosophy based on the principles of equality and transparency for institutional investors. Investment decisions for individual portfolios of institutional investors are made on a daily basis, investment policy statements are reviewed annually and long-term investment goals are reviewed every one to five years.

Pension Funds Administration Subdivision

The Pension Funds Administration subdivision offers pension funds full service operations, including marketing, sales and services in branches and service centres and extensive resources to meet regulatory requirements. The ability to provide special services to pension funds has meant that, with the growth of the Icelandic pension system, the asset management operations have experienced comparable growth in their assets under management since 2009.

Private Banking Subdivision

The Private Banking subdivision seeks to provide highly personal financial services designed for the needs of individual customers with a special focus on high net worth individuals in Iceland. The Private Banking subdivision relies on a team-based approach to investments and services, working closely with other divisions of the Bank, and has good access to local deal flow due to the size of the Markets division.

Capital Markets Subdivision

The Capital Markets subdivision provides securities brokerage and foreign exchange sales. The Capital Markets subdivision is a market leader in equity brokerage and enjoys a strong position in foreign exchange brokerage and bond issuances. In addition, the Capital Markets subdivision has been a leading player in restoring the equity markets in Iceland. The Capital Markets subdivision also benefits from strong relationships with all major investors in the domestic capital markets. The Capital Markets subdivision focuses on providing its growing customer base with a comprehensive range of capital markets services and access to expert knowledge.

Stefnir

Stefnir manages several funds which fall into the category of Undertakings for Collective Investment in Transferable Securities (**UCITS**), non-UCITS or institutional investor funds with total assets under management of ISK 245 billion as of 30 June 2023.

Stefnir also manages several private equity and real estate funds. Co-investors in the private equity funds comprise pension funds, insurance companies and other institutional investors, as well as high net worth individuals (based on their business expertise and active role in the proposed investment).

Vördur

On 30 September 2016, the Bank acquired a 100 per cent. shareholding in Vördur, which is classified as a subsidiary of the Bank from the day of acquisition. Vördur provides insurance policies for motor vehicles, home protection, property and life and health products.

Prior to the acquisition of Vördur, the Bank operated its insurance business under the name Okkar Life Insurance, which was a wholly owned subsidiary of the Bank, founded in 1966 and acquired by Kaupthing in 2005.

Subsidiaries and Supporting Units

Subsidiaries

In addition to Vördur, the Bank is the parent company of a number of wholly owned and majority owned subsidiaries, the most significant of which are described below.

Asset Holding Companies

Landey

Landey, a wholly owned subsidiary of the Bank, is a property development company, which manages properties that currently do not generate any revenue but which may do so in the future. Such assets include unfinished housing developments, building lots and the rights attached to them. Landey's objective is to maintain and increase the value of its properties through professional development, design and construction in collaboration with the planning authorities until a satisfactory price can be obtained for such properties.

Eignabjarg

Eignabjarg was a wholly owned subsidiary of the Bank which was liquidated in 2015. Eignabjarg had been responsible for managing and selling shareholdings in companies, which the Bank has acquired through debt restructurings or other enforcement procedures. Its function was to maximise the value of the shareholdings held, to develop a strategy for each asset and to implement good business practices and good corporate governance in the transferred companies.

In 2018, the Bank established a new entity, also called Eignabjarg ehf., in order to hold the assets of United Silicon which the Bank acquired as a result of foreclosing on its collateral. These assets are held in a special holding vehicle called Stakksberg ehf., established by the Bank, which is a subsidiary of Eignabjarg ehf.

Sólbjarg (a subsidiary of Eignabjarg)

Sólbjarg is a holding company of the former TravelCo hf. tour operator group which included Terra Nova Sól ehf., Heimsferdir ehf. and TravelCo Nordic/Bravo Tours. In the first quarter of 2020 Sólbjarg completed the sale of Terra Nova Sól ehf., in the fourth quarter the sale of its 59.4 per cent. share in the Danish operator Bravo Tours 1998 A/S and in the second quarter of 2022 the sale of all operations, brand, and domain of Heimsferdir ehf. Sólbjarg is a minority shareholder in Ferdaskrifstofa Íslands ehf. through its ownership in Heimbjarg ehf. (former Heimsferdir ehf.). The holding is held for sale with zero book value.

Supporting Units

The Bank has four support divisions:

Finance

The Finance division includes treasury, reportable segment, market-making, as well as accounting, analysis and facilities and property management. The accounting unit is responsible for the Bank's financial reporting, both internally and to external stakeholders, including the FSA and the Icelandic Central Bank. The analysis unit is responsible for short- and long-term budgeting and for benchmarking the Bank with comparable financial institutions, both local and international. The treasury unit is responsible for the Bank's long-term funding, in both the domestic and international markets and relationships with credit rating agencies. The treasury unit is responsible for the Bank's liquidity, currency and interest rate management, the internal pricing of interest rates and currency and liaison with other financial institutions. Market-making is responsible for market making in domestic securities. Facilities and Property Management is responsible for managing and investing in the Bank's premises and is also responsible for managing and selling foreclosure assets.

The Finance division also includes the investor relations officer. The investor relations officer (along with the CEO and CFO) is authorised as a spokesperson to communicate with capital markets participants. Other responsibilities of the investor relations officer are to provide relevant information about the operation of the Bank to the market, including communications required by applicable regulations (e.g. notifications to NASDAQ Iceland, NASDAQ Stockholm and the Luxembourg Stock Exchange's regulated market) and other publications to the market.

Risk Management

For information on the activities of the Risk Management division, see "*Risk Management*".

Information Technology

The IT division is responsible for developing, operating and advising on the Bank's information systems and solutions, including internet banking, websites, its internally developed and third party software and its hardware, such as data centres, telephone systems, ATMs and personal computers. For additional information on the IT division, see "*- Information Technology*" below.

Customer Experience

A new division was created at the Bank in 2021, Customer Experience. The aim of this new division is to further enhance customer experience through all the Bank's service channels, and this change provides a platform to advance the Bank's service offering and customer experience to the next level.

The marketing department is a part of Customer Experience and is responsible for brand management, coordinating marketing initiatives, marketing and tactical plans for products and services and market research, such as statistical analysis, focus groups, interviews and surveys. The marketing department is also responsible for developing the Bank's internet banking solutions, websites, online communications and electronic distribution channels.

CEO Office

The CEO office includes human resources, legal advisory and communications.

Human resources offers advice and support when recruiting employees, helps develop leadership skills and nurtures employees' abilities. The team includes the Bank's specialists in lean management.

The legal advisory department provides legal consultation and services to other departments of the Bank, and management bodies, as well as managing legal presentation on behalf of the Bank.

The communications department handles press releases, internal communications across various divisions of the Bank as well as communication with Icelandic stakeholders and media.

Compliance

According to Icelandic law, a financial institution is required to establish and maintain a permanent and effective compliance function, which operates independently and has the following responsibilities:

- to monitor and, on a regular basis, assess the adequacy and effectiveness of measures and procedures put in place to detect and minimise any risk of failure by the financial institution to comply with its obligations under the Securities Transactions Act as well as the associated risks;
- to monitor and assess the actions taken to address any deficiencies in the financial institution's compliance with its obligations under the Securities Transactions Act; and
- to advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the financial institutions' obligations under applicable Icelandic law.

Furthermore, according to FSA, ESMA and EBA guidelines, a financial institution is required to establish a compliance function to manage its compliance risk.

The Bank's compliance officer coordinates the Bank's compliance activities.

The compliance officer works independently and reports directly to the CEO in accordance with FSA, ESMA and EBA Guidelines. The compliance officer has monthly meetings with the CEO, during which the compliance officer presents a report on activities during the past month and refers certain matters to the CEO. The compliance officer also meets the chief risk officer and the internal auditor on a monthly basis. In addition, the compliance officer reports to the Board Audit Committee on a quarterly basis and to the Board of Directors on an annual basis.

The compliance officer is also responsible for coordinating and monitoring the Bank's compliance with applicable anti-money laundering and terrorist financing laws, regulations and guidelines, including monitoring of compliance with international sanctions, and investigating and reporting suspicious activities to appropriate authorities.

Competition

As Iceland's economy continues to recover and demand for new lending and other banking products and services increases, the Bank expects to face increased competition from the other large Icelandic banks, pension funds and smaller specialised institutions as well as foreign banks seeking to establish operations in Iceland. See "*Risk Factors – Risks relating to the Bank – The Bank is exposed to competition and expects competition will increase*". The Bank expects to compete on the basis of a number of factors, including transaction execution, its products and services, its ability to innovate, reputation and price. The main competitors of the Bank's divisions and subsidiaries in the provision of its various products and services are set forth below.

Retail Banking Division

The main competitors of the Retail Banking division in the deposits market are Landsbankinn and Íslandsbanki, both of which are government owned. Savings banks have largely disappeared since the financial crisis in 2008, although some smaller savings banks continue to operate in certain regions.

The Retail Banking division's strongest competition is in the mortgage loans market, in which the Retail Banking division's main competitors are Landsbankinn and Íslandsbanki. Pension funds are also active and

have gained market share through aggressive lending rates enabled, in part, by different regulatory requirements applicable to them (in particular, they are not subject to the Bank Levy). While the pension funds remain active in the mortgage loans market, the Bank expects their new lending to decrease as the ratio of mortgage loans in their portfolios has reached very high levels compared to historical averages, the Housing Financing Fund, an independent government institution that grants mortgage loans to individuals, municipalities, companies and organisations to finance housing purchases and construction, remains the largest player in the mortgage loans market for existing mortgage loans, although it has curtailed its origination of new mortgage loans, and its market share is expected to decrease as mortgage loans are refinanced or mortgaged properties are sold.

In addition, there is currently no meaningful foreign bank interest in the Icelandic retail banking market.

Corporate & Investment Banking Division

The Corporate & Investment Banking division's main competitors in the corporate banking market are Landsbankinn and Íslandsbanki, with a number of other participants active in the corporate banking market, such as pension funds (indirectly through investment in real estate asset-backed securities), public funds (e.g. the Housing Financing Fund), foreign lenders and smaller financial institutions (e.g. Kvika banki hf.). Pension funds, which compete with a cost structure very different from the cost structure of the banks, have also driven competition and increased margin pressure since 2013 as, although they are not direct corporate lenders, they provide funding through investment in real estate asset-backed securities. In addition, foreign banks increasingly consider entering the Icelandic corporate banking market.

The main competitors in the investment banking market are Landsbankinn, Íslandsbanki and Kvika, although a few smaller boutiques also participate in the market. The investment banking market is characterised by intense competition on price and on transaction terms, which results in considerable pressure on margins, especially during times when fewer transactions are being concluded.

Markets

The asset management industry sector is highly competitive and has only moderate barriers to entry. Competition in the asset management industry sector is largely based on investment performance, the level of fees, the quality and diversity of products and services, name recognition and reputation, the effectiveness of distribution channels and the ability to develop new investment strategies and products to meet the changing needs of investors. The main competitors of the fund management company Stefnir are Íslandssjódir (Íslandsbanki) and Landsbréf (Landsbankinn) in addition to smaller fund management companies such as GAMMA, Júpiter (Kvika), ALDA (Kvika) and ÍV.

The Markets division competes with wealth management firms such as VÍB (Íslandsbanki), Landsbankinn, Kvika and ÍV.

Information Technology

The Bank's IT division is responsible for developing, operating and advising on its IT and communication systems and solutions, including digital banking, internally developed and third party software, and hardware such as data centres, telephones, ATMs and personal computers. The reliability of the IT and communications systems is a key factor in the Bank's activities as a financial enterprise.

The IT division consists of Software Development, IT Operations and the Project Office. Support functions focus on information security, quality management, and technical services management.

The Bank's IT infrastructure comprises two data centres in two different locations in Iceland, one owned by the Bank and the other outsourced by the Bank. Approximately 83 per cent. of the servers are virtual with a

physical backup placed in a third location. The IT system serves all branches in the Retail Banking division's network.

The IT division maintains relationships with a wide range of blue chip suppliers, including Microsoft, SAP, Swift, Calypso, Reuters and Bloomberg. In addition, the IT division has substantial in-house expertise which allows for the development and integration of software internally.

Digital Banking

A key aspect of the Bank's business is customer satisfaction. The Bank is a leading digital bank in Iceland and believes that further digitalisation is essential to serving its customers in the future. Therefore, the Bank has initiated a strategic digital effort to expand digital access to the Bank's products and services, automate and simplify processes, make informed decisions based on accessible and reliable data, and offer clever and creative digital solutions.

The IT division is focusing on digital initiatives in order to continue to put customers' needs at the heart of the business. With multiple ring-fenced, cross-functional teams working on digital projects, the Bank is now at the forefront of technology and innovation.

The Bank's new digital onboarding process completely reimagines the customer's banking experience and signifies the first milestone in the Bank becoming a leader in digital banking. The Bank launched its digital mortgage service early 2017, which has resulted in increased demand, and decreased manual input and repetitive work. Digital credit card services now include new credit cards, credit card bill split, and credit card limit adjustments. Other digital credit products include vehicle financing, consumer loans and overdraft limit adjustments. The latest addition to the Bank's digital service offerings is personal finance management services to help customers manage their finances every month and on-boarding for businesses. The objective of the digitalisation initiatives is to increase customer satisfaction, create new sales channels, and reduce costs.

Another initiative is the eID login, which makes digital banking more accessible for customers. The eID login is a national authentication and signature, allowing authentication by internet or mobile phone. In addition, the Bank benefits from an enclosed market, which allows for quick adaptation of new digital initiatives. The Bank's digital initiatives have resulted in a steady increase in the number of customers using digital channels.

Regulatory Compliance

The regulatory landscape is expanding significantly in financial services and a number of regulations impacting the financial market such as MiFID II and the Payment Services Directive 2 have had an impact on the operations of the Bank. The IT division has launched a number of initiatives in order to close regulatory compliance gaps in the Bank's information systems in an efficient manner, and will launch other regulatory initiatives in the near future.

Security

Control of information security is an essential tool to achieve the IT division's objectives. The Bank's Information Security Policy forms the basis of the measures used by the Bank to ensure the security of information, data systems and communication systems. Through the implementation of this policy, the Bank aims to prevent the inappropriate use of information, to safeguard the secure and uninterrupted transfer of electronic data and communications, and to integrate a risk management process into the work processes and daily tasks of all employees.

Legal and regulatory requirements relating to IT, particularly the secrecy of information relating to the Bank's customers, must be observed at all times when IT systems are used. The Bank operates two data centres in an active mode to ensure continuous system uptime and to minimise downtime in disaster scenarios.

Legal Proceedings

Litigation and other legal proceedings are a common occurrence in the banking industry due to the nature of the business. Due to the current public sentiment in Iceland, the likelihood of litigation against the Bank has increased. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of any possible loss has been reasonably estimated, the Bank takes appropriate steps to mitigate any adverse effects which a given claim may have on its financial standing.

Except as described below, there are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had, a significant effect on the Bank's and/or the Group's financial position or profitability.

Contingent Liabilities

Claim for Alleged Violations of the Competition Act

With a writ issued in June 2013, Kortathjónustan hf. (**Kortathjónustan**) claimed damages in the amount of up to ISK 1.2 billion plus interest in aggregate from the Bank, Íslandsbanki, Landsbankinn, Borgun hf. and Valitor. The lawsuit is a result of losses that Kortathjónustan contends the five parties caused by violations of the Competition Act. The case was dismissed on procedural grounds rather than the merits by the District Court of Reykjavík (the **District Court**) in March 2017 and confirmed by the Supreme Court on 2 June 2017, citing in particular that the plaintiff had not met the requirements related to standing. In September 2017, Kortathjónustan brought proceedings against the Bank and the other defendants on the same grounds, this time claiming damages in the amount of ISK 922 million plus interest. The case was again dismissed on procedural grounds by the District Court by a ruling in March 2018, which was confirmed by the Court of Appeal (*Landsréttur*) in May 2018. Kortathjónustan tried to appeal the dismissal to the Supreme Court but the court dismissed the case as there was no right of complaint. In November 2018 EC-Clear brought a new lawsuit against the same defendants regarding the same matter of dispute, demanding the acknowledgement of liability for damages. EC-Clear was the largest shareholder in Kortathjónustan and according to the writ EC-Clear is now the owner of alleged liability claims against the defendants. The District Court dismissed the case in February 2019, which was confirmed by the Court of Appeal in April 2019. In October 2019, EC-Clear brought a new lawsuit against the same defendants regarding the same matter of dispute, claiming damages in the amount of ISK 922 million plus interest from the same defendants, and demanding the acknowledgement of liability for damages. The case was dismissed in December 2019 as EC-Clear did not provide any surety for legal expenses. In April 2020 EC-Clear has brought the same matter of dispute against the same defendants to the District Court. The case was dismissed by the District Court in November 2020 and the dismissal was confirmed by the Court of Appeal in March 2021. In September 2021 EC-Clear filed a new suit before the District Court, which was again dismissed the case on procedural grounds. EC-Clear appealed the dismissal and in January 2023 the Court of Appeal rejected the District Court's ruling and ruled that the case should be heard on its merits by the District Court.

Consumer Association's class-action lawsuit

The Consumer Association of Iceland (the **Association**) sent a letter to the Bank, Íslandsbanki and Landsbankinn in April 2020 urging the banks to review its contractual terms on variable rate mortgages to individuals. The letter called for revised terms and compensation to borrowers who, according to the Association, have suffered damage. The Association's argument is that standard contractual terms lack proper legal grounds, as parameters for interest rate decisions lack transparency and predictability, thus causing a contractual imbalance to the detriment of the consumer.

The Bank undertook a review of its contractual terms and processes for interest rate decisions in light of the letter, concluding that no changes were required and that the Association's arguments are unfounded. A

reasoned response was sent to the Association in September 2020. According to information published on the Association's website, all three banks have rejected the Association's arguments.

In May 2021, the Association published an article on its website calling for participants in a class action lawsuit. The intention is to commence court proceedings against Icelandic credit institutions to provide court precedents for loans with variable rates. The Bank has received information requests from a legal firm representing approximately 1,200 individuals. One case was filed against the Bank and on 7 February the District Court of Reykjavík acquitted the Bank. The plaintiffs have appealed this decision in the Court of Appeal.

Administrative fine from the FSA

On 17 July 2020, the FSA published its decision to impose an administrative fine on the Bank of ISK 87.7 million due to the Bank's alleged breach of obligation to disclose inside information in a timely manner. The decision has been published on FSA's website. The Bank paid the fine but filed a claim in the District Court of Reykjavík in October 2020, demanding that FSA's decision be annulled. In April 2022, the District Court upheld the decision of the FSA. The Bank has appealed the ruling and in June 2023, the Court of Appeal confirmed the ruling of the District Court.

Other legal proceedings

Since 2008, the Bank has formally been a party to proceedings in Luxembourg, commenced against the Luxembourg company R Capital S.á r.l. and its beneficial owner, Mr. Umberto Ronsisvalle, for the collection of EUR 6 million plus interest. During this time, Kaupthing ehf. has been the beneficial owner of the claim, with the Bank's involvement limited to being the formal party to the proceedings while benefitting from an indemnity from Kaupthing. The reason for the setup was due to the decision made by the FSA in 2009 during the split of Kaupthing into the "new" and "old" bank. In 2019, a counterclaim was made against the Bank in the proceedings, for the net sum of EUR 24 million plus interest, with the Bank continuing to benefit from a full indemnity from Kaupthing. In September 2021, Kaupthing and the Bank agreed that all rights and liabilities in the Luxembourg proceedings would be transferred to the Bank.

The bankruptcy estate of TravelCo Nordic has filed a case against TravelCo hf. and the Bank in Denmark claiming payment in solidum in the amount of DKK 58.1 million plus interest. The merits and arguments of the case against the Bank are unclear. The bankruptcy estate alleges that the Bank, as owner of Heimsferdir ehf. and Terra Nova Sól ehf., contrived the sale of these companies to its subsidiary, Sólbjarg ehf., without real payment. The transaction the bankruptcy estate is referring to is in fact the legal and lawful enforcement of security (i.e. share pledges) by the Bank over the shares in Heimsferdir hf. and Terra Nova Sól ehf. following a default on a facilities agreement to TravelCo hf. as borrower. Following such enforcement, the Bank transferred the companies to Sólbjarg ehf., and the Bank remained the beneficial owner of the companies.

INVESTMENTS

The Bank has a small portfolio of debt and equity investments. These instruments are classified either as trading assets (being assets which are held by the Bank with a view to generating profit from short-term changes in price) or as assets held at fair value through profit and loss. The Bank's shares and equity instruments include those shareholdings that the Bank has acquired in recent years through debt restructurings and other enforcement procedures. Since 2012, the Bank has made steady progress in the sale of companies acquired as a result of these collateral enforcement procedures (see "*Description of the Bank – Other Divisions and Subsidiaries – Asset Holding Companies*"). See note 23 to the 2022 Consolidated Financial Statements for details of the classification of the Bank's investment portfolio as at 31 December 2022 and 2021.

RELATED PARTY TRANSACTIONS

Transactions with all related parties have been conducted on an arm's length basis and are in the normal course of business. There have been no guarantees provided or received for related party receivables or payables during the financial years ended 2022 or 2021.

See note 44 to the H1 2023 Interim Financial Statements and note 42 to the 2022 Consolidated Financial Statements for further information in relation to the Bank's related party transactions.

RECENT DEVELOPMENTS

The Bank reported net earnings of ISK 13,365 million from continuing operations for the six months ended 30 June 2023, compared to a net earnings from continuing operations of ISK 9,070 million for the six months ended 30 June 2022. The Bank's net impairments for the six months ended 30 June 2023 were negative with net impairments of ISK 620 million as compared to ISK 309 million for the six months ended 30 June 2022.

KEY FINANCIAL INDICATORS

The following table includes certain of the Bank's key financial indicators for the six month period ended 30 June 2023 and the years ended 31 December 2022 and 31 December 2021. This information should not be considered in isolation from, or as a substitute for, financial information presented in the H1 2023 Interim Financial Statements or the Annual Financial Statements (each of which are incorporated by reference into this Base Prospectus) and should be read in conjunction with the H1 2023 Interim Financial Statements and the Annual Financial Statements, as applicable.

	As of and for the six month period ended	As of and for the year ended	
	30 June 2023 %	31 December 2022 %	31 December 2021 %
Profitability			
Return on equity ¹⁷	14.5	13.7	14.7
Return on assets ¹⁸	1.8	1.8	2.3
Return on risk exposure amount ¹⁹	3.0	3.0	3.7
Net interest margin			
Net interest margin on interest bearing- assets ²⁰	3.1	3.1	2.8
Net interest margin on total assets ²¹	3.0	2.9	2.6
Efficiency			
Cost-to-income ratio ²²	42.6	47.0	44.4
Cost-to-total assets ratio ²³	1.9	1.9	2.1

¹⁷ Return on equity is net earnings for the period as a percentage of average total equity (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Return on equity is used as an alternative measure of performance of the Bank based on returns generated relative to equity and is a measure of the profits generated by the Bank from the equity of its shareholders. The higher this figure, the greater the profits of shareholders relative to their equity for the relevant period.

¹⁸ Return on assets is net earnings for the period as a percentage of average total assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Return on assets is used as an alternative measure of performance of the Bank based on returns generated relative to total assets and is a measure of the profits generated by the Bank from its assets. The higher this figure, the greater the profits from the Bank's assets for the relevant period.

¹⁹ Return on risk exposure amount is net earnings for the period as a percentage of average risk exposure amount (calculated as the average of the opening, quarter-end and closing balances for the applicable period). For the calculation of risk exposure amount see Note 46 of the 2022 Year End Financial Statements. Return on risk exposure amount is used as an alternative measure of performance of the Bank based on returns generated relative to risk exposure amount and is a measure of the profits generated by the Bank from its risk exposure amount (which is a prudential measure by which the assets of the Bank are adjusted to give different weight to certain risk based considerations as a means to assess those assets relative to such risks). The higher this figure, the greater the profits from the Bank's risk exposure amounts for the relevant period, which can then be compared to return on assets above to assess the risk based return of the Bank relative to the total asset return.

²⁰ Net interest margin on interest bearing assets is interest income on interest bearing assets less interest expense (i.e. net interest income) as a percentage of average interest bearing assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Net interest income was ISK 22,420 million for the six month period ended 30 June 2023, and ISK 40,277 million and ISK 32,063 million for the years ended 31 December 2022 and 2021, respectively. "Interest bearing assets" means the sum of cash and balances with Central Bank, loans to credit institutions, loans to customers and interest bearing financial instruments (which is made up of bonds and debt instruments (ISK 180,190 million as at 30 June 2023, ISK 138,174 million as at 31 December 2022 and ISK 151,852 million as at 31 December 2021), derivatives (ISK 9,281 million as at 30 June 2023, ISK 9,516 million as at 31 December 2022 and ISK 2,905 million as at 31 December 2021) and listed bonds and debt instruments used for economic hedging (ISK 3,161 million as at 30 June 2022, ISK 3,890 million as at 31 December 2022 and ISK 14,044 million as at 31 December 2021). See Note 25 to the H1 2023 Interim Financial Statements and Note 26 of the 2022 Year End Financial Statements). Net interest margin on interest bearing assets is used as an alternative measure of performance of the Bank based on the Bank's net interest margin relative to its interest bearing assets and is a measure of the difference in the interest income generated by the Bank's interest bearing assets and its interest expense by reference to the average interest-bearing assets for the relevant period. The higher this figure, the greater the returns from the Bank's interest bearing assets for that period.

²¹ Net interest margin on total assets is net interest income as a percentage of average total assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Net interest margin on total assets is used as an alternative measure of performance of the Bank based on the Bank's net interest margin relative to its total assets and is a measure of the difference in the interest income generated by the Bank's total assets and its interest expense by reference to the average total assets for the relevant period. The higher this figure, the greater the returns from the Bank's total assets for that period.

²² With respect to cost-to-income ratio, "cost" means salaries and related expense and other operating expense. "Income" means operating income. Cost-to-income ratio is used as an alternative measure of performance of the Bank based on the costs of the Bank relative to income generated and is a measure of the Bank's costs as compared with its income. The lower this figure, the lower the Bank's costs relative to its income. The figure for the six month period ended 30 June 2023 includes expenses from insurance operations.

²³ With respect to cost-to-total assets ratio, "cost" means salaries and related expense and other operating expense. "Total assets" means total assets of the Bank as set out in the financial statements of the Bank (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Cost-to-total assets ratio is used as an alternative measure of performance of the Bank based on the costs of the Bank relative to

FUNDING AND LIQUIDITY

Funding

The Bank is partially funded with domestic deposits. Its total deposit base as at 30 June 2023 was ISK 781,202 million, or 58.7 per cent. of its total liabilities. In addition to deposits, the Bank's other funding comprises Notes issued under this Programme and its Covered Bond Programmes, bills issued and other loans and equity. The Bank issues bonds internationally under its EMTN Programme and covered bonds under its Covered Bond Programme. In recent years, the Bank has issued public bonds denominated in euro, Swedish krona and Norwegian krone and covered bonds denominated in euro and Icelandic krona.

On 25 May 2023 the Bank issued EUR 300,000,000 7.250 per cent. Senior Preferred Unsecured Notes due 2026. Concurrently with the issue of these Notes, the Bank repurchased and cancelled €220,357,000 of its outstanding €300,000,000 0.625 per cent. Notes due 2024.

The Bank is focused on maintaining a large and stable deposit base originated from its clients. Deposits are expected to continue to form the core of the Bank's funding in the future. However, there are external factors that might affect the Bank's deposit base in the short to medium term, such as the increased availability of other investment opportunities for investors who currently hold deposits with the Bank. The Bank intends to continue diversifying its funding profile by issuing bonds in the domestic and international bond market when conditions permit.

Liquidity

On 1 December 2013 new liquidity rules issued by the Icelandic Central Bank took effect, overriding the rules on liquidity and cash ratios that have previously been reported by the Group. The new rules are based on the liquidity standards introduced in the Basel III Accord which began to be implemented in 2015 on a global level. The standard defines the LCR, which is the balance between highly liquid assets and the expected net cash outflow of the Group in the next 30 days under stressed conditions.

The criteria for liquid assets used to meet unexpected outflow is stricter under these new liquidity measures. The assets must be non-pledged, liquid and easily priced on the market, repo-able at the Icelandic Central Bank and not issued by the Group or its related entities.

The Icelandic Central Bank has set a guideline for the minimum LCR. The requirement for foreign currency is 100 per cent. effective from 1 January 2017.

The LCR as at 30 June 2023, 31 December 2022 and 31 December 2021 is shown below:

	As at		
Liquidity coverage ratio	30 June 2023	31 December 2022	31 December 2021
FX.....	974%	720%	607%
Total	163%	158%	203%

As per the LCR methodology, the Bank's deposit base is split into different categories depending on customer type. A second categorisation is used where term deposits refer to deposits with a residual maturity greater

its total assets and is a measure of the Bank's costs as compared with its total assets. The lower this figure, the lower the Bank's costs relative to its total assets. The figure for the six month period ended 30 June 2023 includes expenses from insurance operations.

than 30 days. Deposits that can be withdrawn within 30 days are marked stable if the customer has a business relationship with the Bank and the amount is covered by the Deposit Insurance Scheme. Other deposit funds are considered less stable. A weight is attributed to each category, representing the expected outflow under stressed conditions. See note 47 to the H1 2023 Interim Financial Statements and note 45 to the 2022 Consolidated Financial Statements for a breakdown of the Group's deposit base according to the LCR categorisation.

RISK MANAGEMENT

Overview

The Bank seeks to manage its risks through a process of ongoing risk identification, measurement and monitoring, using limits and other controls. This process of risk management and the ability to evaluate, manage and price the risks encountered is critical to the Bank's continuing profitability and its ability to ensure that the Bank's exposure to risk remains within acceptable levels.

The Board of Directors is ultimately responsible for the Bank's risk management framework and ensuring that satisfactory risk policies and governance for controlling the Bank's risk exposure are in place. The Board of Directors defines the overall risk appetite of the Bank which is translated into exposure limits and targets, which are monitored by the Risk Management division and reported to the CEO and the Board of Directors on a regular basis. Risk exposures are measured, monitored and reported according to internal policies, principles and processes that are reviewed and approved by the Board of Directors at least annually. The Board of Directors is also responsible for the internal capital adequacy assessment process (the **ICAAP**) and internal liquidity adequacy assessment process (**ILAAP**). The Board of Directors has determined that management of risks encountered within subsidiaries should principally be carried out within each subsidiary.

The CEO is responsible for enforcement of the risk management policies established by the Board of Directors, sustaining an effective risk management framework, processes and controls as well as maintaining a high level of risk awareness among the Bank's employees.

The Bank operates the following committees to manage risk:

- *Board Risk Committee*, which is responsible for supervising the Bank's risk management framework, risk appetite and ICAAP/ILAAP. The Board Risk Committee regularly reviews reports on the Bank's risk exposures. The Board Risk Committee meets as often as required but at least five times annually.
- *Board Credit Committee* (the **BCC**), which operates under the authority of the Board, and has the authority to approve certain material proposals regarding credit risk exposures, including debt cancellation, underwriting and investments. The BCC meets as often as required.
- *Board Audit Committee* (the **BAC**), which is responsible for supervising accounting procedures, the organization and function of the Bank's internal audit, and the auditing of the annual accounts and the Bank's consolidated accounts. The BAC meets as often as required but at least five times a year.
- *Executive Risk Committee* (the **ERCO**), which serves as the main forum for the Bank's risk management governance at an executive level and is responsible for ensuring the appropriate implementation of the Bank's enterprise risk management framework, including approving rules of procedures for the Bank's risk committees. ERCO is responsible for determining the Bank's credit impairments under IFRS9. The ERCO meets quarterly, or as often as required.
- *Arion Credit Committee* (the **ACC**), which makes decisions on credit cases within limits set by the Board, delegates credit authorities to the business units, and reviews risk reports concerning the credit portfolio.
- *Arion Composition and Debt Cancellation Committee* (the **ADC**), which deals with applications to reach composition with debtors, within limits set by the Board.
- *Asset and Liability Committee* (the **ALCO**), which is responsible for managing any asset and liability mismatches, liquidity and funding risk, market risk, capital adequacy, and decides on underwriting and investment exposures. The ALCO meets as often as required but at least twelve times annually.

- *Operational Risk Committee* (the **ORCO**), which is responsible for managing operational risk, including information security, financial crimes, regulatory compliance and data management. The ORCO meets as often as required but at least twelve times annually.
- *Sustainability Committee* (the **SUCO**), which is responsible for reviewing risk assessments of ESG factors and climate risk impact and overseeing ESG disclosures as well as the Bank's Green Financing Framework. The SUCO meets every three months, or as often as required.

The Bank's internal audit division conducts independent reviews of the Bank's operations, risk management framework, processes, policies and measurements. Internal audits examine both the adequacy and completeness of the Bank's control environment and processes as well as the Bank's compliance with its procedures, internal rules and external regulations. Results of internal audits are discussed with the Bank's management and reported to the Board Risk Committee.

The Risk Management division is headed by the Chief Risk Officer. It is independent and centralised and reports directly to the CEO. The division is divided into three subdivisions: (i) Risk Analysis, which is responsible for the quantification of risk on a portfolio level, including risk modelling and reporting; (ii) Risk Framework and Monitoring, which facilitates and monitors the management of risk and controls in the first line; and (iii) Credit Analysis, which supports the Bank's credit transaction process and participates in credit decisions. The Bank's Chief Security Officer, who supervises physical and informational security management, and the Bank's Risk Officer for Pension Funds are part of the Risk Management division.

The Bank is exposed to six major areas of risk: credit risk, market risk, liquidity risk, operational risk, compliance risk and sustainability risk. In addition, the Bank manages its capital position with the focus on optimising the capital structure in the medium term and maintaining the Group's capitalisation comfortably above the regulatory requirements, including the combined capital buffer requirement and the additional capital requirement under Pillar 2, determined through the supervisory review and evaluation process (**SREP**).

Credit Risk

Credit risk is managed and controlled by setting limits on the amount of risk the Bank is willing to accept for different types of credit and individual counterparties and groups of connected customers and by monitoring exposures in relation to such limits. The main sources of credit risk are loans to customers, commitments and guarantees, counterparty credit risk and equity risk in the banking book, which arises primarily from investment in positions that are not made for short-term trading purposes and from assets repossessed as a result of credit recovery, i.e. restructuring or collection.

The Bank's credit policy forms the basis for its credit strategy as integrated in the business plan, risk appetite towards credit exposure, credit rules and its credit procedures and controls. It contains high level criteria for the granting of credit and also outlines roles and responsibilities for further implementation and compliance. The emphasis of the credit policy is on keeping a high-quality credit portfolio by maintaining a strict credit process and seeking business with financially strong parties with strong collateral and good repayment capacity. The risk level of each credit is considered in the pricing decision.

The Bank's main asset is its customer loan portfolio. Therefore, managing and analysing the customer loan portfolio is of utmost importance. Credit risk management entails diversification of risk, well-informed lending decisions, good oversight of the portfolio performance and a clear identification of any sign of weaknesses to conduct a timely recovery.

To ensure well-informed lending decisions, borrowers' key risk and performance indicators are analysed and available for the credit committee. Risk Management participates in all Arion Credit Committee (the **ACC**) meetings as an advisor as well as a monitoring unit. Various controls ensure that a loan is only disbursed following a thorough review of all documents and the registration of all relevant information regarding the loan and collaterals into the Bank's IT systems.

The Bank seeks to limit its total credit risk through diversification of the loan portfolio across industry sectors and by limiting large exposures to groups of connected customers. For additional information on the Bank's maximum exposure to credit risk by type of financial instrument and industry sector classification of customer, see the note titled "*Credit Risk*" in the Annual Financial Statements. As of 31 December 2022 and 2021, the Bank's total on- and off-balance sheet credit risk exposure equalled ISK 1,550,240 million and ISK 1,367,653 million, respectively. The major industry sector exposures for total loans to customers as of 31 December 2022 were (i) individuals (53.7 per cent. of total loans to customers), (ii) real estate activities and construction (14.8 per cent. of total loans to customers) and (iii) fishing industry (8.4 per cent. of total loans to customers).

Underwriting and Credit Approval Process

As discussed above, the Bank has a tiered structure of credit approval committees.

The BCC, which acts on behalf of the Board of Directors, is the Bank's top credit, investment and underwriting authority. The ACC, which has granting limits below those of the BCC's, operates according to credit rules set by the ERCO and has the right to delegate authority within its own credit limits as well as setting guidelines for the divisions of the Bank. The Bank's Chief Credit Officer, who reports directly to the CEO, manages the Bank's credit rules and is responsible for ensuring their conformity to the Bank's credit policy and risk appetite.

For each credit application, the Bank gathers information and evaluates certain elements that serve as a basis for the decision, for example the borrower's profile and financial analysis, evaluation of any proposed collateral, the borrower's credit rating and related parties' total exposure. The first stage is interaction between the borrower and an account manager in the relevant division, followed by the preparation of a credit application, which must contain the following minimum information about the borrower:

- the borrower's request and the account manager's proposal;
- credit rating (internal rating system);
- financial accounts;
- the borrower's ability to pay;
- collateral;
- general information about the borrower; and
- the purpose and rationale for the proposal.

Loan applications submitted to the Bank's credit committee for approval are analysed by Credit Analysis within Risk Management. Credit Analysis represents Risk Management at all credit committee meetings and participates in credit decisions and has the power to veto the ACC's credit decisions or alternatively to escalate to the BCC for final approval. Prior to credit committee meetings, the Chief Credit Officer and representatives from Risk Management have the power to withdraw loan applications from the committee's agenda. Credit Analysis is also responsible for the approval of the corporate credit rating performed by account managers by challenging the qualitative input and verifying the quality of quantitative information used to produce the ratings.

Decisions of the credit committee are recorded in the minutes of the meeting, which are signed and registered. Following the approval of a loan application by the credit committee, the account manager and the borrower negotiate the terms and conditions of the loan. The back office in collaboration with the Legal division documents the loan in accordance with the approval of the credit committee. When the back office receives the signed documents, it disburses the loan.

Collateral

The Bank generally requires collateral, but a central element in its assessment of a proposed borrower's creditworthiness is the borrower's ability to service debt. The main types of collateral obtained by the Bank include:

- retail loans to individuals are collateralised by mortgages on residential properties;
- corporate loans are collateralised by real estate, fishing vessels and other fixed and current assets, including inventory and trade receivables, cash and securities; and
- derivative exposures are collateralised by cash, treasury notes and bills, asset backed bonds, listed equity and funds that consist of eligible securities.

The Bank collects and stores collateral information, including information on collateral maintenance and valuation. In addition to collateral, other important credit risk mitigating techniques are pledges, guarantees and master netting agreements.

Collateral valuation standards and guidelines have been set by the ACC to ensure coordinated collateral value assessment. Risk Management reviews the standards and guidelines for appropriateness and examines individual cases as needed.

The collateral value is monitored and additional collateral requested in accordance with the underlying agreement. The collateral value is reviewed in line with the adequacy of the allowance for impairment losses.

Portfolio Credit Quality

The Bank emphasises monitoring and reporting the quality of its loan portfolio. The credit portfolio quality is regularly aggregated and assessed in terms of industry concentration, single name concentration, product type and credit rating.

The Bank uses an internal rating system to rate its customers, companies and individuals. The rating model for larger companies bases its rating both on qualitative factors, such as industry sector stability and outlook, and quantitative factors, such as their equity and liquidity ratios. The rating models for SMEs and individuals are purely statistical models.

During the repayment phase, Risk Management monitors the credit portfolio. The portfolio is aggregated monthly, based on consistent criteria, to analyse the outstanding risk exposures and portfolio credit quality, including payments past due, default rates, collateral coverage, and impairment levels. In cooperation with the first line, Risk Management analyses loans that have been classified at risk and maintains an independent and centralised overview of distressed credit. Based on the analysis, Risk Management manages provisions and reviews write-offs, which are approved by ERCO. Monthly credit risk reports are sent to the ACC, the ERCO the BRIC and the Board of Directors.

Impairment and Provisions

Risk management is in charge of the Bank's provisioning process. Provisions for impairment are made both on a portfolio level and by individual assessment. All exposures to borrowers with loans that are considered impaired are moved to risk class 5 (DD rating), with the exception that impairment on prime mortgages to individuals do not trigger movement to risk class 5 for other exposures to the borrower, and vice versa.

On 1 January 2018, the Bank implemented IFRS 9 Financial Instruments, and as part of the implementation, the process for provisioning for loss allowance has been split in to three stages. Stage 1 calculates one-year expected credit losses. Stage 2 calculates expected lifetime credit losses. Stage 3 calculates expected lifetime

credit losses for impaired financial assets. Calculation of the loss allowance is performed for all loans, facilities and loan commitments carried at amortised cost or at fair value through other comprehensive income (for these purposes, referred to as “loans”). For further information on the calculation methodology, see note 45 in the H1 2023 Interim Financial Statements.

Financial assets and financial liabilities – Classification and Measurement

Loss allowance for Performing Loans

Stage 1 loss allowance is calculated for all performing loans. Stage 1 assets are subject to one-year expected credit losses. The calculation is based on estimates of the borrower’s one year probability of default, loss given default and exposure at default. Assets classified as Stage 2 have encountered significant increase in credit risk as defined by the Bank and carry expected lifetime credit losses. The calculation is based on estimation of the borrower’s lifetime probability of default, loss given default and exposure at default. Probability of default, loss given default and exposure at default models for loans are based on the Bank’s internal models.

Individual Assessment

Loans classified as Stage 3 are impaired when objective evidence demonstrates that a loss event has occurred and that the loss event has an impact on the future cash flows of the asset or the asset is 90 days or more past due. The level of detail for credit monitoring depends on the size of the exposure, where factors such as delinquency by the borrower, forbearance measurements, and the internal credit rating are considered. For larger borrowers, interviews with account managers are also conducted. Loans are classified as Stage 3 even if the value of collateral prudently covers the outstanding amount.

Portfolio Assessment

The provisioning for prime mortgages and other exposures to individuals, where the amount of the exposure is within a predetermined and acceptable range, is made on a portfolio basis. The impairment is based on a 90 days delinquency status and a collateral allocation method where the collateral is usually the tax value of the pledged real estate property. For additional information on the Bank’s measurement of impairment, see the note titled “Financial assets and financial liabilities” in the Annual Financial Statements.

Counterparty Credit Risk

The Bank offers financial derivative instruments to professional investors. The table below sets forth the derivative trading products that are currently offered by the Bank to its customers classified according to the primary risk factor and type of derivative instrument.

Primary risk factor	Swaps	Forwards	Options
Interest rate.....	X		
Foreign exchange	X	X	X
Securities (equities and bonds).....		X	X
Commodities		X	X

Valuation changes are made in response to changes in interest rates, exchange rates, security prices and commodity prices.

The Bank sets limits on a customer’s total exposure to control the Bank’s risk associated with derivatives trading. These limits are generally specific for each customer and may refer specifically to different categories of contract. Generally, collateral is required to cover potential losses on a contract. Should the net-negative position of the contract fall below a certain level, a call is made for additional collateral. If extra collateral is not supplied within a tightly specified deadline, the contract is closed. The margin call process is monitored by the Risk Management division.

Large Exposures

In accordance with applicable Icelandic regulations, a large exposure is defined as an exposure to a group of financially related borrowers, which exceeds 10.0 per cent. of the Group's Tier 1 capital. The legal maximum for individual large exposures is 25.0 per cent. of the Group's Tier 1 capital, net of eligible collateral. As of 30 June 2023, the Bank had one large exposure of ISK 19.2 billion, being 10.4 per cent. of the Group's Tier 1 capital, net of eligible credit risk mitigation. As of 31 December 2022, the Bank had two large exposures of ISK 20.6 billion and ISK 18.5 billion, respectively.

Market Risk

Market risk is the current or prospective risk that changes in financial market prices and rates will cause fluctuations in the value and cash flows of financial instruments. The risk arises from imbalances in the Group's balance sheet as well as in market making activities and position taking in bonds, equities, currencies, derivatives and other commitments that are marked to market.

The Group monitors market risk and separates its exposures for its trading book and banking book. Market risk in the trading book arises from market-making activities and non-strategic derivatives positions arising from the Bank's customers' investments and risk management needs. Market risk in the banking book arises from various mismatches in assets and liabilities, principally in relation to currencies, maturities and interest rates. Market risk in the trading and banking books is managed separately by the Treasury division and Market Making.

The Bank's overall market risk allowance is set by the Board of Directors in the Bank's risk appetite, and through the appropriate framework set up by the CEO, which determines the limit framework for each trading desk and sets individual limits. The ALCO is responsible for managing the Bank's overall market risk. The Risk Management division is responsible for measuring and monitoring market risk exposure and reporting the exposure, usage and limit breaches.

The Group's strategy towards market risk is to seek to limit the risk exposure that arises in its banking book as a result of imbalances in the Group's balance sheet, but accept limited risk in its trading book, in accordance with its strategic goals for net profit.

Risk Management is responsible for monitoring compliance with the limits that have been set in each of the trading and banking books. In respect of the trading book, it reviews exposures for potential shortfalls and analyses scenarios with traders. Any issues of concern are escalated to the relevant managing directors and the Chief Risk Officer. The performance, exposures and relevant risks are summarised and reported daily to relevant employees and managing directors and on a regular basis to the Board of Directors. In respect of the banking book, market risk exposure is monitored and reported on a monthly basis and measured against the risk limits set in terms of the Bank's risk appetite.

The elements of the Group's market risk are presented below.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in market rates adversely affect net interest earnings and fair value of interest-bearing instruments on the Bank's balance sheet. The Bank's operations are subject to interest rate risk due to mismatches in the fixing of interest rates between assets and liabilities, resulting in a repricing risk for the Bank. The Bank also faces interest basis risk between interest-bearing assets and interest-bearing liabilities due to different types of floating-rate indices in different currencies.

The Bank's interest rate risk for foreign currencies is limited as foreign denominated assets predominantly have short interest fixing periods (i.e. the period during which interest is payable at a fixed rate), and the Bank

hedges its foreign denominated fixed rate borrowings. For domestic rates, longer interest fixing periods are more common.

For additional information on the Bank's interest rate risk, see the note titled "Market Risk" in the Annual Financial Statements.

Indexation Risk

A significant part of the Bank's balance sheet is linked to the Icelandic Consumer Price Index (CPI). Index-linked loans and borrowings are typically annuities, where the principal and monthly payments change in the same proportion as the CPI. The Bank is exposed to indexation risk as indexed assets exceed indexed liabilities. See the note titled "Market Risk" in the Annual Financial Statements.

Currency Risk

Currency risk is the risk of loss due to adverse movements in foreign exchange rates. The Bank is exposed to currency risk through a currency mismatch between its assets and liabilities. Net exposures per currency are monitored centrally in the Bank. The Bank seeks to minimize the currency imbalance.

The table below sets forth the currencies to which the Group had significant exposure as of 30 June 2023. The analysis calculates the effect of a 10.0 per cent. movement of each indicated currency rate against Icelandic Krona on the Bank's income statement as a result of the change in fair value of currency sensitive non-trading monetary assets and liabilities. A negative amount reflects a potential net reduction in income statement or equity, while a positive amount reflects a potential net increase in income statement or equity. The table below assumes that all other variables remain constant.

	30 June 2023	
	-10.0%	+10.0%
	<i>(ISK in millions)</i>	
EUR	(95)	95
USD	25	(25)
GBP	4	(4)
DKK	50	(50)
NOK	(1)	1
Other	60	(60)

(1) A +10.0 per cent. in the table denotes a depreciation of Icelandic Krona.

Equity Price Risk

Equity price risk is the risk that the fair value of equities held as financial instruments and investments in associates on the Group's consolidated balance sheet decreases as the result of changes in the level of equity indices and individual stocks. For information on assets seized and held for sale and equity exposures, see the notes titled "Financial assets and financial liabilities" and "Other assets" in the Annual Financial Statements.

Derivatives

Derivatives are a part of the Bank's customer product offering. The types of derivatives currently offered are forward contracts, swaps and options. Eligible underlying market factors are interest rates, foreign exchange rates, equities and commodities. Exposure limits, hedging requirements and collateral requirements are determined in accordance with the Bank's risk appetite and monitored by Risk Management on a daily basis. The Bank also uses derivatives to reduce market risk on its balance sheet.

Prepayment Risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay, or request repayment of, loans earlier or later than expected, such as with respect to fixed rate mortgage loans when interest rates decline. Prepayment risk is mitigated by prepayment fees and the Bank's own prepayment options on its borrowings.

Liquidity and Funding Risk

Liquidity risk is defined as the risk that the Group, although solvent, either does not have sufficient financial resources available to meet its liabilities when they become due or can secure them only at excessive cost. Liquidity risk arises from the inability to manage unplanned decreases in available funding or changes in funding sources. The ALCO is responsible for managing liquidity risk within the risk appetite set by the Board of Directors, the Treasury division manages the liquidity positions on a day-to-day basis and the Risk Analysis subdivision monitors the liquidity risk, with processes and reports regarding the liquidity status reviewed regularly by the executive management. The Treasury division provides the other divisions of the Bank with funds for their activities against a charge of internal interest.

The Bank's primary source of funding is deposits from individuals, businesses and financial institutions. The Bank's liquidity risk stems from the fact that the average maturity of its loans exceeds the average maturity of its deposits.

The Bank calculates the net stable funding ratio (**NSFR**), which measures the amount of available stable funding (**ASF**) of the Group against the required stable funding (**RSF**), as per the definition of the Icelandic Central Bank's Rules No. 750/2021. Under NSFR, funding with maturity greater than one year is considered stable. Different weights are applied to funding with shorter maturities depending on the type of funding. In general, RSF is determined by applying different weights to the Group's on- and off-balance sheet items on the asset side depending on the level of maturity and liquidity. On the other hand, ASF is calculated by applying different weights to the Group's on- and off-balance sheet items on the liability side depending on the level of maturity and/or expected stickiness. The ratio is required to exceed 100 per cent.

The table below sets forth the Bank's total NSFR as of the dates indicated.

	<u>As of 30 June</u>	<u>As of 31 December</u>	
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total NSFR	118%	119%	121%

The NSFR calculations are based solely on figures for the parent company. The Bank's subsidiaries have a negligible impact on the funding ratio. See "*Risk Factors – Risks relating to the Bank – The Bank is exposed to significant liquidity risk*".

The Group carries out an ongoing process for the ILAAP, with the aim of ensuring that the Group has in place sufficient risk management processes and systems to identify, manage and measure the Group's liquidity. As part of the ILAAP, main liquidity and funding risks are identified and stressed scenarios considered to provide senior management and regulators with a better understanding of the Group's liquidity and funding positions. The FSA supervises the Group and reviews the Group's ILAAP.

Operational Risk

Operational risk is the risk of direct or indirect loss or damage to the Bank's reputation resulting from inadequate or failed internal processes or systems, from human error or external events that affect the Bank's image and operational earnings.

Operational risk is inherent in every activity undertaken within the Bank, in outsourced activities and in all interactions with external parties. The Bank's policy is to reduce the frequency and impact of operational risk events in a cost-effective manner. The Bank reduces its exposure to operational risk with a selection of internal controls and quality management, educated and qualified staff, and awareness of operational risk.

Each division within the Bank is primarily responsible for taking and managing its own operational risk, whereas the ORCO provides a forum for decision making and monitoring of operational risk. Risk Management is responsible for developing and maintaining tools for identifying, measuring, monitoring and reporting the Bank's operational risk. The Bank uses the standardised approach for the calculation of capital requirements for operational risk.

Risk Management serves as a partner to senior management and supports and challenges the senior management to align the business control environment with the Bank's strategy by measuring and mitigating risk exposure, with the view of contributing to optimal returns for the stakeholders.

The Bank's losses due to operational risk are registered in the Bank's loss database. Loss events are analysed to understand the cause of the event and any control failure, and changes to controls are made where applicable to reduce the risk of the event recurring. Losses are categorised according to the ORX event categories for operational risk.

Capital Management

The Bank's capital ratios are calculated in accordance with the Financial Undertakings Act and Regulation No. 233/2017 on prudential requirements, through which CRD IV/CRR II have been adopted. The Bank uses the standardised approach to calculate capital requirements for credit risk, credit valuation adjustment, market risk and operational risk.

The Group's consolidated situation as stipulated in CRR is the Group's accounting consolidation excluding insurance subsidiaries, in particular Vördur.

The Bank carries out an ongoing process, the ICAAP, with the aim to ensure that the Group has in place sufficient risk management processes and systems to identify, manage and measure the Group's total risk exposure. The ICAAP is aimed at identifying and measuring the Group's risk across all risk types and ensuring that the Group has sufficient capital in accordance with its risk profile. The FSA supervises the Bank, receives the Group's internal estimation on the capital adequacy and sets capital requirements for the Group as a whole following the SREP. Stress tests constitute an important part of the ICAAP, because they demonstrate how the Group's capital could be affected by sharp macroeconomic changes, downturns in the Bank's core businesses or other major events.

Capital requirements according to Pillar 1 are based on the sum of risk-weighted assets for credit risk, credit valuation adjustment, market risk and operational risk, computed on the basis of capital adequacy rules.

Banking operations are categorised as either trading book or banking book, and the calculation of risk-weighted assets is conducted differently for the assets in each book. Banking book exposures, including on-balance and off-balance sheet items, derivatives and repurchase agreements, give rise to credit risk and risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account eligible collateral or guarantees. Trading book risk-weighted assets are determined by considering market related risks, such as foreign exchange, interest rate risk and equity position risks. Operational risk also gives rise to risk-weighted assets, measured on the basis of the Bank's average operating income over three years.

To assess the need for additional capital, the Bank uses internal economic capital models. Capital add-ons under Pillar 2 are based on risks that are underestimated or not covered in Pillar 1, including single-name concentration risk, sector concentration risk, interest rate risk in the banking book, indexation risk, and legal

risk. The Bank allocates capital to its business units based on the capital requirements assessed under the ICAAP and SREP. The risk-adjusted performance of the business units based on the return on allocated capital (ROAC) is reported to ALCO. The ALCO conducts capital planning on a quarterly basis, based on the Bank's rolling business plan for each business unit. Capital is allocated both based on current need and on the basis of a 12 month forward horizon.

The table below sets forth the implementation of the capital buffer requirements in accordance with the Financial Undertakings Act, as prescribed by the Financial Stability Council and approved by the FSA. The FSA has defined the Bank as a systemically important financial institution in Iceland.

Capital buffer requirement as a percentage of risk-weighted assets	As of 30 June 2023	Max CCyB
Capital conservation buffer.....	2.5	2.5
Capital buffer for systemically important institutions.....	2.0	2.0
Systemic risk buffer.....	3.0	3.0
Countercyclical risk buffer ⁽¹⁾	2.0	2.5
Combined capital buffer requirement.....	9.5	10.0

- (1) The maximum countercyclical risk buffer which can be applied in Iceland is 2.5 per cent.; however, the FSA is authorised to apply a higher countercyclical risk buffer on the basis of a recommendation from the Financial Stability Council. The countercyclical buffer increased to 2 per cent. on 29 September 2022.

The Bank's Pillar 2R capital add-on, which is the result of ICAAP/SREP, may be comprised of 56.25 per cent. CET1 capital, 18.75 per cent. AT1 capital and 25.00 per cent. Tier 2 capital. Steps have been taken to normalise the Bank's capital structure with issuances of Tier 2 capital in November 2018 and in March 2019 and an issuance of Additional Tier 1 capital in February 2020.

The table below sets forth the total regulatory capital requirement, as applied to the Bank on the basis of its consolidated exposures, as a percentage of risk-weighted assets as of 30 June 2023.

Total regulatory capital requirement as a percentage of risk-weighted assets	CET1	Tier 1	Total
Pillar 1 capital requirement.....	4.5%	6.0%	8.0%
Pillar 2R capital requirement ⁽¹⁾	1.2%	1.6%	2.1%
Combined buffer requirement ⁽²⁾	9.2%	9.2%	9.2%
Total regulatory capital requirement.....	14.9%	16.8%	19.3%
Available capital.....	18.9%	20.4%	23.9%

- (1) SREP result based on the Group's financial position as of 31 December 2022. The Pillar 2 requirement is 3.5 per cent. of risk-weighted exposure amount based on the Group's prudential consolidation under CRR, which excludes Vöður tryggingar hf.
- (2) In the combined buffer requirement, the effective countercyclical capital buffer is determined by calculating the weighted average of the corresponding buffer levels of each country, the weights being the total risk-weighted exposures for credit risk against counterparties residing in those countries. The systemic risk buffer only applies to domestic exposures and is calculated using the same weighting method.

Stress Testing

Overview

The Bank's stress testing framework is aligned with the relevant FSA guidelines, which in turn are based on the Guidelines on Stress Testing of the European Banking Authority. Stress testing at the Bank focuses on sensitivity and scenario analyses. The sensitivity analysis measures the potential impact of a specific single

risk factor or simple multi-risk factors affecting capital or liquidity. In turn, scenario analysis measures the Bank's resilience to a given scenario, which comprises a set of risk factors that are aligned in an internally consistent way, presuppose the simultaneous occurrence of forward-looking events covering a range of risks and business areas and aims at revealing the nature of linked risks across the Bank and across time, system-wide interactions and feedback effects. The stress tests serve as an important management tool for the Bank and are incorporated into the review of the Bank's risk conditions and the Bank's limits framework, and raise risk awareness and improve general understanding of the Bank's operations. The Board of Directors and Board Risk Committee consider the results for strategic, capital and contingency planning.

The Bank's business plan is stress tested annually with at least two adverse economic scenarios. One of the two stressed scenarios carried out on the business plan is provided by the Central Bank in collaboration with the FSA. The Bank's Chief Economist contributes an economic base case projection as well as stressed projections that are used in the Bank's capital planning and in preparation of the Bank's five-year business plan. The design of the bank-wide internal stress test is challenged and reviewed by the Executive Risk Committee and the Board Risk Committee. The impact is estimated on the Bank's earnings and own funds as well as for the Bank's capital and liquidity ratios and other risk appetite metrics. In addition to the internal bank-wide stress test and the Central Bank stress test, the Bank performs both focused ad hoc stress tests and regular planned stress tests. The focused stress tests are used to estimate losses for example due to changes in regulations.

The table below sets forth the stress tests which the Bank regularly performs.

Stress Test	Frequency	Description
Icelandic Central Bank and FSA stress tests	Annually	Stressed scenarios provided by the Icelandic Central Bank in collaboration with the FSA
Internal stress tests on the Bank's business plan	Annually	Risks and stressed scenarios designed on the basis of input from each division, stressed macro-economic projections provided by the Research subdivision
BRRD Recovery Plan	Annually	Profitability, capital, liquidity, risk-weighted exposure amount, and operations. Fast-moving and slow-moving.
ICAAP/ILAAP	Annually	Interest rate risk, value-at-risk on trading book, credit risk stress tests
Focused stress tests	Daily/Monthly	Liquidity and market risk, risk appetite for indirect equity positions

CAPITAL ADEQUACY

The Bank's capital policy is to maintain a strong capital base to support business development and to meet regulatory capital requirements, even in times of stress.

Capital requirements according to Pillar 1 are based on the sum of risk-weighted assets (**RWA**) for credit risk, market risk and operational risk, computed using formulas from the EU's Capital Requirements Directive and Regulation (the **CRD** and **CRR**).

The CRD offers different approaches for calculating RWA for these risk types.

The Bank uses the following approaches for its capital requirement calculations:

- The standardised approach is used to calculate the capital requirements for credit risk;
- The standardised method is used to calculate the capital requirements for market risk; and
- The standardised approach is used for operational risk.

The transposition of the CRD/CRR into Icelandic law has taken place in separate amendments. The first amendment was introduced on 9 July 2015 by Act No. 57/2015, which amended the Act on Financial Undertakings No. 161/2002. This amendment includes the CRD IV provisions on capital buffers and adopts a regulation implementing the provisions of the CRR and related technical standards. The second amendment was introduced on 21 September 2016 by Act No. 96/2016, which includes the CRD IV provisions on capital requirements, supervisory review and evaluation process (SREP) and leverage ratios. On 6 March 2017 the Ministry Finance and Economic Affairs adopted Regulation No. 233/2017 on prudential requirements for financial undertakings, which implements the CRR No. 575/2013/EU, although omitting provisions such as the SME supporting factor. The third amendment, which was introduced on 9 May 2017 by Act No. 23/2017, further amended the Financial Undertakings Act and includes the CRD IV provision on whistle blowing. The fourth amendment which was introduced in June 2018 by Act No. 54/2018, and further amended the Financial Undertakings Act, includes provisions on supervision on a consolidated basis, prudential requirements on consolidated basis, supervisory collaboration among competent authorities in EU Member States, and rules in respect of large risk exposures. Furthermore, the Act No. 54/2018 updates the legal basis for implementing Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms, which was to a large extent implemented into Icelandic law in March 2017 with Regulation No. 233/2017. In February 2019 a further amendment to the Financial Undertakings Act was approved by the Icelandic Parliament, further implementing CRD IV into Icelandic law, cf. Act No. 8/2019, amending the Financial Undertakings Act. The Act No. 8/2019 related to the number of directorships which may be held simultaneously, as well as further enhancing the duties of auditors under the Financial Undertakings Act. In June 2021, an amendment to the Financial Undertakings Act was approved by the Icelandic Parliament, further implementing CRD IV to allow for implementation of Regulation (EU) No. 2019/630 (Non-Performing Exposures) and Regulation (EU) 2019/876, often referred to as CRR II. On 1 July 2022, the implementation of CRD IV into Icelandic law was concluded, along with amendments through CRD V and CRR II. On 1 July 2022, Regulation No. 233/2017 was repealed and the EU regulations adopted directly.

On 22 January 2016, the Financial Stability Council of Iceland published its recommendation to the FSA to introduce a 2 per cent. capital buffer for systemically important financial institutions (including the Bank), a systemic risk buffer of 3 per cent. and a 1 per cent. countercyclical capital buffer. On 1 March 2016, the FSA decided to uphold these recommendations. The countercyclical capital buffer was increased to 2 per cent. in three steps in the period from 2017 to 2019. In March 2020, the Financial Stability Committee of the Central Bank of Iceland announced that the countercyclical capital buffer would, as a result of the economic impact of the COVID-19 pandemic, be reduced to 0 per cent. On 29 September 2021, the Financial Stability Committee announced that the countercyclical capital buffer would be reintroduced at 2 per cent. of RWA, effective as of 29 September 2022.

Banking operations are categorised as either trading book or banking book and the calculation of RWA is conducted differently for the assets and off-balance sheet items in different books. Banking book exposures, including on-balance and off-balance sheet items, derivatives and repurchase agreements, give rise to credit risk and RWA are measured by means of a hierarchy of risk weightings classified according to the nature of each exposure and counterparty, taking into account eligible collateral or guarantees. Trading book RWA are determined by taking into account market related risks such as foreign exchange, interest rate and equity position risks. Operational risk also gives rise to risk-weighted assets, measured on the basis of the Bank's average operating income over three years.

The Bank carries out an ongoing process, the ICAAP, with the aim of ensuring that the Bank has in place sufficient risk management processes and systems to identify, manage and measure the Bank's total risk exposure. The ICAAP is aimed at identifying and measuring the Bank's risk across all risk types and ensuring that the Bank has sufficient capital in accordance with its risk profile. The FSA supervises the Bank, reviews the Bank's ICAAP via the SREP and sets capital requirements for the Bank's consolidated exposures as a whole.

To measure the Pillar 2 capital requirement the Bank uses an internal economic capital model. Pillar 2 is based on Pillar 1 calculations, using internal models for credit risk calculations, and takes into consideration risks that are not covered under Pillar 1, including credit risk, market position risk, concentration risk, interest rate risk in the banking book, indexation risk, reputational risk, legal and compliance risk, business risk and political risk.

Although the Bank uses credit rating models for credit risk monitoring, these models are not used for capital adequacy calculations. The Bank intends to recalibrate those models for use in its ICAAP. The Bank has implemented methods and tools for operational risk management based on the minimum requirements for the standardised approach. The Bank expects to continue refining these tools and methods as part of its internal management of operational risk and is using them within its ICAAP.

Stress tests are an important part of the ICAAP and show how the Bank's capital could be affected by sharp macro-economic changes, downturns in the Bank's core business or other major events.

The Group is subject to capital requirements which are specified by the FSA following a SREP. The Group's own funds exceeded the FSA's requirements under the SREP in each of the years ended 31 December 2022, 2021 and 2020. The Group's total regulatory capital requirement is currently 19.3 per cent.

As of 30 June 2023, the Group's total capital base amounted to ISK 217,956 million (exceeding the FSA's requirements under the SREP), as compared to ISK 212,476 million as of 31 December 2022. The Group's capital adequacy ratio, calculated in accordance with Icelandic requirements, was 23.9 per cent. as of 30 June 2023 (exceeding the total capital requirement of 19.3 per cent.), as compared to 24.0 per cent. as of 31 December 2022.

See note 46 to the 2022 Consolidated Financial Statements for details on the Group's RWA calculations as at 31 December 2022 and as at 31 December 2021 and note 48 to the H1 2023 Interim Financial Statements for details on the Group's RWA calculations as at 30 June 2023.

MANAGEMENT AND EMPLOYEES

MANAGEMENT

Shareholders' meetings

In accordance with Icelandic law and the Bank's articles of association, the Bank's shareholders in general meetings are the supreme authority in the affairs of the Bank. Shareholders have the power to decide upon company affairs at shareholders' meetings and all shareholders are authorised to attend and speak at shareholders' meetings. The Bank's annual general meeting is required to be held before the end of April each year.

Board of Directors

The Board is the highest authority in the affairs of the Bank between meetings of the shareholders, and one of its main duties is to supervise the Bank's activities. Accordingly, the Board is responsible for the Bank's affairs and for ensuring that its organisation and activities are at all times in correct and good order. The Board makes decisions on all unusual or major arrangements which fall outside the daily operations of the Bank, though it can also authorise the CEO to make such decisions. The Board is also responsible for ensuring that the book-keeping and the handling of the Bank's funds is sufficiently supervised. The Board engages in regular discussions on the manner in which it discharges its duties and where its main areas of focus should be.

The Board's tasks include, among others:

- confirming the Bank's strategy and organisational chart, deciding on annual business plans and budgets and establishing policies on the internal affairs of the Bank;
- establishing an effective system of internal control and risk management;
- appointing the CEO and the chief internal auditor and determining their salaries and other remuneration;
- confirming the appointment of the compliance officer and the chief risk officer, each of whom reports directly to the CEO, and their respective deputies, if applicable;
- assessing the Bank's capital requirement with respect to risk (ICAAP) and deciding on the Bank's risk appetite on the basis of a recommendation from the Board Risk Committee, the CEO and the chief risk officer;
- approving an incentive scheme based on a proposal from the Board Remuneration Committee, if applicable;
- proposing a dividends policy at the Annual General Meeting and submitting a proposal on the payment of dividends at the Annual General Meeting, if applicable;
- arranging, with the CEO, the preparation of financial statements and signing such financial statements; and
- notifying the FSA immediately of any issues which are of crucial importance for the continued operation of the Bank.

The Board is required to annually assess its work, practices and procedures, the Bank's activities and the work of its committees as well as the work of the CEO, the chief internal auditor and other employees, as applicable. No later than two months after each Annual General Meeting, it is decided how the performance assessment

should be performed, including whether an outside party shall be brought in to perform the assessment. The Board is also required to evaluate continuously the performance of the Bank. For these purposes, members of the Board meet the executive management on a regular basis.

The Board is required to meet at least ten times a year.

Under the Bank's articles of association, the Board must consist of five to eight members elected by the shareholders at the Annual General Meeting for a one year term. In addition, pursuant to the Financial Undertakings Act, the Bank is required to appoint a minimum of two, and a maximum of three, alternate members to the Board of Directors (the **Alternate Directors**), who attend a meeting of the Board if a regular member resigns or is unable to attend. The Board currently consists of six members as well as two Alternate Directors. Six members of the Board and two Alternate Directors were elected at the last Annual General Meeting held on 15 March 2023. At each Annual General Meeting and extraordinary shareholders' meeting where board election is on the agenda, the Bank's nomination committee has an advisory role regarding the election of board members by putting forth a proposal of candidates to serve on the Board and make a proposal on their remuneration.

The Bank's Board comprises the following members:

Brynjólfur Bjarnason, Chairman

Born in 1946, Brynjólfur was first elected as a Director at a shareholders' meeting on 20 November 2014, and is a non-executive director. He is not a shareholder of the Bank and is an independent Director. Brynjólfur is the chairman of the Board, and sits on the Board-Remuneration Committee, the Board Credit Committee, the Board Audit Committee and the Board Tech Committee.

Brynjólfur graduated with an MBA from the University of Minnesota in 1973 and a cand. oecon. degree in business studies from the University of Iceland in 1971.

Brynjólfur was managing director of the Enterprise Investment Fund from 2012 to 2014. Between 2002 and 2010 he was the chief executive officer of Skipti. Brynjólfur was chief executive officer of Síminn from 2002 to 2007 and chief executive officer of Grandi hf. from 1984 to 2002. Between 1976 and 1983 he was managing director of the publisher AB bókaútgáfa. He was also head of the economics department of VSI from 1973 to 1976. Brynjólfur has broad experience as a director and has served on numerous boards of seafood, telecommunications, finance and industrial companies as well as cultural and other organisations, and been a chairman of several of them.

Brynjólfur is currently a boardmember of Marininvest ehf. and the aluminium company ISAL hf. - Rio Tinto.

Gunnar Sturlusson

Gunnar was born in 1967. He was first elected as a Director at a shareholders' meeting on 9 August 2019, and is a non-executive director. He is not a shareholder in the Bank and is an independent Director. Gunnar is a chairman of the Board Audit Committee and is a member of the Board Credit Committee and the Board Risk Committee.

Gunnar graduated as Cand. Jur from the University of Iceland in 1992, an LL.M. degree in Law from the University in Amsterdam in 1995 and received a license to practice for the District Court in Iceland in 1993 and for the Supreme Court in 1999.

Gunnar has practised law at LOGOS legal services since 1992 and became a partner in 1995. He was the managing partner of LOGOS from 2001-2013. Gunnar has been the president of the International Federation of Icelandic Horse Associations since 2014 and a board member of the Performing of the Arts Center in Iceland since 2021. Furthermore, Gunnar serves on the Board of Harpan Conference Center.

Gunnar has previously held various directorships, including the board of directors at Gamma hf. in 2017 to 2019, chairman of the board of directors of the Icelandic National Broadcasting Service (RÚV) 2016 to 2017, director at the Nordic Arbitration Center, chairman of the board of directors of the Icelandic Dance Company 2013 to 2016 and was elected by the Icelandic parliament to serve on the National Electoral Commission in 2013 to 2017. Gunnar also lectured in competition law in 1995 to 2007 at the University of Iceland, Faculty of Law.

Kristin Petursdottir

Kristín graduated as an economist from the University of Iceland in 1991 and with an MBA from Handelshøyskole in Norway in 1993.

Kristín was a co-founder of Audur Capital and served as chief executive officer of the company from 2007 to 2013 and as Chairman of the Board of Directors from 2013 to 2017 (later Virðing hf.). Kristín was also a Chairman of the Board of Directors at Kvikka hf. from 2018 to 2020, CEO at Mentor hf. from 2015 to 2017, Managing Director of Treasury at Kaupthing Bank from 1997 to 2005, and Deputy CEO at Singer & Friedlander from 2005 to 2007. Kristín has also served as a board member at Ölgerdin, Tal, Yggdrasil, Singer & Friedlander, Vidskiptaráð, Eyrir Invest, Samtök atvinnulífsins and Samtök fjármálafyrirtækja. Kristín has also served as a member of investment committees of Edda, Freyja, and Audur I initiative funds.

As of the date of this Base Prospectus, Kristín is a self-employed Leadership Coach and serves as a member of the Board of Directors of Grid ehf. and Miðeind ehf.

Liv Fiksdahl

Liv was born in 1965. She was first elected as a Director at the Bank's Annual General Meeting on 20 March 2019 and is a non-executive director. She is not a shareholder in the Bank and is an independent Director. Liv is chairman of the Board Remuneration Committee and the Board Tech Committee and a member of the Audit Committee.

Liv holds a degree in finance and management from Trondheim Business School (known as NTNU) in 1986. In 2018, Liv completed programs at Stanford University in Big Data, strategic decisions and analysis, and the Innovative Technology Leader. She has also completed an advanced management program for executives in management, innovation and technology at Massachusetts Institute of Technology.

Liv has held various senior roles at DNB and was part of the executive management team for 10 years, and her most recent role was as the Group EVP, CIO/COO, for IT & Operations. Liv has a broad experience from DNB and has held different positions across the value-chain within the bank. Before DNB she had key account roles for corporate clients within Danske Bank/Fokus Bank, and Svenska Handelsbanken. Liv has served on numerous boards, including Scandinavian Airlines SAS AB, BankAxept, Sparebankforeningen, Doorstep, Finans Norge and Trondheim Kommune Bystyret.

As of the date of this Base Prospectus, Liv is a Vice President within Financial Services at Capgemini Invent, Norway, and serves on the boards of Posten Norge AS and Hexagon Purus ASA.

Paul Richard Horner

Paul was born in 1962. He was first elected as a Director at a shareholders' meeting on 8 August 2019, and is a non-executive director. He is not a shareholder in the Bank and is an independent Director. Paul is Vice Chairman of the Board, Chairman of the Board Credit Committee and a member of the Board Risk Committee, the Board Audit Committee and the Board Tech Committee.

Paul graduated with M.A. Honours in music from the University of Oxford in 1983 and is an associate of the UK Chartered Institute of Bankers.

Paul has extensive experience of Risk and General Management in Retail, Commercial, Investment and Private Banking, gained across various International markets.

Paul held various Executive and Risk Management roles at Barclays PLC between 1988 and 2003. In 2003, Paul joined The Royal Bank of Scotland Group and served as an Executive and Senior Manager of Royal Bank of Scotland PLC and was appointed to various senior Risk and General Management Roles until June 2019.

In 2012 to 2017, Paul was the Chief Risk Officer of Coutts & Co Ltd. and CEO of Coutts & Co Ltd, Zurich, in 2016 to 2017. In 2018 Paul was a Director of Risk at Ulster Bank DAC, Dublin, and a non-executive director at Coutts & Co Ltd. in Zurich from 2018 to 2021.

As of the date of this Base Propsectus, Paul serves on the board of AIB (UK) P.L.C., chairs its risk committee and is member of its audit and operational resilience committees. He also serves on the Board of LHV (UK) Ltd and chairs its risk committee, as well as sitting as a member of its audit, remuneration and nomination committees. Finally, he serves on the Board of the UK subsidiary of The National Bank of Kuwait.

Steinunn Kristín Thórdardóttir, Director

Steinunn was born in 1972. She was first elected to the Board of Directors at a shareholders' meeting on 30 November 2017 and is a non-executive Director. She is a shareholder in the Bank (her shareholding is 12000 shares) and is an independent Director. Steinunn is the Chairman of the Board Risk Committee and a member of the Board Remuneration Committee and the Board Tech Committee.

Steinunn holds a master's degree in international management from Thunderbird, Arizona, and a BA in international business and politics from University of South Carolina.

Steinunn has previously held several directorships in Europe and was a board member at the Icelandic State Financial Investment (ISFI). Steinunn was previously a partner and CEO of Beringer Finance Norway in 2015 to 2017 and interim CEO of Beringer Finance in Iceland and global head of food and seafood in 2017. She founded Akton AS and Acton Capital AS, a management consulting and investment company in Norway, where she works with investments and consulting in the role of a founder and managing director. Steinunn worked at Íslandsbanki (later Glitnir) as the managing director and head of the bank's UK operation and prior to that she was an executive director heading the international corporate credit and syndications.

As of the date of this Base Propsectus, Steinunn works actively with tech companies in Norway both as an investor and advisor in regards to strategy. The software companies she works with are international scale-up companies. She is also the chairman of the board of Acton Capital AS and Akton AS, and CEO of Cloud Insurance AS and the chairman of the board for the Norwegian-Icelandic Chamber of Commerce. Steinunn is a member of the nomination committee of Síminn. Finally, she is a mentor to young talented women and founded Women Empower Women and is the chairman of a charitable organization in Norway.

Conflicts of Interest

According to the Rules of Procedure for the Board, a director is not permitted to attend Board meetings or participate in the discussion or the decision-making process if any conflicts of interest arise concerning that particular director.

There are no conflicts of interest between the duties of the members of the Board listed above to the Bank and their private interests or other duties. The address of each member of the Board is Borgartún 19, 105 Reykjavík, Iceland.

Alternate Directors

In the event that a Director resigns or is unable to attend a meeting of the Board, an alternate director attends such meeting. The Board currently has one alternate director who is Sigurbjörg Ásta Jónsdóttir, lawyer.

Conflicts of Interest

There are no conflicts of interest between the duties of the Board's alternate director listed above to the Bank and their private interests or other duties. The address of the Board's alternate director is Borgartún 19, 105 Reykjavík, Iceland.

Board's sub-committee members (other than Directors)

Heimir Thorsteinsson. Heimir is member of the Board Audit Committee.

Senior Management

The Bank's senior management team comprises the following members:

Benedikt Gíslason, CEO

Benedikt was born in 1974. He was appointed CEO of the Bank in June 2019.

Benedikt was a member of the Board of Directors at the Bank from 5 September 2018 to 26 June 2019. He previously worked as a senior consultant for Kaupthing ehf. as a senior advisor for Iceland's Ministry of Finance and Economic Affairs, as managing director of Investment Banking at MP Bank and he has held a variety of managerial positions at Straumur- Burdará, including managing director of securities and later CEO. Benedikt also worked as managing director of capital markets at FL Group and at proprietary trading and capital markets at Icelandic Investment Bank (FBA), later Íslandsbanki- FBA. Benedikt was also a board member at Kaupthing and VÍS Insurance. Benedikt is on the board of Genís hf., EC Hugbúnaður ehf. and EC Software Sweden and an alternate board member of Brekkuás ehf. Benedikt graduated with a CSc in mechanical and industrial engineering from the University of Iceland in 1998.

Ida Brá Benediksdóttir, Managing Director of Retail Banking and Deputy CEO

Ida Brá was born in 1976 and was appointed managing director of Retail Banking in June 2017 and Deputy CEO in April 2022. Ida has worked for the Bank and its predecessor since 1999 when she joined the research department. She has held various positions within the Bank including the head of department within the treasury. In 2013 Ida became the head of Private Banking and in 2016 was appointed as the managing director of the then Investment Banking division. Before taking over Private Banking, Ida was Head of Corporate Communications. Ida has served on the board of numerous companies, including Ólafsfjörður savings bank, AFL, Landfestar and HB Grandi hf.

Ida graduated with a degree in business administration from the University of Iceland in 1999 and has a Master's in finance from the Rotterdam School of Management. She is also a certified stockbroker.

Birna Hlín Káradóttir

Birna Hlín was born in 1978. She was appointed General Counsel of the Bank in September 2019 and joined the Bank's Executive Committee in June 2020.

From 2016 until joining the Bank, Birna Hlín was a partner and general counsel at Fossar. She was general counsel at Straumur fjárfestingabanki from 2011 to 2015. Birna Hlín worked for Straumur-Burdará Investment Bank hf. between 2007 and 2011 and was the company's general counsel from 2009. She has

taught financial market law at the Reykjavík University and the University of Iceland. She has served on the boards of directors of several companies in Iceland and abroad and is currently a board member of the Icelandic Bar Association.

Birna Hlín has completed an Advanced Management Program at IESE Business School Barcelona and has a Cand. Jur. degree from the University of Iceland. She is a district court attorney and a licensed securities broker.

Hákon Hrafn Gröndal Managing director of Corporate & Investment Banking

Hákon Hrafn Gröndal was born in 1988. He was appointed managing director of Corporate & Investment Banking in April 2022.

Hákon Hrafn Gröndal joined the Bank in 2012, initially working at the Bank's Höfði branch in Reykjavík. Since then Hákon has held various financial advisory and credit roles at the Bank and served on several boards of directors on the Bank's behalf. Since 2013 Hákon has been a credit manager in Corporate & Investment Banking.

Hákon is a business graduate from Griffith University, has an MSc in corporate finance from the University of Iceland and is a licensed securities broker.

Jóhann Möller Managing Director of Markets

Jóhann was born in 1979. He was appointed managing director of Markets in May 2022. Jóhann Möller has been the managing director of Stefnir since 2020. Jóhann has worked in the financial markets for more than 20 years and joined Stefnir in 2006, managing domestic equities funds and he was head of the company's equities team between 2017 and 2020. Jóhann is a business graduate from the University of Iceland and is a licensed securities broker.

Ólafur Hrafn Höskuldsson Chef Financial Officer

Ólafur Hrafn was born in 1981. He was appointed Chief Financial Officer in September 2021.

Ólafur Hrafn joined the Bank in 2019 as head of strategy and development in the CEO's Office. Between 2010 and 2016 Ólafur Hrafn worked for Royal Bank of Scotland in London and New York. In 2016 he was appointed managing director of the investment company Titan, a position he held until 2019. He previously worked for CreditInfo in Germany and Straumur Investment Bank. Ólafur Hrafn sits on the boards of directors of Vördur and Landey.

Ólafur Hrafn graduated with a cand.oecon. from the University of Iceland in 2006, majoring in accounting and auditing. He is an FSA approved person in the UK and has passed the FINRA Series 79 exam in the United States.

Steinunn Hlíf Sigurdardóttir, Managing director of Customer Experience

Steinunn Hlíf was born in 1974. She was appointed managing director of Customer Experience in September 2021.

Steinunn Hlíf was managing director of customer service and advice at Vördur and was on the company's executive committee from 2008 until 2021. She worked at Kaupthing/KB Bank from 1999 to 2005 where her roles included managing director of marketing. Between 2005 and 2008 she was marketing director at Sjóvá and held a management role within sales and marketing at Landsbankinn.

Steinunn has a BA in Business Administration from Flagler College in Florida.

Björn Björnsson, Managing Director of Information Technology & CTO

Björn was born in 1980. He was appointed Managing Director of Information Technology and Chief Technology Officer at the Bank in March 2023.

From 2015, until joining the Bank, Björn worked for Boston Consulting Group (BCG) in Australia and the Nordics, with focus on financial institutions, information technology strategy and transformation. Before joining BCG, he held several executive roles in the Icelandic financial services sector, including Chief Risk Officer at Byr Savings Bank.

Björn has a BS in computer science and an MS in industrial engineering from the University of Iceland and an MBA from Melbourne Business School.

Úlfar Freyr Stefánsson, Chief Risk Officer

Úlfar was born in 1981. He was appointed Chief Risk Officer in May 2020.

Úlfar joined the Bank's Risk Management division in 2013 after having worked at Kaupthing since 2010, where his positions included head of risk management. Úlfar was Head of Portfolio Risk at the Bank from 2013 to 2015, when he took over as Head of Balance Sheet Risk.

Úlfar has a doctorate and a master's in mathematics from Georgia Institute of Technology. He also has a BSc in mathematics from the University of Iceland and is a certified securities broker.

Andrés Fjeldsted, Compliance Officer

Andrés Fjeldsted is the Compliance Officer at the Bank. Andrés had been with the Bank's Legal division since 2015. His main responsibilities have been related to asset management, senior management, and most recently he was secretary to the board of directors of the Bank. Andrés has a Master's degree in law from the University of Iceland and a BA in politics, philosophy and economics from the University of Essex.

Anna Sif Jónsdóttir, Internal Auditor

Anna Sif Jónsdóttir has been appointed by the Board of Directors of the Bank as the Bank's Internal Auditor and will start work this autumn. Anna Sif has been Kvika Bank's internal auditor since 2013. Prior to that she was chief financial officer at Reginn hf. from 2009 to 2013 and at Landic Property Iceland from 2007 to 2009. Anna was a specialist and team manager at KPMG from 2000 to 2006. Anna Sif has a BA degree from the University of Iceland and a cand. oecon from the same university. She is a certified auditor and a licensed securities broker.

There are no conflicts of interest between the duties of the members of senior management listed above to the Bank and their private interests or other duties. The address of each member of senior management is Borgartún 19, 105 Reykjavík, Iceland.

Corporate Governance

The Bank's Corporate Governance framework is based on law, the Bank's articles of association and the Guidelines on Corporate Governance issued by the Icelandic Chamber of Commerce, Nasdaq Iceland hf. and the Confederation of Icelandic Employers in accordance with the Bank's Corporate Governance Statement. The Bank is directed and controlled by this framework. By establishing rules on corporate governance, the Bank sets forth criteria of conduct in key areas, which complement statutory rules. The Bank believes that a strong governance culture enhances trust, reduces risk and increases economic benefit for the Bank and its

shareholders in the long term. The Bank continually seeks to update its corporate governance framework in response to new events, changes in statutory law and developments in domestic and international standards.

Management

The CEO is appointed by the Board. He is in charge of the day-to-day operations of the Bank and is required, in this connection, to follow the policies and instructions established by the Board of Directors. The CEO must conduct his work at all times with integrity and take into account the interests of the Bank. The CEO must ensure that Board of Directors is regularly provided with accurate information and data on the Bank's finances, development and operation to enable the Board of Directors to perform its duties. The CEO is assisted by an executive management committee, in which all nine managing directors hold a seat. The CEO is required to ensure that members of the senior management are qualified to discharge their duties and fulfil at all times applicable conditions of eligibility with respect to reputation and financial status. Furthermore, the CEO is required to give special consideration to special eligibility of members of executive management committee with respect to conflicts of interest.

Internal Audit

The Internal Auditor is appointed by the Board and reports directly to the Board. The Board sets the Internal Auditor a charter which lays out the responsibilities associated with the position and the scope of work. Internal Audit is required to provide independent and objective assurance and consulting services designed to add value and improve the Bank's operations. The scope of the audit is the Bank, its subsidiaries and pension funds serviced by the Bank.

The internal audit is governed by the audit charter, an FSA directive on the internal audit function in financial institutions and international standards on internal auditing. All internal audit work is completed by issuing an audit report with deadlines for the implementation of audit findings. Implementations are followed up by Internal Audit every quarter.

The Bank has implemented controls designed to detect, monitor and mitigate operational risks. However, these controls cannot completely eliminate such risks as some can be difficult to detect, recommendations and suggestions of surveillance units of the Bank (such as the compliance and internal audit functions) could be ignored, misunderstood or misapplied, and mitigation may fail to be effective. Failures in internal controls could subject the Bank to regulatory scrutiny and could ultimately lead to losses or impairments, as in the case of United Silicon. See "*—The Bank is exposed to credit risk and its customer loan portfolio contains certain problem and impaired loans*", "*The Bank is exposed to operational risks*" and "*The Bank must comply with anti-money laundering and anti-bribery regulations, and the violation of such regulations may have severe consequences*" in "*Risk Factors*".

Employees

During 2022, the average number of full time employees in the Group was 759 (compared to 758 in 2021).

TAXATION

Iceland

The comments below are of a general nature based on the Bank's understanding of current law and practice in Iceland. They relate only to the position of persons who are the absolute beneficial owners of Notes. They may not apply to certain classes of person such as dealers. Prospective holders of Notes who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction, should consult their professional advisers.

Furthermore, investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Prospective investors are advised to consult their tax advisers as to the consequences, under the tax law of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption.

The summary below is of a general nature based upon the law and practice of Iceland as in effect on the date of this Base Prospectus. It should not be construed as providing specific advice as to Icelandic taxation and is subject to any change in law or practice in Iceland that may take effect after such date. It relates only to the position of persons who are the absolute beneficial owners of the Notes.

Non-Icelandic Tax Residents

As a general rule, Article 3 (8) of the Income Tax Act No. 90/2003 (the **ITA**) provides that any interest received from Iceland (outbound payments), such as the interest payable under the Notes, by any person or entity residing outside of Iceland is taxable income in Iceland. According to Article 70 (8) of the ITA, the current tax rate on taxable income under Article 3 (8) is (a) 12 per cent. for individuals (only applicable to interest income exceeding the annual amount of ISK 300,000.00); and (b) 12 per cent. for legal entities.

From the general rule of Article 3 (8) of the ITA, there are certain exemptions listed in the provision, e.g. if an applicable double taxation treaty states otherwise. Also, according to Article 3 (8), cf. Article 3 (3) of Regulation no. 630/2013, the Bank is not required by Icelandic law to deduct or withhold tax from interest payments on notes or bonds that are issued by a financial institution, in its own name, registered with a securities depository in 1) a member state of the OECD, 2) a member state of the EEA, 3) a member state of The European Free Trade Association (**EFTA**), or 4) the Faroe Islands. In 2015, the ITA was amended by Amendment Act No. 107/2015 to provide for an exemption from the general rule for payments of interest on notes or bonds issued in connection with a composition agreement or by financial institutions which are subject to winding-up proceedings or a composition process. The Bank has obtained confirmation from the Directorate of Internal Revenue in Iceland (the **RSK**) that the Programme is within the scope of the exemption contained in paragraph 3 of Article 3 (8) of the ITA, although an exemption will need to be applied for in respect of each Tranche of Notes. Accordingly, the Bank will, based on this confirmation, register any Notes issued under the Programme with the RSK and request that the RSK provide a certificate confirming that the relevant Notes are exempt from such taxation.

In the absence of an applicable exemption, the Bank will be making the relevant withholding at source in accordance with the provisions of Regulation no. 630/2013, on the taxation and withholding of interest to non-Icelandic tax residents subject to limited tax liability (as based on Article 3 (8) of the ITA and Article 41 of the Act No. 45/1987 on Withholding of Public Levies at Source). Condition 7 under "*Terms and Conditions of the Notes*" provides for payment by the Bank of the necessary additional amounts in such circumstances to cover any resulting amounts deducted or withheld.

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

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

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

Icelandic Tax Residents

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

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

Subject to certain exemptions (which apply, inter alia, to most banks and pension funds), the Bank is required to withhold a 22 per cent. tax on the interest paid to the holders of Notes who are Icelandic residents, cf. Act No. 94/1996 on Withholding of Tax on Financial Income. Such withholding is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder. However, the Bank should generally not be held responsible for withholding tax on income related to bonds that have been registered as exempted with the Director of Revenue, unless the Bank has knowledge that the bonds have been acquired by an Icelandic tax resident, cf. *inter alia* explanatory notes accompanying Act No. 39/2013, amending the ITA. This exemption of the withholding obligation does not affect the tax obligations of the relevant bondholder.

FATCA DISCLOSURE

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including Iceland) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are published generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under “*Terms and Conditions of the Notes—Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the

Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

The proposed financial transactions tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a **participating EU Member State**). However, Estonia has since ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating EU Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution and at least one party is established in a participating EU Member State. A financial institution might be, or be deemed to be, "established" in a participating EU Member State in a broad range of circumstances, including: (a) by transacting with a person established in a participating EU Member State or (b) where the financial instrument that is subject to the dealings is issued in a participating EU Member State.

However, the FTT proposal remains subject to negotiation between participating EU Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States might decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT and its potential impact on the Notes.

Luxembourg Taxation

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (the **Relibi Law**) mentioned below, there is no withholding tax on payments of principal,

premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Relibi Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 20 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Accordingly, payments of interest under the Notes coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of 20 per cent.

SUBSCRIPTION AND SALE

The Dealers have, in an Amended and Restated Programme Agreement (as amended and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 16 October 2023, agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement provides that the obligations of the Dealers to subscribe for Notes are subject to certain conditions precedent, including (among others), the receipt of legal opinions from legal counsel. The Dealers are entitled in certain circumstances to be released and discharged from their obligations under the Programme Agreement (and related subscription agreement) prior to the closing of the issue of Notes, including in the event that certain conditions precedent are not delivered or met to their satisfaction on the issue date of such Notes. In this situation, the issuance of such Notes may not be completed. Investors will have no rights against the Bank or the Dealers in respect of any expense incurred or loss suffered in these circumstances.

United States

The Notes 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 Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

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

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

Prohibition of sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes 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 Notes which are the subject of the offering contemplated by the

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 Directive 2014/65/EU (as amended, **MiFID II**); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Prohibition of sales to UK Retail Investors

Unless the Final Terms in respect of any Notes 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 offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
 - (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the EUWA; or
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; 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 Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Other regulatory restrictions

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

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Bank;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Belgium

Other than in respect of Notes for which "Prohibition of Sales to Belgian Consumers" is specified as "Not Applicable" in the applicable Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a **Belgian Consumer**) and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (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.

Hong Kong

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

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

Singapore

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that this Base Prospectus has not been and will not be registered as a prospectus with the MAS. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and it will not offer or sell any Notes or cause any Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) of the SFA or Section 276(4)(c)(ii) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

Notification under Section 309B(1)(c) of the SFA – Unless otherwise stated in the applicable Final Terms in respect of any Notes, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that this Base Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes and the Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (the **FinSA**), unless under an exemption

from the duty to publish a prospectus (as provided by FinSA), and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Base Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus pursuant to the FinSA, and neither this Base Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

General

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

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

GENERAL INFORMATION

Authorisation

The update of the Programme and the issue of Notes thereunder have been duly authorised by a resolution of the Bank's Board dated 21 June 2023.

Listing and Admission to Trading of the Notes

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of MiFID II.

Application may be made to Nasdaq Iceland for Notes issued under the Programme to be admitted to trading on the Nasdaq Iceland Main Market, the regulated market of Nasdaq Iceland. The Nasdaq Iceland Main Market is a regulated market for the purposes of MiFID II.

Documents Available

This Base Prospectus will be published as of its date on the Bank's website (available at: <https://wwwv2.arionbanki.is/english/about-us/investor-relations/debt-investors/funding-programmes-and-prospectuses/#Tab1>)

In addition, for the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection on the Bank's website (available at <https://www.arionbanki.is/english>) as set out below:

- (a) the articles of association (with an English translation thereof) of the Bank (available at: <https://www.arionbanki.is/english/about-us/corporate-governance/>);
- (b) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons (available at: <https://www.arionbanki.is/english/about-us/investor-relations/debt-investors/funding-programmes-and-prospectuses/#Tab1>);
- (c) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms to this Base Prospectus and any other documents incorporated herein or therein by reference (available at: <https://wwwv2.arionbanki.is/?PageId=9b4d404e-7696-11e7-9bb3-d8d385b77fc4>);
- (d) the Green Financing Framework (available at: <https://www.arionbanki.is/english/about-us/media/news/2021/07/02/Arion-Bank-publishes-a-Green-Financing-Framework/>);
- (e) any Green Financing Report (available at: www.arionbanki.is/ir);
- (f) the second party opinion from Cicero (available at: <https://www.arionbanki.is/themes/arionbanki/arionbanki/documents/Frettir/Cicero%20SPO%20Arion%20Bank%202%20July%202021.pdf>); and
- (g) the Task Force on Climate-related Financial Disclosures (TCFD) analysis published by the Bank (available at: <https://wwwv2.arionbanki.is/library/skrar/Bankinn/Fjarfestatengsl/Skuldabref-fjarfesta/Green-bonds/TCFD%20Disclosures%20FY%202020.pdf>).

Clearing Systems

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

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg. The address of the ISD is Icelandic Securities Depository, Laugavegur 182, 105 Reykjavik, Iceland.

Conditions for determining price

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

Yield

In relation to any Tranche of Fixed Rate Notes or any Tranche of Fixed Reset Rate Notes, as applicable, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

Significant or Material Change

Since 30 June 2023, the last day of the financial period in respect of which the most recent unaudited interim financial statements of the Bank have been published there has been no significant change in the financial performance or position of the Group, nor, since 31 December 2022, the last day of the financial period in respect of which the most recent audited financial statements have been published, has there been any material adverse change in the prospects of the Bank.

Litigation

Except as disclosed in "*Description of the Bank – Legal Proceedings*" on pages 170 – 171 of this Base Prospectus, neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Post-issuance information

The Bank does not intend to provide any post-issuance information in relation to any assets underlying issues of Notes constituting derivative securities, except if required by any applicable laws and regulations.

Auditors

On 19 March 2015 Deloitte, members of The Institute of State Authorised Public Accountants in Iceland, were appointed auditors of the Bank. Deloitte has audited the Annual Financial Statements, without qualification, in accordance with International Standards on Auditing.

Deloitte does not have a material interest in the Bank.

Dealers transacting with the Bank

In the ordinary course of their business activities, the Dealers and their affiliates 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 Bank or the Banks' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

BANK

Arion Bank hf.
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105 Reykjavík
Iceland

FISCAL AGENT, PAYING AGENT, REGISTRAR AND TRANSFER AGENT

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United Kingdom

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United Kingdom

To the Bank as to Icelandic law

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101 Reykjavik
Iceland

To the Dealers as to English law

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To the Dealers as to Icelandic law

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103 Reykjavik
Iceland

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201 Kopavogur
Iceland

ARRANGER

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Federal Republic of Germany

DEALERS

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Federal Republic of Germany

Deutsche Bank Aktiengesellschaft

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Federal Republic of Germany

Goldman Sachs Bank Europe SE

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Federal Republic of Germany

J.P. Morgan SE

Taunustor 1 (TaunusTurm)
60310 Frankfurt am Main
Federal Republic of Germany

Morgan Stanley Europe SE

Grosse Gallusstrasse 18,
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Nomura Financial Products Europe GmbH

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Federal Republic of Germany

Pareto Securities AB

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Kingdom of Sweden

UBS Europe SE

Bockenheimer Landstraße 2-4
60306 Frankfurt am Main
Federal Republic of Germany

LISTING AGENT

Banque Internationale à Luxembourg, société anonyme

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L-2953 Luxembourg
Grand Duchy of Luxembourg

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