

**ARION BANK HF.**

**(incorporated with limited liability in Iceland)**

**€3,000,000,000**

**European Covered Bond (Premium) Programme**

Under this €3,000,000,000 European Covered Bond (Premium) Programme (the **Programme**), Arion Bank hf. (the **Issuer** or the **Bank**) may from time to time issue European Covered Bonds (Premium) (the **Covered Bonds**) in accordance with the Icelandic Covered Bond Act, No.11/2008 (as amended, the **Icelandic Covered Bond Act**), any relevant executive orders (Ice. stjórnvaldsákvæðanir) and appurtenant regulations as may be supplemented, amended, modified or varied from time to time (as well as any judicial decisions and administrative pronouncements, all of which are subject to change, including with retroactive effect), (together the **Covered Bonds Legislation**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Covered Bonds may be issued in bearer form (**Bearer Covered Bonds**), registered form (**Registered Covered Bonds**) or in uncertificated and dematerialised book entry form registered in the Nasdaq CSD Iceland or Verðbréfamíðstöð Íslands CSD (**CSD Covered Bonds** and the **CSD** respectively). The maximum aggregate nominal amount of all Covered Bonds 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 described herein), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** or **Manager** and together the **Dealers** or **Managers**), which appointment may be for a specific issue or on an ongoing basis. References in this base prospectus (the **Base Prospectus**) to the relevant Dealer shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Covered Bonds.

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

**See Risk Factors for a discussion of material factors to be considered in connection with an investment in the Covered Bonds.**

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 Issuer or of the quality of the Covered Bonds. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

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 Issuer. Application has been made to the Luxembourg Stock Exchange for Covered Bonds 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.

In accordance with Article 6(4) of the Luxembourg act dated 16 July 2019 on prospectuses for securities (the **Prospectus Act 2019**), by approving this Prospectus, in accordance with Article 20 of the Prospectus Regulation, the CSSF does not engage in respect of the economic or financial opportunity of the operation or the quality and solvency of the Issuer.

The Issuer has requested the CSSF to notify the Icelandic 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 Covered Bonds 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 Covered Bonds being **listed** (and all related references) shall mean that such Covered Bonds have been (i) admitted to trading on the Luxembourg Stock Exchange's regulated market and have been 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 the Markets in Financial Instruments Directive (Directive 2014/65/EU) (as amended **MiFID II**).

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which are applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds 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 Covered Bonds to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange ([www.luxse.com](http://www.luxse.com)).

In accordance with Articles 21.1, 21.2 and 21.3 of the Prospectus Regulation, this Base Prospectus will be published, in electronic form, on the website of the Luxembourg Stock Exchange ([www.luxse.com](http://www.luxse.com)), and on the Investor Relations section of the Issuer's website ([www.arionbanki.is/english](http://www.arionbanki.is/english)).

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

The Covered Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or 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 Covered Bonds*" for a description of the manner in which Covered Bonds will be issued. Registered Covered Bonds are subject to certain restrictions on transfer, see "*Subscription and Sale and Selling Restrictions*".

The Issuer has been rated BBB by S&P Global Ratings Europe Limited (**S&P**) and A3 by Moody's Investor Services Limited (**Moody's**). S&P is established in the European Economic Area (**EEA**) and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **EU 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 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 and Moody's may be used for regulatory purposes in the UK in accordance with the UK CRA Regulation. The Issuer ratings issued by Moody's have been endorsed by Moody's Deutschland GmbH (**Moody's Deutschland**) in accordance with the EU CRA Regulation and have not been withdrawn. Moody's Deutschland is established in the EEA and registered under the EU CRA Regulation. S&P 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 EU CRA Regulation.

Amounts payable on Floating Rate Covered Bonds may be calculated, *inter alia*, by reference to EURIBOR, SONIA or SOFR as specified in the relevant Final Terms. As at the date of this Base Prospectus, (i) the administrator of EURIBOR (European Money Markets Institute) is included in ESMA's register of administrators under Article 36 (the **EU Benchmarks Register**) of Regulation (EU) No. 2016/1011 (the **EU Benchmarks Regulation**) and (ii) the Federal Reserve Bank of New York (the **FRBNY**) (the administrator of SOFR) and Bank of England (the administrator of SONIA) are not included in the EU Benchmarks Register. As far as the Issuer is aware, SONIA and SOFR do not fall within the scope of the EU Benchmarks Regulation by virtue of Article 2 of each such regulation and otherwise the transitional provisions in Article 51 of the EU Benchmarks Regulation apply, such that neither administrator is currently required to obtain recognition or endorsement, or to benefit from an equivalence decision in the European Union (the **EU**) (or, in each case, if located outside the EU, recognition, endorsement or to benefit from an equivalence decision).

The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds.

Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the Final Terms and be provided by Moody's and/or any other rating agency as disclosed in the Final Terms from time to time. 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.

**This Base Prospectus is valid for 12 months from its date. The end date of the validity of this Base Prospectus is 14 December 2024. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply once this Base Prospectus is no longer valid.**

**Arranger  
Barclays**

**Dealers  
Barclays  
Deutsche Bank  
UBS Investment Bank  
Arion Bank hf.**

**The date of this Base Prospectus is 14 December 2023.**

## IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus (with any relevant Final Terms, the **Prospectus**), for the purposes of Article 8 of the Prospectus Regulation. When used in this Base Prospectus, Prospectus Regulation means Regulation (EU) 2017/1129.

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

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Covered Bonds are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Copies of the Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below) and copies of the Final Terms relating to Covered Bonds which are admitted to trading on the regulated market of the Luxembourg Stock Exchange will be filed with the CSSF and also be published on the website of the Luxembourg Stock Exchange, <https://www.luxse.com/>.

Certain information under the heading "Book-Entry Clearance Systems" has been extracted from information provided by the clearing systems referred to therein. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant clearing systems, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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

Other than in relation to the 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 (other than the Issuer) 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 (other than the Issuer) as to the accuracy or completeness of the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer (other than the Issuer) accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

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

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

investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Covered Bonds. Investors should review, *inter alia*, the documents deemed incorporated herein by reference when deciding whether or not to purchase any Covered Bonds.

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

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

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

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

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

## **MIFID II PRODUCT GOVERNANCE/TARGET MARKET**

The Final Terms in respect of any Covered Bonds will include a legend entitled "*MiFID II product governance*" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) MiFID II is responsible for

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

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

### **UK MiFIR PRODUCT GOVERNANCE / TARGET MARKET**

The Final Terms in respect of any Covered Bonds may include a legend entitled "*UK MiFIR product governance*" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate. Any person subsequently offering, selling or recommending the Covered Bonds (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 Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

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

This Base Prospectus has been prepared on the basis that any Covered Bonds with a minimum denomination of less than €100,000 (or equivalent in another currency) will (i) only be admitted to trading on an EEA regulated market (as defined in MiFID II), or a specific segment of an EEA regulated market, to which only qualified investors (as defined in the Prospectus Regulation) can have access (in which case they shall not be offered or sold to non-qualified investors) or (ii) only be offered to the public in an EEA Member State pursuant to an exemption under Article 1(4) of the Prospectus Regulation. Furthermore, this Base Prospectus has been prepared on the basis that any Covered Bonds with a minimum denomination of less than €100,000 (or equivalent in another currency) will, with respect to the United Kingdom only, be offered to the public pursuant to an exemption under section 86 of the FSMA.

### **IMPORTANT – EEA RETAIL INVESTORS**

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

### **IMPORTANT – UK RETAIL INVESTORS**

**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or

otherwise made available to any retail investor in the 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 the domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (as amended, the **EUWA**); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, 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 the domestic law of the UK 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 the domestic law of the UK by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of the domestic law of the UK by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

### **PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)**

In connection with Section 309B of the Securities and Futures Act 2001 (Chapter 289) 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 Covered Bonds 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**

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

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

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

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

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

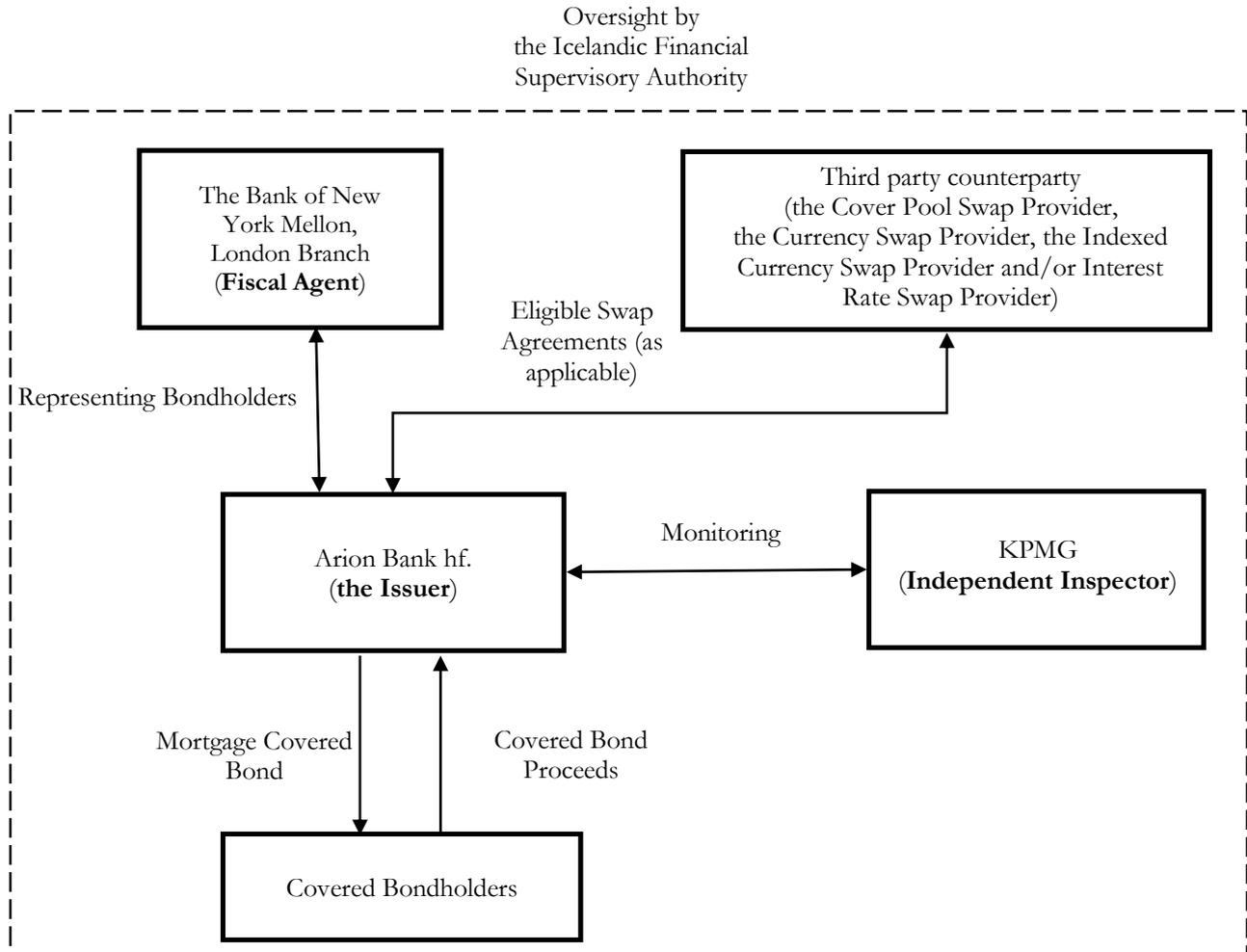
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## OVERVIEW OF THE PROGRAMME

*The following is a brief overview only and should be read in conjunction with the rest of this Base Prospectus and, in relation to any Covered Bond, in conjunction with the applicable Final Terms and, to the extent applicable, the Terms and Conditions of the Covered Bonds set out herein. Any decision to invest in the Covered Bonds should be based on a consideration of the Base Prospectus as a whole, including the documents incorporated by reference.*

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



Words and expressions defined in "Form of the Covered Bonds" and "Terms and Conditions of the Covered Bonds" below shall have the same meanings in this overview. A glossary of certain defined terms is contained at the end of this Base Prospectus.

**Description:** €3,000,000,000 European Covered Bond (Premium) Programme

## 1. THE PARTIES

**Legal Entity Identifier (LEI):** RIL4VBPDB0M7Z3KXSF19

**Issuer:** Arion Bank hf. (**Arion**), a leading universal Icelandic bank, whose business includes mortgage lending in Iceland.

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

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

**Dealers:** Barclays, UBS Europe SE (**UBS Investment Bank**), Deutsche Bank Aktiengesellschaft (**Deutsche Bank**), Arion and any other Dealers appointed in accordance with the Programme Agreement.

**Independent Inspector** (*Sjálfstæður skoðunarmaður*): The Issuer is required to appoint an independent inspector, and this appointment must be approved by the Icelandic FSA. The Independent Inspector will monitor the Register in accordance with the Icelandic Covered Bond Act and the Rules and verify that the valuation of collateral for debt instruments in the cover pool is based on the prescribed methodology. The independent inspector shall semi-annually provide the Icelandic FSA with a written report regarding his or her observations, and shall as soon as possible inform the Icelandic FSA of any circumstances he or she becomes aware of, that could affect the Icelandic FSA's assessment of the Issuer. The initial independent inspector has been appointed pursuant to an agreement with KPMG ehf. (**KPMG**).

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

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

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

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

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

**Fiscal Agent and Transfer Agent:** The Bank of New York Mellon, London Branch.

**Listing Agent :** Matheson LLP

**Registrar:** Bank of New York Mellon SA/NV Luxembourg Branch

**CSD Agent:** Arion Bank hf.

## 2. KEY FEATURES

**FSA Licensing:** The Issuer is required to hold a licence from the Icelandic FSA to conduct financing business as a commercial bank as well as a licence to issue Covered Bonds in accordance with the Icelandic Covered Bond Act.

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

**Status of the Covered Bonds:** The Covered Bonds and any related Receipts and Coupons constitute direct, unilateral, unconditional and unsubordinated

obligations of the Issuer to pay the Final Redemption Amount and rank pari passu among themselves and with all other outstanding unsubordinated obligations of the Issuer that have been provided equivalent priority of claim to Covered Bonds issued in accordance with the terms of the Icelandic Covered Bond Act.

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

**The Register:**

The rights of priority that covered bondholders and swap providers have with respect to the Covered Bonds arise from a registration being made in a register kept by the Issuer, containing details of the Covered Bonds and the assets in the cover pool.

**Certain Restrictions:**

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

**Composition of the Cover Pool:**

The Cover Pool will consist primarily of loans which are secured on interests in residential property, industrial, office or commercial property, agricultural property, claims which the Issuer holds, or may acquire, against providers of Covered Bond swaps and certain substitute assets. The assets comprising the Cover Pool will comply with requirements set out in the Icelandic Covered Bond Act. See "*Overview of the Icelandic Legislation Regarding Covered Bonds – Eligible Cover Pool Assets*" below.

**Liquidity buffer:**

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

**Relevant Reference Currency Swaps**

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

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

**Asset Coverage Test:**

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

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

**Establishment of Issuer Accounts**

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

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

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

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

Where a Series of Covered Bonds have a rating ascribed pursuant to the relevant Final Terms, the Issuer makes certain covenants with respect to operation of the Collateral Reserve Account and the Asset Coverage Test and the establishment of Issuer Accounts in the Deed of Covenant for the benefit of Covered Bondholders.

In respect of the covenants made by the Issuer with respect to a Relevant Reference Currency Swap Agreement and the establishment and maintenance of the Issuer Accounts described further in "*Overview of Transaction Documents – Deed of Covenant – Relevant Reference Currency Swaps*" and "*Overview of Transaction Documents – Deed of Covenant – Establishment of Issuer Accounts*" respectively, the undertakings of the Issuer may be contingent on its ratings falling below certain trigger levels. As such, no Currency Swap or Issuer Account shall, as of the date of this Base Prospectus, be required to be entered into or opened by Issuer (as applicable).

The only consequence of any failure of the Issuer to comply with the obligations with respect to a rated Series of Covered Bonds set out in *Overview of Transaction Documents – Deed of Covenant – Relevant Reference Currency Swaps*" and *"Overview of Transaction Documents – Deed of Covenant – Establishment of Issuer Accounts"* shall be that the Issuer shall not be able to issue further Covered Bonds whilst such failure is continuing. Irrespective of the Issuer's compliance with such covenants with respect to a rated Series of Covered Bonds, the Issuer will be able to continue issuing Covered Bonds denominated in ISK.

The Issuer has entered into similar covenants with respect to S&P Legacy Covered Bonds which shall only apply whilst such S&P Legacy Covered Bonds remain outstanding. See *"Overview of Transaction Documents – S&P Deed of Covenant"* below.

- Programme Size:** Up to €3,000,000,000 (or its equivalent in other currencies) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
- Distribution:** Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
- Currencies:** Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer including but not limited to U.S. Dollars, Euro, Sterling, Japanese Yen, Danish Krone, Norwegian Krone and Icelandic Krona.
- Form of Covered Bonds:** The Covered Bonds will be issued either (i) in bearer form, (ii) in registered form or (iii) in the case of CSD Covered Bonds, in uncertificated and dematerialised book entry form registered in the CSD.
- CSD Covered Bonds will not be evidenced by any physical note or document of title. Entitlements to CSD Covered Bonds will be evidenced by registration in the registers between the direct and indirect accountholders at the CSD.
- Terms of the Covered Bonds:** The terms of the Covered Bonds will be set out in the Terms and Conditions of the Covered Bonds, as completed by the applicable Final Terms.
- Redenomination:** Subject to any applicable legal or regulatory restrictions, the applicable Final Terms may provide that certain Covered Bonds may be redenominated in euro. The relevant provisions applicable to such redenomination are contained in Condition 5 of the Terms and Conditions of the Covered Bonds.

- Maturities:** Such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Currencies.
- Issue Price:** Covered Bonds may be issued on a fully-paid and at an issue price which is at par or at a discount to, or premium over, par.
- Interest:** The following types of Covered Bond may be issued: (a) Covered Bonds which bear interest at a fixed rate or a floating rate; (b) Covered Bonds which do not bear interest; and (c) Covered Bonds which bear interest, and/or the redemption amount of which is, calculated by reference to a specified factor such as movements in an index or a currency exchange rate, changes in share or commodity prices or changes in the credit of an underlying entity. In addition, Covered Bonds which have any combination of the foregoing features may also be issued.
- Interest periods, rates of interest and the terms of and/or amounts payable on redemption may differ depending on the Covered Bonds being issued and such terms will be specified in the applicable Final Terms.
- Fixed Rate Covered Bonds:** Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
- Floating Rate Covered Bonds:** Floating Rate Covered Bonds will bear interest at a rate determined:
- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating either the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. (**ISDA**), and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series) or the latest version of the 2021 ISDA Interest Derivatives Definition (as published by ISDA at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series) as specified in the applicable Final Terms; or
  - (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
  - (c) on such other basis as may be agreed between the Issuer and the relevant Dealer.

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

**Inflation Linked Non-Amortising Covered Bonds:**

Inflation Linked Non-Amortising Covered Bonds will bear interest adjusted for inflation and payable on such date or dates as may be agreed with the Issuer. Inflation Linked Non-Amortising Covered Bonds will be redeemed by payment of one or more amounts adjusted for inflation in accordance with the provisions set out in Condition 8.4, constituting payments of principal in relation to such Inflation Linked Non-Amortising Covered Bonds.

**Inflation Linked Covered Bonds:**

Inflation Linked Covered Bonds will bear interest which will be payable on such date or dates as may be agreed with the Issuer. Inflation Linked Covered Bonds will be redeemed by payment of one or more amounts, adjusted for indexation in accordance with the provisions set out in Conditions 6.4 and 8.3, on such date or dates as may be agreed between the Issuer and the relevant Dealer.

**Other provisions in relation to Floating Rate Covered Bonds, Inflation Linked Covered Bonds and Inflation Linked Non-Amortising Covered Bonds:**

Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate or both or a maximum interest amount. Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on the relevant Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Inflation Linked Covered Bonds and Inflation Linked Non-Amortising Covered Bonds may have variable interest amounts and principal amounts. Interest on Inflation Linked Covered Bonds and Inflation Linked Non-Amortising Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on the relevant Interest Payment Dates. The interest payable will be calculated in accordance with the formula set out in Condition 6.4 for Inflation Linked Covered Bonds, and Condition 6.5 for Inflation Linked Non-Amortising Covered Bonds.

**Zero Coupon Covered Bonds:**

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

**Instalment Covered Bonds:**

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

**Redemption:**

The applicable Final Terms will indicate either that the relevant Covered Bonds cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons) or that such Covered Bonds will be

redeemable at the option of the Issuer and/or the Covered Bondholders. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms.

The applicable Final Terms may provide that Covered Bonds are redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

**Benchmark Discontinuation:** In the case of Floating Rate Covered Bonds (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 6.3 (*Benchmark Discontinuation*).

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

**Taxation:** All payments in respect of the Covered Bonds will be made without deduction for or on account of withholding taxes imposed by any relevant tax jurisdiction. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances detailed in Condition 9 of the Terms and Conditions of the Covered Bonds, be required to pay additional amounts to cover the amounts so deducted.

<b>Following insolvency of the Issuer:</b>	In the event of insolvency of the Issuer, the Covered Bonds of each Series will not become due and payable according to the Icelandic Covered Bond Act. The winding up committee shall continue to fulfil the Issuer's commitments from the cover pool of assets. The Covered Bondholders will have priority recourse to the assets in the Cover Pool (junior to costs incurred in connection with the operation, management, collection and realisation of the Cover Pool, and claims due to derivative agreements concluded in accordance with the provisions of the Icelandic Covered Bond Act), and rights to proceed directly against, amongst others, the Issuer.
<b>Use of Proceeds:</b>	The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes, which include making a profit. If, in respect of any particular issue of Covered Bonds there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.
<b>Rating:</b>	Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the Final Terms and be provided by Moody's and any other rating agency as disclosed in the Final Terms from time to time. Moody's is established in the European Union and is registered under the EU CRA Regulation. As such Moody's is included in the list of credit rating agencies published by the ESMA on its website (at <a href="http://www.esma.europa.eu/page/List-registered-and-certified-CRAs">http://www.esma.europa.eu/page/List-registered-and-certified-CRAs</a> ) in accordance with the EU CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
<b>Clearing Systems:</b>	The Covered Bonds issued under the Programme will be cleared through Euroclear, Clearstream, Luxembourg or the CSD, and/or any other clearing system as may be specified in the relevant Final Terms.
<b>Approval, Listing and Admission to Trading:</b>	<p>Application has been made to the CSSF to approve this document as a base prospectus. Application has also been made to the Luxembourg Stock Exchange for Covered Bonds 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.</p> <p>The Bank has requested the CSSF to notify the Financial Supervisory Authority of the Central Bank of Iceland, as competent authority under the Prospectus Regulation in Iceland, of its approval of the Base Prospectus pursuant to Article 25 of the Prospectus Regulation.</p> <p>Application may be made to Nasdaq Iceland for Covered Bonds issued under the Programme to be admitted to trading on the Nasdaq Iceland Main Market, the regulated market of Nasdaq Iceland.</p>

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

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

**Passporting:**

Once this Base Prospectus has been approved by the CSSF in Luxembourg, it can be passported into Iceland and thereafter used for the admission to trading of the Covered Bonds in Iceland.

**Governing Law:**

The Covered Bonds (other than the CSD Covered Bonds) and any non-contractual obligations arising out of or in connection with them, will be governed by, and construed in accordance with, English law, except for provisions relating to the Condition 3 (*Status of the Covered Bonds*). Condition 3 of the Covered Bonds and the CSD Covered Bonds will be governed by Icelandic law.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Covered Bonds in the UK, United States, Japan, Hong Kong, Singapore and the EEA (including the Republic of Italy, Iceland and Belgium) and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds. See "*Subscription and Sale and Selling Restrictions*" below.

**Risk Factors:**

There are certain factors that may affect the Issuer's ability to fulfil its obligations under Covered Bonds issued under the Programme, including the exposure of the Issuer to credit risk, market risk, operational risk and liquidity risk. In addition, there are certain factors which are material for the purpose of assessing the risks associated with Covered Bonds issued under the Programme such as the fact that the Covered Bonds may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Covered Bonds and certain market risks.

## STABILISATION

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

## RISK FACTORS

*In purchasing Covered Bonds, investors assume the risk that the Bank may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. 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 Covered Bonds. 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 Covered Bonds.*

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

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

### **Risks relating to the 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: GDP growth in 2022 was 7.2 per cent. (source: Statistics Iceland). 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 and in September it 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 will not fall below 3% 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 another 0.25 per cent. to 1.25 per cent. in August 2021, by a further 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, by 1.25 per cent to 8.75 per cent in May 2023, and by a further 0.5 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 tension between China and Taiwan and between China and the United States), 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 Covered Bonds.

***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 Covered Bonds.

***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 and Funding 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 30 September 2023, as compared to over 90 per cent. as of 31 December 2009). See "Risk Management – Liquidity and Funding 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 its multicurrency EUR 3,000,000,000 medium term euro note programme (the **EMTN Programme**) that are denominated, among others in, euro,

Norwegian krone (**NOK** or **Norwegian Krone**) and U.S. dollars, as well as Covered Bonds issued under the Programme, 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 Covered Bonds.

***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 Covered Bonds.

***The Bank is exposed to credit risk and its customer loan portfolio contains certain problems 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 Covered Bonds.

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 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 Financial Statements. 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 Covered Bonds.

***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 Icelandic 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 Covered Bonds.

### ***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 Icelandic 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's implementation and entry into force in January 2022, implementing a cap of 15 per cent of own funds, the Bank is subject to this requirement.

No assurance can be given that 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 Covered Bonds.

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 Covered Bonds.

### ***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 Covered Bonds.

***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 Covered Bonds.

***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 Covered Bonds.

***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 Covered Bonds.

***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 Covered Bonds.

***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 Covered Bonds.

***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 Covered Bonds.

***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 Stefir 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 problems and impaired loans*" and "*Management and Employees*" and "*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 Covered Bonds.

### ***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 "*Public sentiment and political activity in Iceland could impair the Bank's operations*");
- failure, or allegations of having failed, to maintain appropriate standards of customer privacy, customer service and record keeping and disclosure of confidential information (see "*Risk Factors – 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 "*Risk Factors – The Bank is involved in a number of ongoing legal proceedings and is subject to investigations by governmental authorities*" and "*Risk Factors – 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 "*Risk Factors – 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*" and "*Risk Factors – 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*");
- 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% 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 Covered Bonds.

***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 Covered Bonds.

***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 Covered Bonds. 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 Icelandic 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 Stefmir 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 Stefmir 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 Stefmir. The entry into new products and services with potentially higher margins could also subject the Bank and Stefmir 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 of MiFID II and Regulation (600/2014) on Markets in Financial Instruments (**MiFIR**), 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 the 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 Covered Bonds.

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 Covered Bonds.

***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 Q3 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 Covered Bonds.

### ***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 Icelandic FSA and those of Icelandic banks, which may have limited the ability of the Icelandic 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 Icelandic FSA and revision and expansion of the regulatory framework surrounding the banking industry, there can be no assurance that the Icelandic 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 Icelandic 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 Icelandic 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 Icelandic 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 Icelandic FSA and the Bank, at times the Icelandic 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 Icelandic 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 Covered Bonds.

***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 Agreement on the European Economic Area (**EEA**) which entered into force on 1 January 1994 and was incorporated into Icelandic legislation with Act No. 2/1993 on European Economic Area (Icelandic: *Lög um Evrópska efnahagssvæðið*) (the **EEA Agreement**), 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 Covered Bonds.

***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 Covered Bonds. In October 2019 the Financial Action Task Force (the **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 Issuer's operation and/or reputation.

***Application of CRD IV (and the CRD V Directive ) 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 Covered Bonds, 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 were required to adopt the measures necessary to comply with the CRD V Directive by 28 December 2020 and these measures were to be applied by Member States from 29 December 2020, although certain provisions were 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 was incorporated into the EEA agreement by EEA Joint Committee Decision No. 145/2022 and was implemented into Icelandic law on 15 June 2022 by Act No. 38/2022.

*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 Covered Bonds*

Under Directive 2014/59/EU providing for the establishment of a EU/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 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. The BRRD was fully implemented in Iceland on 24 May 2020 by legislation which entered into force on 1 September 2020.

Although the "bail-in" powers are not intended to apply to secured debt (such as the rights of Covered Bondholders in respect of the Cover Pool), there remains significant uncertainty regarding the ultimate nature and scope of these powers and how they would affect the Bank and the Covered Bondholders. Accordingly, it is not yet possible to assess the full impact of the BRRD on the Bank and on Covered Bondholders, and there can be no assurance that, once it is implemented, the manner in which it is implemented or the taking of any actions by the relevant resolution authority currently contemplated in the BRRD would not adversely affect the rights of Covered Bondholders, the price or value of an investment in the Covered Bonds and/or the Issuer's ability to satisfy its obligations under the Covered Bonds.

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

The exercise of any bail-in power or any suggestion of such exercise could, therefore, adversely affect the value of the Covered Bonds. Relevant claims for the purposes of the bail-in tool would include the claims of holders in respect of any Covered Bonds issued under the Programme if and only to the extent that the Covered Bond liability exceeded the value of the Cover Pool against which it is secured.

## **Risks Relating to the Covered Bonds**

*Judgments entered against Icelandic entities in the courts of a state which is not a party to the Lugano Convention (including, as at the date of this Base Prospectus, the 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).

### ***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 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 Covered Bonds.

### ***Ratings of the Covered Bonds***

The ratings assigned to the Covered Bonds address, *inter alia*:

- the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date; and
- the likelihood of ultimate payment of principal in relation to Covered Bonds on (a) the Final Maturity Date thereof, or (b) if the Relevant Series of Covered Bonds (as defined below) are subject to an Extended Final Maturity Date, such Extended Final Maturity Date.

The expected ratings of the Covered Bonds are set out in the relevant Final Terms for each Relevant Series of Covered Bonds. Any rating agency may lower its ratings or withdraw its rating if, in the sole judgement of the rating agency, the credit quality of the Covered Bonds has declined or is in question. In addition, at any time any rating agency may revise its relevant rating methodology with the result that, amongst other things, any rating assigned to the Covered Bonds may be lowered. If any rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension or withdrawal (or, as noted above, revision) at any time. A credit rating may not reflect the potential impact of all of the risks related to the structure, market, additional factors discussed above and other factors that may affect the value of the Covered Bonds.

### ***No events of default***

The Terms and Conditions of the Covered Bonds do not include any events of default relating to the Issuer, the occurrence of which would entitle Covered Bondholders to accelerate the Covered Bonds, and Covered

Bondholders will only be paid the scheduled interest payments under the Covered Bonds as and when they fall due under the Terms and Conditions of the Covered Bonds.

### ***Conflicting interests of other creditors***

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

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

### ***Covered Bonds are obligations of the Issuer only***

The Covered Bonds will constitute obligations of the Issuer only which have the benefit of a statutory preference under the Icelandic Covered Bond Act on the Cover Pool maintained by the Issuer. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Issuer. The Covered Bonds are not guaranteed by any other person. In addition, an investment in the Covered Bonds involves the risk that subsequent changes in the actual or perceived creditworthiness of the Issuer may adversely affect the market value of the relevant Covered Bonds. There can be no assurance that the Cover Pool will be sufficient to pay in full the amounts payable under the Covered Bonds.

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

The conditions of the Covered Bonds contain provisions for calling meetings (including by way of conference call or by use of a videoconference platform) of Covered Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who did not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the majority. As a result, Covered Bondholders can be bound by the result of a vote they voted against. Certain significant modifications may be made following approval of a quorum of one or more persons holding or representing not less than two-thirds in aggregate nominal amount of the Covered Bonds for the time being outstanding, including modifying the date of maturity of the Covered Bonds 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 Covered Bonds or altering the currency of payment of the Covered Bonds.

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

- (a) any modification to any Series of Covered Bonds, the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the Receipts, the Coupons, the Agency Agreement, the Deed of Covenant or any other document that has been entered into by the Issuer in relation to the Programme which (i) the Issuer in its sole discretion determines is not prejudicial to the

interests of the Covered Bondholders and (ii) will not cause a downgrade in the ratings of the Covered Bonds; or

- (b) any modification to any Series of Covered Bonds, the terms and conditions applying to Covered Bonds of one or more Series (including these Terms and Conditions), the Receipts, the Coupons, the Agency Agreement, the Deed of Covenant or any other document that has been entered into by the Issuer in relation to the Programme which, in the opinion of the Issuer, is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law or to comply with the provisions of Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160 as implemented into Icelandic law and/or to comply with the provisions of the Icelandic Covered Bond Act.

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

Any such modification shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Covered Bondholders in accordance with Condition 14 as soon as practicable thereafter. The Issuer, in its capacity as CSD Agent, may in certain circumstances, without the consent of the holders of the CSD Covered Bonds, make decisions binding on all holders relating to the Conditions which are not in its opinion, materially prejudicial to the interests of the holders of the CSD Covered Bonds or are required to comply with the provisions of Directive (EU) 2019/2162 and/or Regulation (EU) 2019/2160 as implemented into Icelandic law and/or to comply with the provisions of the Icelandic Covered Bond Act. The Issuer shall consider the interest of the holders of CSD Covered Bonds while making such decisions.

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

Further, such modifications may include (but shall not necessarily be limited to) the modifying of extension provisions and/or triggers under the relevant Conditions. Covered Bondholders should therefore be aware, for instance, that the Conditions may be amended without their consent in accordance with Condition 15 (*Meetings of Covered Bondholders, Modification and Waiver*) and any provisions governing maturity extension of the Covered Bonds may be substantially different following such modification.

Investors should also note that the Deed of Covenant may be modified, which may mean substituting a Rating Agency or modifying the Relevant Reference Currency Swap regime, without their consent.

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

***The value of the Covered Bonds could be adversely affected by a change in law or administrative practice***

The Covered Bonds (except for Condition 3 and CSD Covered Bonds), the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the aforementioned, are governed by, and shall be construed in accordance with, English law. Condition 3 and the CSD Covered Bonds are governed by, and shall be construed in accordance with, Icelandic law. No assurance can be given as to the impact of any possible judicial decision or change to English law or Icelandic law or administrative practice after the date of

this Base Prospectus and any such change could materially adversely impact the value of any Covered Bonds affected by it.

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

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

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

***Covered Bonds issued under the Programme***

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

**Risks relating to the regulation of the covered bond regime**

***Change of law and establishment of case law***

The Terms and Conditions of the Covered Bonds (the **Conditions**) are governed by English law and, in respect of Condition 3, Icelandic law, in each case as in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, Icelandic law and/or administrative practice after the date of this Base Prospectus.

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

***Maintenance of the Register***

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

Icelandic Covered Bond Act does not stipulate to what extent it is necessary to register a security in respect of the other assets in the Cover Pool.

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

### ***Liquidity***

If the Issuer is wound up neither the Issuer nor its estate would be allowed to issue further Covered Bonds. It would therefore not be possible for a winding up committee to raise finance in the market by the issuance of further Covered Bonds following the winding up of the Issuer. Further, neither the Icelandic Covered Bond Act nor the Rules stipulate that the winding up committee or the Issuer's estate may contract debt obligations of any kind in order to service the timely payment under the terms of the Covered Bonds. There is no legislation in place that states that the winding up committee managing the Issuer's estate can raise loans or enter into any such agreements in order to service the timely payment of interest and principal on the Covered Bonds. Article 17(1) of the Icelandic Covered Bond Act states that the winding up committee shall fulfil an issuer's commitments under the covered bonds and derivative agreements using the mortgage bonds and other assets in the cover pool and payments received on such assets, provided that the assets are listed in the Register. However, neither the Icelandic Covered Bond Act nor the Rules on Covered Bonds include guidelines as to whether liquidity could be raised by selling the Mortgage Bonds and other assets registered to the Cover Pool in the market.

The Issuer is also subject to liquidity requirements in its capacity as a commercial bank supervised by the Icelandic FSA, including a statutory requirement to maintain sufficient liquidity to enable it to discharge its obligations as they fall due. The Icelandic FSA has issued guidelines on liquidity, which are not binding on the Issuer. However, any serious or systematic deviations from such guidelines may lead to the Icelandic FSA determining that the Issuer's business does not satisfy the statutory soundness requirement for commercial banks and result in the Icelandic FSA imposing sanctions against the Issuer.

Under the Icelandic Covered Bond Act, the Issuer must maintain a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow on the Covered Bonds and related derivative contracts over the next 180 days. Pursuant to the Rules on Covered Bonds, the liquidity buffer can only consist of (i) assets that qualify as level 1, level 2A or level 2B assets pursuant to Regulation (EU) No 2015/61, as amended (the **LCR Regulation**) and are not issued by the Issuer, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary or another subsidiary of its parent undertaking or by a securitisation special purpose entity with which the Issuer has close links, or (ii) short-term exposures to credit institutions that qualify for credit quality step 1 or 2, credit step 3, subject to the conditions in point (c) of Article 129(1) of Regulation (EU) No 575/2013 (as amended), as further set out in Article 16 of the Covered Bond Directive. The Icelandic Covered Bond Act also specifically states that uncollateralised claims from exposures considered in default pursuant to Article 178 of the CRR cannot contribute to the cover pool liquidity buffer. Furthermore, the relevant credit institution is required to maintain liquid assets exceeding projected net liquidity outflows over a period of 30 days under stressed conditions under the LCR Regulation.

### **Risks relating to the Portfolio**

#### ***Non-compliance with matching rules***

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

Bondholders and derivative agreements can be met. See "*Overview of the Icelandic Legislation Regarding Covered Bonds – Coverage Requirements*" below for further details.

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

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

The explanatory memorandum for the Icelandic Covered Bond Act states that assets can be removed from the cover pool and replaced with same kind of assets without limitations. If assets are replaced with substitute collateral there are limitations in the law on how much can be replaced with such collateral. This can, however, be subject to contract.

### ***No Specified Overcollateralisation***

The Icelandic Covered Bond Act requires the value of the assets in the cover pool to at all times exceed the value of the claims on the cover pool. The Icelandic Covered Bond Act requires a minimum overcollateralisation of 5 per cent. and the Bank intends to overcollateralise the Cover Pool at all times by at least 5 per cent. of the aggregate value of the principal amount outstanding of the Covered Bonds. Failure to maintain sufficient assets in the Cover Pool could result in the Bank being unable to issue further Covered Bonds or revocation of the license from the Icelandic FSA to issue Covered Bonds. Overcollateralisation is limited to 30 per cent. of the aggregate value of the principal amount outstanding of the Covered Bonds in accordance with the Icelandic FSA's requirements for a Covered Bond licence.

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

The Cover Pool consists of loans which may be secured on interests in residential property, industrial, office or commercial property, and agricultural property, claims which the Issuer holds, or may acquire, against providers of any Covered Bond swaps, any amounts standing to the credit of any Collateral Reserve Account, and certain substitute assets. All assets in the Cover Pool (including any derivative agreement) must comply with the terms of the Icelandic Covered Bond Act and Rules. See "*Overview of the Icelandic Legislation Regarding Covered Bonds – Eligible Cover Pool Assets*" below for a description of the assets that can constitute the Cover Pool. At the date of this Base Prospectus, all of the properties over which mortgages are created are in Iceland. The value of the Cover Pool may therefore decline in the event of a general downturn in the value of property in Iceland, either due to the effects of the COVID-19 pandemic or otherwise, which could adversely affect the Issuer's results of operations, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds. In order for the Covered Bonds to be issued with the "Premium" label under the Covered Bond Directive, the assets in the Cover Pool must (and are expected to) comply with the CRR.

### ***Geographic Concentration Risks***

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

The ability of borrowers to make payments on the mortgage loans may also be affected by factors which do not necessarily affect property values, such as adverse economic conditions generally in particular geographic

areas or industries, or affecting particular segments of the borrowing community (such as borrowers relying on commission income and self-employed borrowers). Such occurrences may accordingly affect the actual rates of delinquencies and losses with respect to the mortgage loans in the cover pool.

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

### ***Appraisals***

In accordance with the Icelandic Covered Bond Act, appraisals or valuation of the properties securing the mortgage loans may be undertaken by the Issuer, and takes account of the following: (a) The selling price of similar properties in recent transactions; or (b) an independent appraisal conducted with a customary and recognised approach e.g. based on the rateable value of the property, made by the Housing and Construction Authority.

Such appraisal undertaken by the Issuer will be verified by the independent inspector as being based on an accepted methodology.

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

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

### ***Limited Description of the Cover Pool***

Save as contemplated by each Final Terms, holders of the Covered Bonds will not receive detailed statistics or information in relation to the assets contained or to be contained in the Bank's cover pool, as it is expected that the constitution of the cover pool may change from time to time due to, for example, the purchase or origination of further residential mortgages by the Bank. Although an independent inspector appointed under the Icelandic Covered Bond Act will monitor the Bank's compliance with the requirements of the Icelandic Covered Bond Act, the report of such inspector is not publicly available. Audit of the Cover Pool

Other than any interim financial statements or annual audited financial statements incorporated by reference in this Base Prospectus, the Bank does not publish any separate reviews or audits of the cover pool. However, in accordance with the requirements of the Icelandic Covered Bond Act and the Icelandic FSA licence the Bank is monitored by an independent inspector appointed by the Icelandic FSA who monitors that the register is maintained in a correct manner. Furthermore, none of the Arranger and any Dealer have conducted any audit of the Cover Pool.

### ***Factors that may affect the realisable value of the Cover Pool***

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

- default by Borrowers in payment of amounts due on their Mortgage Bonds;

- changes to the lending criteria of the Issuer (the **Lending Criteria**);
- no representations or warranties being given by the Issuer;
- although intended to be mitigated by overcollateralisation, set-off risks in relation to some types of Mortgage Bonds in the Cover Pool; and
- possible regulatory changes by regulatory authorities in Iceland.

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

### ***Default by Borrowers in paying amounts due on their Mortgage Bonds***

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

The Icelandic Covered Bond Act provides that no Mortgage Bond may be registered in the Cover Pool if payment on it is in arrears of 90 days or more.

### ***Changes to the Lending Criteria of the Issuer***

Each of the Mortgage Bonds originated by the Issuer will have been originated in accordance with its Lending Criteria at the time of origination. It is expected that the Issuer's Lending Criteria will generally consider type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicants and credit history. The Issuer retains the right to revise its Lending Criteria from time to time but would do so only to the extent that such a change would be acceptable to a Reasonable, Prudent Mortgage Lender. If the Lending Criteria change in a manner that affects the creditworthiness of the Mortgage Bonds, that may lead to increased defaults by Borrowers and may affect the Cover Pool Revenue or the realisable value of the Cover Pool.

In accordance with the Icelandic Covered Bond Act the Issuer may only include in the Cover Pool Mortgage Bonds issued against Mortgages secured by real property if the loan-to-value (**LTV**) ratio does not exceed 80% for residential property, 60% for industrial, office or commercial property, and 70% for agricultural property. Moreover, as noted above, Mortgage Bonds in arrears for 90 days or more may not be registered in the Cover Pool.

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

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

The exercise of set-off rights by Borrowers may adversely affect the realisable value of the Cover Pool and/or the ability of the winding up committee to meet in full the Issuer's obligation under the Covered Bond. In order to mitigate this risk the Issuer currently intends that it shall include additional assets in the Cover Pool up to a value that is at least equal to the set-off risk as calculated periodically as may be required or agreed from time to time with the Rating Agencies.

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

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

**Risks related to changes to Programme structure and Transaction Documents**

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

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

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

Assets included in the Cover Pool such as mortgage bonds are and will generally be subject to amortisation of principal and payment of interest on a monthly basis. They are also subject to early repayment of principal at any time in whole or part by the relevant borrowers. Early repayments of principal on mortgages may result in the Issuer being required to include Additional Assets in the Cover Pool in order for the Issuer to comply with the aforementioned requirements under the Deed of Covenant. The ICBA also requires a minimum overcollateralisation of 5 per cent., although does not require that the value of such assets exceeds the value of such claims by any specific amount. If the Issuer does not originate or acquire new mortgage loans to replace the assets which were included in the Cover Pool but which were repaid, it is possible that the Bank will not satisfy the requirements with respect to the Asset Coverage Test in accordance with the Deed of Covenant and also the statutory requirements of the ICBA.

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

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

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

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

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

Investors should note that the Issuer's covenants with respect to operation of the Collateral Reserve Account, the Asset Coverage Test and the establishment of Issuer Accounts under the Deed of Covenant for the benefit of Covered Bondholders are only applicable in the circumstances set out under "*Overview of Transaction Documents – Deed of Covenant – Obligations of the Issuer*". Investors should also note that the Issuer's covenants with respect to S&P Legacy Covered Bonds set out in the Deed of Covenant shall only apply whilst such S&P Legacy Covered Bonds remain outstanding. See "*Overview of Transaction Documents – S&P Deed of Covenant*"

" below

***Security and insolvency considerations***

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

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

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

Subject to any applicable legal or regulatory restrictions being lifted, the Issuer may issue Covered Bonds with principal or interest payable in respect of the Covered Bonds being 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 Issuer may issue Covered Bonds with principal or interest payable in one or more currencies which may be different from the currency in which the Covered Bonds are denominated. Potential investors should be aware that:

- (a) the market price of such Covered Bonds may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

- (f) 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
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

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

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

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

***Inverse Floating Rate Covered Bonds will have more volatile market values than conventional Floating Rate Covered Bonds***

Inverse Floating Rate Covered Bonds have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as EURIBOR. The market values of those Covered Bonds typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Covered Bonds are more volatile because an increase in the reference rate not only decreases the interest rate of the Covered Bonds, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Covered Bonds.

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

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

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

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for 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.

### ***Extendable obligations under the Covered Bonds***

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

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

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

The Issuer is required (pursuant to the Icelandic Covered Bond Act) to promptly inform the Covered Bondholders of the deferral of the maturity of the Covered Bonds and the duration of such deferral. Further, under Condition 8.1 (*Redemption at maturity*) the Issuer shall promptly inform the Covered Bondholders of a Maturity Extension Approval.

With respect to paragraph (a)(ii) above, the objective of the Act referred to therein (as set out in Article 1 of such Act) is to preserve financial stability and minimise the adverse effects of financial shocks by protecting insured deposits and investors, client assets and the continuity of the undertaking's critical functions and minimising the risk of distribution of funds from the National Treasury of Iceland.

To the extent that the Issuer has sufficient moneys available to pay in part the relevant Final Redemption Amount in respect of the relevant Series of Covered Bonds following the deferral of the Maturity Date as described above, the Issuer shall make partial payment of the relevant Final Redemption Amount as described in Condition 7.10. Payment of all unpaid amounts shall, following the deferral of the Maturity Date as described above, be deferred automatically until the applicable Extended Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date.

The Issuer is not required to notify the Covered Bondholders of such automatic deferral. The Extended Final Maturity Date and the applicable interest rate will be specified in the relevant Final Terms. Interest will continue to accrue on any unpaid amount and be payable on each Interest Payment Date falling after the Maturity Date up to (and including) the Extended Final Maturity Date. In these circumstances, failure by the Issuer to make payment in respect of the Final Redemption Amount on the Maturity Date shall not constitute a default in payment by the Issuer provided a Maturity Extension Approval has been granted by the Icelandic FSA. However, failure by the Issuer to pay the Final Redemption Amount or the balance thereof on the

Extended Final Maturity Date and/or interest on such amount on any Interest Payment Date falling after the Maturity Date up to (and including) the Extended Final Maturity Date shall constitute a default in payment by the Issuer.

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

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

### **Risks relating to reliance on Counterparties**

#### ***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 Covered Bonds.

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 Covered Bonds.

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

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

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

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

A brief description of certain risks relating to the Swaps is set out below. As of the date of this Base Prospectus, the Issuer has not entered into any Swaps in connection with this programme and any issuances thereunder.

### ***Reliance on Currency Swaps***

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

### ***Relevant Reference Currency Swaps***

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

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

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

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

#### *Reliance on Interest Rate Swaps*

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

#### *Reliance on Indexed Currency Swaps*

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

#### *Reliance on Cover Pool Swap*

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

### *Termination payments for Swaps*

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

### *Potential amendments to the swap agreements*

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

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

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

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

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

### **Macroeconomic and Market Risk**

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

#### ***Credit risks relating to the Issuer's collateral***

Given that the Issuer's loans are granted with mortgages on residential real estate as collateral, the credit risk is driven in part by performance of the real estate and housing market in Iceland. There can be no assurance regarding the future development of the value of this collateral, either as a result of the effects of the COVID-19 pandemic or otherwise. Should the prices of real property and the housing market substantially decline,

this could adversely affect the Issuer's results of operations, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds.

There are many circumstances that affect the level of credit loss, including early repayments, withdrawals and final payments of interest and principal amounts, such as changes in the economic climate, both nationally and internationally, changes regarding taxation, interest rate developments, inflation and political changes. Borrowers may default as a result of interest rate increases or as a result in changes in their own personal circumstances (e.g. following redundancy or divorce).

Default in respect of the Issuer's assets that comprise the Cover Pool could jeopardise the Issuer's ability to make payments in full or on a timely basis on the Covered Bonds. If a material amount of assets in the Cover Pool were to default, there is no guarantee that the required level of assets within the Cover Pool could be maintained or that the Issuer would be able to substitute non-defaulting assets for the defaulting assets. Any such failure could adversely affect the Issuer's results of operations, financial condition and business prospects and its ability to perform its obligations under the Covered Bonds.

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

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

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

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

Generally weak global credit market conditions could contribute to a lack of liquidity in the secondary market for instruments similar to the Covered Bond. In addition, the difficult market conditions which have prevailed since mid-September 2008 have limited the primary market for a number of financial products including instruments similar to the Covered Bonds. While some measures have been taken by governments, there can be no assurance that the market for securities similar to the Covered Bonds will recover at the same time or to the same degree as such other recovering global credit market sectors.

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

The Issuer will pay principal and interest on the Covered Bonds in the Specified Currency. Subject to currency restrictions in place at each time, if Covered Bonds are issued in currencies other than ISK, this presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's

Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Covered Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds and (3) the Investor's Currency-equivalent market value of the Covered Bonds.

Icelandic government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Covered Bonds. The Icelandic Central Bank for instance has permanent powers in respect of the regulation of exchange controls. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Exchange rate risk may be mitigated by the overcollateralisation of the Cover Pool, use of Currency Swaps and/or by matching interest rate flow with the maturity of loan and other assets of the Issuer.

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

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

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

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

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

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

The EU Benchmarks Regulation and/or the UK Benchmarks Regulation, as applicable, could have a material impact on any Covered Bonds linked to or referencing a benchmark in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the 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 relevant benchmark.

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.

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, amongst other things, that continuing to reference EURIBOR in relevant contracts (without robust fallback provisions) may increase the risk to the euro area financial system. On 11 May 2021, the euro risk-free rate working group published its recommendations on EURIBOR fallback trigger events and fallback rates.

Such factors may have (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 Covered Bonds linked to, referencing or otherwise dependent (in whole or in part) upon, a benchmark.

### ***Fallback arrangements***

Investors should be aware that in the case of Floating Rate Covered Bonds, the Conditions of the Covered Bonds provide for certain fallback arrangements in the event that a published Benchmark, including an inter-bank offered rate such as EURIBOR, 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 Covered Bonds, may also be made without the consent or approval of holders of the relevant Floating Rate Covered Bonds or Fixed Reset Covered Bonds, 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 Covered Bonds 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 may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Covered Bonds based on the rate which was last observed on the Relevant Screen Page or the initial Rate of Interest applicable to such Covered Bonds 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.

If EURIBOR or any other relevant interest rate benchmark is discontinued there can be no assurance that the applicable fallback provisions under the Swap Agreements would operate to allow the transactions under the Swap Agreements to effectively mitigate interest rate risk in respect of the Covered Bonds.

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

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 Covered Bonds linked to or referencing a "benchmarks".

### ***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 Covered Bond specifies that the interest rate for such Floating Rate Covered Bond will be determined by reference to SONIA or SOFR (**SONIA-Linked Covered Bonds** and **SOFR-Linked Covered Bonds**, 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 Covered Bonds). 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 Covered Bonds and SOFR-Linked Covered Bonds 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 Covered Bonds or SOFR-Linked Covered Bonds, respectively, may bear little or no relation to the historical actual or historical indicative data.

Prospective investors in any Floating Rate Covered Bonds 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 Covered Bonds for which Compounded Daily SONIA or Compounded Daily SOFR, respectively, is specified as being applicable in the applicable Final Terms. In addition, the methodology for determining any overnight rate index by reference to which the Rate of Interest in respect of certain Floating Covered Bonds may be calculated could change during the life of any Floating Rate Covered Bonds. Furthermore, the Bank may in the future issue Floating Rate Covered Bonds 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 6.2(b)(iii) and 6.2(b)(iv), 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 Covered Bonds 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 Covered Bonds referencing Compounded Daily SONIA or Compounded Daily SOFR.

Since SONIA and SOFR are relatively new market reference rates, Floating Rate Covered Bonds 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 Covered Bonds 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 Covered Bonds referencing Compounded Daily SONIA or Compounded Daily SOFR may not be able to sell such Covered Bonds at all or may not be able to sell such Covered Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. 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 Covered Bonds. 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 Covered Bonds referencing Compounded Daily SONIA or Compounded Daily SOFR, respectively, and the trading prices of such Covered Bonds.

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

***Any failure of SONIA or SOFR to gain market acceptance could adversely affect SONIA-Linked Covered Bonds or SOFR-Linked Covered Bonds***

According to the Alternative Reference Rates Committee, convened by the Board of Governors of the FRBNY, 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 Covered Bonds which reference Compounded Daily SOFR or Compounded Daily SONIA and the price at which investors can sell such Covered Bonds 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 Covered Bonds and SOFR-Linked Covered Bonds***

The Rate of Interest on Floating Rate Covered Bonds 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 6.2(b)(iii)) or SOFR Observation Period (as defined in Condition 6.2(b)(iv)) and immediately prior to the relevant Interest Payment Date. It may be difficult for investors in any such Floating Rate Covered Bonds to estimate reliably the amount of interest which will be payable on such Floating Rate Covered Bonds on each Interest Payment Date, and some investors may be unable or unwilling to trade such Floating Rate Covered Bonds without changes to their information technology systems, both of which factors could adversely impact the liquidity of such Floating Rate Covered Bonds. Further, if Floating Rate Covered Bonds referencing Compounded Daily SONIA or Compounded Daily SOFR become due and payable for any reason, 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 Covered Bonds shall only be determined by reference to a shortened period ending immediately prior to the date on which the Floating Rate Covered Bonds 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 Covered Bonds 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 Covered Bonds or SONIA-Linked Covered Bonds, as applicable.

***The interest rate on SONIA-Linked Covered Bonds and SOFR-Linked Covered Bonds 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 Covered Bonds 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 Covered Bonds 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 Covered Bonds 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 Covered Bonds or SOFR-Linked Covered Bonds.

***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 Covered Bonds or SOFR-Linked Covered Bonds, 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 Covered Bonds or SOFR-Linked Covered Bonds 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 Covered Bonds or SOFR-Linked Covered Bonds, respectively, will apply, as further described in Conditions 6.2(b)(iii) and 6.2(b)(iv), 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 Covered Bonds or SOFR-Linked Covered Bonds, 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 Covered Bonds or SOFR-Linked Covered Bonds, which may adversely affect the trading prices of such Covered Bonds. If the rate at which interest accrues on any SONIA-Linked Covered Bonds or SOFR-Linked Covered Bonds for any Interest Period declines to zero or becomes negative, no interest will be payable on such Covered Bonds 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 Covered Bonds or SOFR-Linked Covered Bonds 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 Covered Bonds 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 Covered Bonds 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 Covered Bonds referencing Compounded Daily SONIA or Compounded Daily SOFR where Index Determination is applicable and the trading prices of such Covered Bonds. 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.

### **Legal and Regulatory Risk Factors**

Set out below is a brief description of certain legal and regulatory risks relating to Covered Bonds.

#### ***Legal risks***

The Issuer's business operations are governed by law and regulations and are subject to authority supervision. Any changes to the current legislation might affect the Issuer's business operations and its operating results. Furthermore, competition and other factors might also affect the Issuer's business. The Icelandic Covered Bond Act No. 11/2008 provides that the Icelandic FSA may issue rules providing for the types of assets in a Cover Pool, methods for appraisal of collateral of bonds, terms and conditions for derivative agreements and conditions for the calculation of risk and interest payments. The Icelandic FSA has issued such rules, i.e. Rules No. 190/2023 on Covered Bonds that concern, among other things, the conditions for being granted a licence to issue Covered Bonds, appraisal and revaluation of the assets in the cover pool, matching rules, derivative agreements, the covered bond register and the eligibility and reporting of the independent inspector and reporting to the Icelandic FSA (the **Rules**). Effective 1 January 2020, Rules may be issued by the Central Bank, cf. article 25 of the Icelandic Covered Bond Act, as amended. Any changes to the Icelandic Covered Bond Act and/or the Rules as well as other current legislation might affect the legal and regulatory risks relating to the Covered Bonds.

The Icelandic Covered Bond Act entered into force on 4 March 2008 but was amended and restated on 27 February 2023; only three licences to issue covered bonds have to date been granted under the Act, and there are limited precedents on how its provisions will be interpreted or applied by Icelandic courts or administrative authorities. The preparatory works to the Act are limited and the system of Covered Bonds secured by the Cover Pool lacks any clear analogues in Icelandic law that would allow for robust arguments in respect of the Icelandic Covered Bond Act, the Covered Bonds or the Cover Pool based on analogy from such analogues.

## ***Regulatory initiatives and reforms may have an adverse impact on the regulatory treatment of the Covered Bonds***

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

In particular, it should be noted that the Basel Committee on Banking Supervision (**BCBS**) has approved a series of significant changes to the Basel regulatory capital and liquidity framework (such changes being referred to by the BCBS as **Basel III**). Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). BCBS member countries agreed to implement the initial phase of the Basel III reforms from 1 January 2013 and the second phase from 1 January 2022, subject to transitional and phase-in arrangements for certain requirements. As implementation of Basel III requires national legislation, the final rules and the timetable for its implementation in each jurisdiction, as well as the treatment of covered bonds, may be subject to some level of national variation. It should also be noted that changes to regulatory capital requirements have been made for insurance and reinsurance undertakings through participating jurisdiction initiatives, such as the Solvency II framework in Europe. Prospective investors should therefore make themselves aware of the requirements described above (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

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

In addition, it should be noted that the new Covered Bond Directive provides for permanent grandfathering with respect to certain requirements of the new regime for article 52(4) UCITS Directive-compliant covered bonds issued before 8 July 2022 and includes an option for the EU Member States to allow tap issues with respect to grandfathered covered bonds (for up to 24 months after 8 July 2022), provided such tap issues comply with certain prescribed requirements. Prospective investors should therefore make themselves aware of the changes (and any corresponding national implementing measures) in addition to any other applicable regulatory requirements with respect to their investment in the Covered Bonds. Finally, from the perspective of the UK-regulated credit institutions and investment firms, it should be noted that, following the expiry of the temporary post-Brexit transitional relief, preferential regulatory capital treatment is only available to covered bonds issued by a credit institution which has its registered office in the UK and eligibility as third

country covered bond exposures for the purposes of the UK liquidity coverage ratio requirements will be subject to meeting the equivalence requirements. Therefore, prospective investors, if this is applicable to them, should make themselves aware of these changes with respect to their investment in the Covered Bonds.

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

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

In general, European regulated investors are restricted under the EU 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 EU 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 EU 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 EU CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

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

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

## ISSUE OF COVERED BONDS FROM THE PROGRAMME

Under the Programme, and subject to currency restrictions in place at each time, the Issuer may from time to time issue Covered Bonds denominated in any currency, subject as set out herein. An overview of the terms and conditions of the Programme and the Covered Bonds appears above. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer prior to the issue of the Covered Bonds and will be set out in the Terms and Conditions of the Covered Bonds endorsed on, attached to, or incorporated by reference into, the Covered Bonds, as completed by the applicable Final Terms attached to, or endorsed on, such Covered Bonds (except in the case of CSD Covered Bonds), and (in the case of the CSD Covered Bonds) which are deposited with the CSD and the CSD Agent as more fully described under "*Form of the Covered Bonds*" below.

This Base Prospectus and any supplement to the Base Prospectus will only be valid for the admission to trading of Covered Bonds on the regulated market of the Luxembourg Stock Exchange during the period of 12 months from the date of the approval of this Base Prospectus in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Covered Bonds previously or simultaneously issued under the Programme, does not exceed €3,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

- (a) the euro equivalent Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Covered Bonds, described under "*Form of the Covered Bonds*", below) shall be determined, at the discretion of the Issuer, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding day on which commercial banks and foreign exchange markets are open for general business in London, in each case on the basis of the spot rate for the sale of the euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Issuer on the relevant day of calculation;
- (b) subject to any existing legal or regulatory restrictions in Iceland, the euro equivalent of Inflation Linked Covered Bonds and Inflation Linked Non-Amortising Covered Bonds (each as specified in the applicable Final Terms in relation to the relevant Covered Bonds, described under "*Form of the Covered Bonds*", below) shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Covered Bonds; and
- (c) the euro equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the relevant Covered Bonds, described under "*Form of the Covered Bonds*", below) and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Issuer for the relevant issue.

## 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 auditors' reports and audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2022 (available via <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 31 December 2021 (available via <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2021/Arion%20Bank%20Consolidated%20Financial%20Statements%202021.pdf>) including the information set out at the following pages in particular:

	<b>2022 Consolidated Financial Statements</b>	<b>2021 Consolidated Financial Statements</b>
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

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Delegated Regulation;

- (b) the interim unaudited consolidated financial statements of the Issuer for the nine month period ended 30 September 2023 (the **Q3 2023 Interim Financial Statements**) (available via <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2023/Arion%20Bank%20Condensed%20Consolidated%20Financial%20Statements%2030%20September%202023.pdf>) including the information set out at the following pages in particular:

Consolidated Interim Income Statement .....	Page 7
Consolidated Interim Statement of Comprehensive Income .....	Page 8
Consolidated Interim Statement of Financial Position .....	Page 9

Consolidated Interim Statement of Changes in Equity.....	Pages 10 to 11
Consolidated Interim Statement of Cash Flows .....	Page 12
Notes to Condensed Consolidated Interim Financial Statements .....	Pages 13 to 71

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Delegated Regulation;

- (c) In October 2023 the Bank published the "Factbook (Unaudited) 30 September 2023" (the **Q3 2023 Factbook**) (available via <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2023/Q3%202023%20Factbook.pdf>).

The following information contained in the Q3 2023 Factbook, and set out at the pages below, is incorporated by reference in, and forms part of, this Base Prospectus:

KFI – 5 years.....	Page 2
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Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Delegated Regulation;

A copy of each of the Q3 2023 Interim Financial Statements and the Q3 2023 Factbook has been filed with the *Commission de Surveillance du Secteur Financier*.

- (d) the terms and conditions of the Covered Bonds set out on pages 70 to 102 (inclusive) of the Base Prospectus dated 9 February 2012 and prepared by the Issuer in connection with the Programme (available via [https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion\\_Covered\\_Bond\\_Programme.pdf](https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion_Covered_Bond_Programme.pdf));
- (e) the terms and conditions of the Covered Bonds set out on pages 64 to 100 (inclusive) of the Base Prospectus dated 23 August 2013 and prepared by the Issuer in connection with the Programme (available via <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20Covered%20Bond%20Programme%202013%20August.pdf>);
- (f) the terms and conditions of the Covered Bonds set out on pages 65 to 101 (inclusive) of the Base Prospectus dated 5 December 2014 and prepared by the Issuer in connection with the Programme (available via <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20Covered%20Bond%20Programme%202014.pdf>);
- (g) the terms and conditions of the Covered Bonds set out on pages 66 to 101 (inclusive) of the Base Prospectus dated 18 December 2015 and prepared by the Issuer in connection with the Programme (available via <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20Covered%20Bond%20Programme%202015.pdf>);
- (h) the terms and conditions of the Covered Bonds set out on pages 73 to 108 (inclusive) of the Base Prospectus dated 23 December 2016 and prepared by the Issuer in connection with the Programme

(available via <https://www2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20Covered%20Bond%20Programme%202016.PDF>);

- (i) the terms and conditions of the Covered Bonds set out on pages 84 to 119 (inclusive) of the Base Prospectus dated 5 January 2018 and prepared by the Issuer in connection with the Programme (available via <https://www2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20Covered%20Bond%20Programme%202018.pdf>);
- (j) the terms and conditions of the Covered Bonds set out on pages 94 to 134 (inclusive) of the Base Prospectus dated 8 January 2019 and prepared by the Issuer in connection with the Programme (available via <https://www2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20Covered%20Bond%20Programme%202019.pdf>);
- (k) the terms and conditions of the Covered Bonds set out on pages 87 to 126 (inclusive) of the Base Prospectus dated 9 January 2020 and prepared by the Issuer in connection with the Programme (available via <https://www2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20Covered%20Bond%20Programme%202020.pdf>);
- (l) the terms and conditions of the Covered Bonds set out on pages 94 to 133 (inclusive) of the Base Prospectus dated 16 July 2021 and prepared by the Issuer in connection with the Programme (available via [https://www2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20CB%20Base%20Prospectus%2016%20July%202021%20-%20Copy%20\(1\).pdf](https://www2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20CB%20Base%20Prospectus%2016%20July%202021%20-%20Copy%20(1).pdf)); and
- (m) the terms and conditions of the Covered Bonds set out on pages 101 to 153 (inclusive) of the Base Prospectus dated 12 October 2022 and prepared by the Issuer in connection with the Programme (available via <https://www2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Debt-Investors/Legislative-Covered-Bonds/Programme-Documents/Arion%20CB%202022%20Update%20-%20Base%20Prospectus%20-%20Final.pdf>).

The non-incorporated parts of the documents referred to herein which, for the avoidance of doubt, means any parts not included 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 to the Base Prospectus may be prepared by the Issuer 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.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus. In each case, where only certain sections of a document referred to (in item (c) above) are incorporated by reference in this Base Prospectus, the parts of the document which are not incorporated by reference are either not relevant to prospective investors in the Covered Bonds or covered elsewhere in this Base Prospectus.

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

Bonds, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Covered Bonds.

## 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 2021 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 nine months ended 30 September 2023 has, unless otherwise stated, been derived from the Bank's reviewed condensed consolidated interim financial statements for the nine months ended 30 September 2023 incorporated by reference in this Base Prospectus (the **Q3 2023 Interim Financial Statements**). The Q3 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.

The Annual Financial Statements have been audited 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 Q2 2022 Interim Financial Statements.

The Group adopted IFRS 17 Insurance contracts as of 1 January 2023 for the operation of the Bank's insurance subsidiary Vörður. As a result, the Group has restated relevant comparative figures of the Consolidated Interim Income Statement for the period 1 January to 30 September 2022 and the Consolidated Statement of financial position as of 1 January 2022, see Note 3 in the condensed consolidated interim financial statements for the nine months ended 30 September 2023 for further details. Key financial indicators for 2022 have not been restated.

### *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.

A new organisational structure for the Bank was introduced and came into effect at the end of September 2019. The number of divisions was reduced and responsibility for various other tasks redistributed with the aim of simplifying the Bank's organisational structure. Following this reorganisation, the Bank has the following operating segments: (1) Retail Banking; (2) Corporate & Investment Banking; (3) Markets; (4) Treasury; (5) Vörður tryggingar hf. (Vörður); and (6) Subsidiaries. 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's non-IFRS measures comprise return on equity excluding Valitor, cost-to-income ratio excluding Valitor and loan-to-deposit ratio excluding covered bonds (collectively, the Non-IFRS Information).

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 Covered Bonds*" or any 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.

### **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 );
- application of the Covered Bond Directive (as implemented into Icelandic law) and any related legislation;
- restriction, suspension or termination of relationships with key card scheme operators;

- failure of the Markets division to sustain or increase its level of assets under management and pressure on fee margins;
- incurrence of unforeseen liabilities from prior and future acquisitions and disposals; and
- inadequate insurance coverage.

Should one or more of these risks or uncertainties materialise or should any of the assumptions underlying the above or other factors prove to be incorrect, the 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.

## FORM OF THE COVERED BONDS

The Covered Bonds of each Series will be either (i) in bearer form, with or without interest coupons attached, or (ii) in registered form, without interest coupons attached, or (iii) in uncertificated book entry form cleared through the CSD. Bearer Covered Bonds and CSD Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Covered Bonds will be issued outside the United States in reliance on the exemption from registration provided by Regulation S.

### **Bearer Covered Bonds**

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

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

Bearer Covered Bonds will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**).

Covered Bonds 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.

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

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

On and after the date (the **Exchange Date**) which is 40 days after the Temporary Bearer Global Covered Bond is issued, interests in such Temporary Bearer Global Covered Bond will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Covered Bonds of the same Series or (b) for definitive Bearer Covered Bonds of the same Series with, where applicable, receipts, interest

coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Covered Bonds, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Covered Bonds. The holder of a Temporary Bearer Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Covered Bond for an interest in a Permanent Bearer Global Covered Bond or for definitive Bearer Covered Bonds is improperly withheld or refused.

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

The applicable Final Terms will specify that a Permanent Bearer Global Covered Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Covered Bonds with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice given at any time from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) to the Fiscal Agent as described therein or (b) only upon the occurrence of an Exchange Event or (c) at any time at the request of the Issuer.

For these purposes, **Exchange Event** means that (a) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available or (b) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bearer Covered Bonds represented by the Permanent Bearer Global Covered Bond in definitive form. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or the common depositary or the common safekeeper for Euroclear and Clearstream, Luxembourg, as the case may be, on their behalf (acting on the instructions of any holder of an interest in such Permanent Bearer Global Covered Bond) may give notice to the Fiscal Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (b), the Issuer may also give notice to the Fiscal Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Fiscal Agent.

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

"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 Covered Bonds, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Bearer Covered Bonds, receipts or interest coupons.

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

## Registered Covered Bonds

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

Registered Global Covered Bonds will be deposited with a common depository or, if the Registered Global Covered Bonds 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 Covered Bonds will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Covered Bonds in fully registered form.

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

Payments of principal, interest and any other amount in respect of the Registered Global Covered Bonds will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.5 (*Payments in respect of Registered Covered Bonds*)) as the registered holder of the Registered Global Covered Bonds. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Covered Bonds in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.5 (*Payments in respect of Registered Covered Bonds*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Covered Bonds will be exchangeable (free of charge), in whole but not in part, for definitive Registered Covered Bonds without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) the 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 (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Covered Bonds represented by the Registered Global Covered Bond in definitive form. The Issuer will promptly give notice to Covered Bondholders in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Covered Bond) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

## Transfer of Interests

Interests in a Registered Global Covered Bonds may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Covered Bonds. No beneficial owner of an interest in a Registered Global Covered Bond will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. Registered Covered Bonds are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Selling Restrictions*".

### *CSD Covered Bonds*

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

Settlement of sale and purchase transactions in respect of CSD Covered Bonds in the CSD will take place in accordance with the market practice at the time of the transaction.

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

## General

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

For so long as any of the Covered Bonds (other than a CSD Covered Bonds) is represented by a Global Covered Bond held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and its agents as the holder of such nominal amount of such Covered Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Covered Bonds, for which purpose the bearer of the relevant Global Covered Bond shall be treated by the Issuer and its agents as the holder of such nominal amount of such Covered Bonds

in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholders** and **holder of Covered Bonds** and related expressions shall be construed accordingly.

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

The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event a new Base Prospectus or a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bond.

## FORM OF FINAL TERMS

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

**PROHIBITION OF SALES TO UK RETAIL INVESTORS** – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of the domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (as amended, the **EUWA**); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, 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 the domestic law of the UK 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 the domestic law of the UK by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of the domestic law of the UK by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Covered Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

**MIFID II product governance / 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 Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]<sup>1</sup> Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

**[UK MIFIR product governance / 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 Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*] Any person subsequently offering, selling or recommending the Covered Bonds (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA

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<sup>1</sup> 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 Covered Bonds are incompatible with the needs, characteristics and objectives of clients which are [details to be inserted]."

Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

**[NOTIFICATION UNDER SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT 2001 (2020 REVISED ADDITION) OF SINGAPORE** – In connection with Section 309B of the Securities and Futures Act 2001 (2020 Revised Addition) 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 Covered Bonds 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).]<sup>2</sup>

## **FINAL TERMS**

[Date]

### **ARION BANK HF**

**Legal Entity Identifier (LEI): RIL4VBPDB0M7Z3KXSF19**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]  
under the [€3,000,000,000]  
European Covered Bond (Premium) Programme**

### **PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 14 December 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. This document constitutes the Final Terms of the Covered Bonds 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 and the Final Terms are available for viewing at Borgartúni 19, 105 Reykjavík, Iceland and on the Luxembourg Stock Exchange's website at <https://www.luxse.com/> and from the registered office of the Issuer and from the specified office of the Agent in London.

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under an 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 9 February 2012, 23 August 2013, 5 December 2014, 18 December 2015, 23 December 2016, 5 January 2018, 8 January 2019, 9 January 2020, 16 July 2021 and 12 October 2022 which are incorporated by reference in the Base Prospectus dated 14 December 2023. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus dated 14 December 2023 [and the supplement to it dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation, including the Conditions incorporated by reference in the Base Prospectus, in order to obtain all the relevant information. Copies of such Base Prospectus and Final Terms are available for viewing at Borgartúni 19, 105 Reykjavík, Iceland and on the Luxembourg Stock Exchange's website at <https://www.luxse.com/> and copies may be obtained from the registered office of the Issuer and from the specified office of the Agent in London.]

<sup>2</sup> Legend to be included on front of the Final Terms if the Covered Bonds sold into Singapore do not constitute prescribed capital markets products as defined under the CMP Regulations 2018.

1. (a) Series Number: [●]
- (b) Tranche Number: [●]
- (c) Series which Covered Bonds will be consolidated and form a single Series with: [●]/[Not Applicable]
- (d) Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above: [●]/[Issue Date]/[Not Applicable]
- (e) Trade Date: [●]
2. Specified Currency or Currencies: [●]
3. Aggregate Nominal Amount:
- (a) Tranche: [●]
- (b) Series: [●]
4. Issue Price: [●]% of the Aggregate Nominal Amount [plus accrued interest from [●]]
5. (a) Specified Denominations: [●]
- (N.B. Covered Bonds 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 Covered Bonds in definitive form will be issued with a denomination above €[199,000].")*
- (b) Calculation Amount [●]
6. (a) Issue Date: [●]
- (b) Interest Rate: [Fixed Rate/ Floating Rate/ Zero Coupon/ Inflation Linked]
- (c) Interest Commencement Date: [●]/[Issue Date]/[Not Applicable]
7. Maturity Date: [●]/[Interest Payment Date falling in or nearest to [●]]

8. Extended Final Maturity Date: /[Interest Payment Date falling in or nearest to ]/[Not Applicable]
- (If not applicable, delete the remaining sections of this subparagraph)*
- Subject to Condition 8.1, the Extended Maturity Date is *[specify date or Interest Payment Date falling in or nearest to the relevant month and year]*
- [If applicable, complete relevant sections regarding interest, etc]*
9. Interest Basis: % Fixed Rate]  
[EURIBOR/Compounded Daily SONIA/Compounded Daily SOFR] +/- % Floating Rate]  
Zero Coupon]  
[See paragraphs [16/17/18/19/20] below]
10. Redemption/Payment Basis: [Subject to any purchase or cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at [100] per cent. of their nominal amount.]/[Inflation linked redemption in accordance with item 16 below, and Conditions 6.3 and 8.3]/[Inflation linked redemption in accordance with Condition 8.4]
11. Change of Interest Basis: [In accordance with paragraph [17]/[18] below]/[Not applicable]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[Not Applicable]
13. [Date of [Board] approval for issuance of Covered Bonds obtained:]  [and , respectively]
14. Method of distribution: [Syndicated/Non-syndicated]
15. Name and address of the Calculation Agent

**PROVISIONS RELATING TO INFLATION LINKED COVERED BONDS**

16. [Inflation Linked Covered Bond Provisions]  [Applicable /Not Applicable]
- (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 Final Maturity Date

- (c) Number of Interest payments in a year:
- (d) Total number of annuity payments on the relevant Covered Bonds:
- (e) Base Index: , being the value of the CPI on
- (f) Day Count Fraction: [30/360 or Actual/360 or Actual/Actual (ICMA)]

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

- 17. **Fixed Rate Covered Bond Provisions** [Applicable/Not Applicable]
  - (a) Rate(s) of Interest: % 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 or the Extended Final Maturity Date, as applicable]
  - (c) Fixed Coupon Amount[(s)]:  per Calculation Amount  
*(Applicable to Covered Bonds in definitive form.)*
  - (d) Broken Amount(s):  per Calculation Amount, payable on the Interest Payment Date falling [in/on] /[Not Applicable]  
*(Applicable to Covered Bonds in definitive form.)*
  - (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA)]
  - (f) Determination Date(s):  in each year / [Not Applicable]
- 18. **Floating Rate Covered Bond Provisions** [Applicable/Not Applicable]
  - (a) Specified Period(s)/Specified Interest Payment Dates:
  - (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
  - (c) Additional Business Centre(s): [[]/Not Applicable]
  - (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
  - (e) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent):
  - (f) Screen Rate Determination: [Applicable/ Not Applicable]

- Reference Rate: [●]  
Reference Rate: [●] month [EURIBOR/ Compounded Daily SONIA/Compounded Daily SOFR]
- Interest Determination Date(s): [●]  
*(The second day on which the T2 is open prior to the start of each Interest Period if EURIBOR, the day falling "p" London Banking Days prior to the last day of the relevant Interest Period if Compounded Daily SONIA, and the day falling "p" U.S. Government Securities Business Days prior to the last day of the relevant Interest Period if Compounded Daily SOFR)*
- 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)*
- Observation Method: [Not Applicable/Lag/Shift]<sup>3</sup>
- Observation Look-Back Period: [\_\_][London Banking/U.S. Government Securities Business] Day[s]<sup>4</sup>  
*(NB: If the Reference Rate is Compounded Daily SONIA or Compounded Daily SOFR a minimum of 5 London Banking Days or a minimum of 5 U.S. Government Securities Business Days (as applicable) should be specified unless otherwise agreed with the Fiscal Agent or the Calculation Agent, as applicable.)*
- Index Determination: [Applicable/Not Applicable]
- 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)*
- (g) ISDA Determination: [Applicable/ Not Applicable]
- ISDA Definitions: [2006 ISDA Definitions]/[2021 ISDA Definitions]

<sup>3</sup> Only relevant for Floating Rate Covered Bonds which specify the Reference Rate as being "Compounded Daily SONIA" and Index Determination is not applicable.

<sup>4</sup> Only relevant for Floating Rate Covered Bonds which specify the Reference Rate as being "Compounded Daily SONIA" or "Compounded Daily SOFR" and Index Determination is not applicable.

*(If "2021 ISDA Definitions" is selected below, note that "Administrator/Benchmark Event", "Generic Fallbacks" and "Calculation Agent Alternative Rate Determination" are not workable in a covered bonds context. Amendments will therefore need to be made to the Conditions which will require a PR drawdown prospectus for the issue)*

– Floating Rate Option: [     ]

*(If "2021 ISDA Definitions" is selected, ensure this is a Floating Rate Option included in the Floating Rate Matrix (as defined in the 2021 ISDA Definitions))*

– Designated Maturity: [     ]/[Not Applicable]

*(A Designated Maturity period is not relevant where the relevant Floating Rate Option is a risk-free rate)*

– Reset Date: [     ]

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

– Compounding: [Applicable/Not Applicable]

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

– Compounding Method: [Compounding with Lookback

Lookback: [[   ] Applicable Business Days]/[As specified in the Compounding/Averaging Matrix (as defined in the 2021 ISDA Definitions)]]

[Compounding with Observation Period Shift

Observation Period Shift: [[   ] Observation Period Shift Business Days]/[As specified in the Compounding/Averaging Matrix (as defined in the 2021 ISDA Definitions)]

Observation Period Shift Additional Business Days: [   ]/[Not Applicable]]

[Compounding with Lockout

Lockout: [[   ] Lockout Period Business Days]/[As specified in the Compounding/Averaging Matrix (as defined in the 2021 ISDA Definitions)]

Lockout Period Business Days: [   ]/[Applicable Business Days]]

- Averaging:  Applicable/Not Applicable  
*(If not applicable, delete the remaining items of this subparagraph)*
- Averaging Method: Averaging with Lookback  
  
Lookback:  Applicable Business Days/[As specified in the Compounding/Averaging Matrix (as defined in the 2021 ISDA Definitions)]  
  
[Averaging with Observation Period Shift  
  
Observation Period Shift:  Observation Period Shift Business Days/[As specified in the Compounding/Averaging Matrix (as defined in the 2021 ISDA Definitions)]  
  
Observation Period Shift Additional Business Days: /[Not Applicable]  
  
[Averaging with Lockout  
  
Lockout:  Lockout Period Business Days/[As specified in the Compounding/Averaging Matrix (as defined in the 2021 ISDA Definitions)]  
  
Lockout Period Business Days: /[Applicable Business Days]]
- Index provisions:  Applicable/Not Applicable  
*(If not applicable, delete the remaining items of this subparagraph)*
- Index Method: Compounded Index Method with Observation Period Shift  
  
Observation Period Shift:  Observation Period Shift Business Days/[As specified in the Compounding/Averaging Matrix (as defined in the 2021 ISDA Definitions)]  
  
Observation Period Shift Additional Business Days: /[Not Applicable]
- (h) Margin(s):  +/-  % per annum
- (i) Minimum Rate of Interest:  % per annum
- (j) Maximum Rate of Interest:  % per annum
- (k) Day Count Fraction:  Actual/Actual (ISDA)[Actual/Actual] Actual/365 (Fixed)

Actual/365 (Sterling)  
Actual/360  
[30/360][360/360][Bond Basis]  
[30E/360][Eurobond Basis]  
30E/360 (ISDA)]

19. **Zero Coupon Covered Bond Provisions**<sup>5</sup> [Applicable/Not Applicable]
- (a) Accrual Yield: [●]% per annum
- (b) Reference Price: [●]
- (c) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Condition 8.7 applies/30/360 or Actual/Actual (ICMA) *r*]  
*(Consider applicable day count fraction if not U.S. dollar denominated)*
20. **Inflation Linked Non-Amortising Covered Bond Provisions** [Applicable /Not Applicable]
- (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 Final 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

21. **Issuer Call** [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount of each Covered Bond: [●] per Covered Bond of [●] Specified Denomination
- (c) If redeemable in part:
- (i) Minimum Redemption Amount: [●]
- (ii) Maximum Redemption Amount: [●]
- (d) Notice period (if other than as set out in the Conditions): [●]
22. **Investor Put:** [Applicable/Not Applicable]

<sup>5</sup> Zero Coupon Covered Bonds not to be issued with an Extended Final Maturity Date unless otherwise agreed with the Dealers.

- (a) Optional Redemption Date(s): [●]
- (b) Optional Redemption Amount: [●] per Calculation Amount
- (c) Notice period (if other than as set out in the Conditions): [●]
23. Final Redemption Amount of each Covered Bond [[●] per Covered Bond of [●] Specified Denomination]/[[●] for the Inflation Linked Covered Bonds]/[In accordance with Condition 8.4 per Covered Bond of [●] Specified Denomination]/[Not Applicable]
24. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons: [●]/[As set out in Condition 8.7(b)]
25. Relevant Percentage: As at the Issue Date, [●] per cent.

#### GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

26. Form of Covered Bonds: [Bearer Covered Bonds
- [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond which is exchangeable for definitive Covered Bonds [on 60 days' notice given at any time/only upon an Exchange Event.]]
- [Temporary Global Covered Bond exchangeable for definitive Covered Bonds on and after the Exchange Date.]
- [Permanent Global Covered Bond which is exchangeable for definitive Covered Bonds [on 60 days' notice given at any time/ only upon an Exchange Event/at any time at the request of the Issuer].]
- (Ensure that this is consistent with the wording in the "Form of Covered Bonds" section of the Base Prospectus and the Covered Bonds themselves.*
- N.B. The exchange upon notice/at any time at the request of the Issuer options should not be expressed to be applicable if the Specified Denomination of the Covered Bonds in paragraph 6 includes language substantially to the following effect: "[€100,000 and integral multiples of [€1,000] in excess thereof up to and including €199,000.]" Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Covered Bonds which is to be represented on issue by a Temporary*

*Global Covered Bond exchangeable for Definitive Covered Bonds.)*

[Registered Covered Bonds

[Regulation S Global Covered Bond (U.S.\$[ ] nominal amount) registered in the name of a common depository for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]

[CSD Covered Bonds

CSD Covered Bonds issued in uncertificated and dematerialised book entry form. See further item [7] of Part B below.]

27. New Global Covered Bond:

[Yes] [No]

*(If CSD Covered Bonds, insert "No")*

28. Additional Financial Centre(s):

[●]/[Not Applicable]

29. Talons for future Coupons or Receipts to be attached to definitive Covered Bonds in bearer form (and dates on which such Talons mature):

[Yes, as the Covered Bonds have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupons payments are still to be made /No. ]

30. Details relating to Instalment Covered Bonds; amount of each instalment, date on which each payment is to be made:

[Applicable/Not Applicable]

*[[For Instalment Covered Bonds:]*

Instalment Amount = [●]

Instalment Date(s) = [●]

31. Redenomination:

[Redenomination not applicable/ The provisions of Condition 5 apply]

## **DISTRIBUTION**

32. (a) If syndicated, names of Managers:

[Not Applicable/give names]

*(If the Covered Bonds are derivative securities to which Annex 17 of the Prospectus Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*

(b) Date of [Subscription] Agreement:

[●]/ [Not Applicable]

*(The above is only relevant if the Covered Bonds are derivative securities to which Annex 17 of the Prospectus Regulation applies.)*

- (c) Stabilisation Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name of Dealer: [Name]
34. U.S. Selling Restrictions: [Reg. S Category 1/2/3; TEFRA D/TEFRA C/TEFRA not applicable]
35. Prohibition of Sales to EEA Retail Investors [Applicable/Not Applicable]

*(If the Covered Bonds may constitute "packaged" products and no key information document will be prepared in the EEA, sales of such Covered Bonds to EEA Retail Investors should be prohibited and, therefore, "Applicable" should be specified.)*

*(If the Covered Bonds clearly do not constitute "packaged" products or the Covered Bonds do constitute "packaged" products and a key information document will be prepared in the EEA, sales of such Covered Bonds to EEA Retail Investors do not need to be prohibited and, therefore, "Not Applicable" should be specified.)*

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

*(If the Covered Bonds may constitute "packaged" products and no key information document will be prepared in the UK, sales of such Covered Bonds to UK Retail Investors should be prohibited and, therefore, "Applicable" should be specified.)*

*(If the Covered Bonds clearly do not constitute "packaged" products or the Covered Bonds do constitute "packaged" products and a key information document will be prepared in the UK, sales of such Covered Bonds to UK Retail Investors do not need to be prohibited and, therefore, "Not Applicable" should be specified.)*

37. Prohibition of Sales to Belgian Consumers: [Applicable/Not Applicable]

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

38. Relevant Benchmark: [EURIBOR/Compounded Daily SONIA/Compounded Daily SOFR] is provided by [European Money Markets Institute/[●]]. As at the date hereof, [EURIBOR/Compounded Daily SONIA/Compounded Daily SOFR/ [[appears]/[does

not appear]] in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to Article 36 of Regulation (EU) No. 2016/1011 (the **EU Benchmarks Regulation**).] [[As far as the 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]/[●]] is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence)] OR [[●] does not fall within the scope of the EU Benchmarks Regulation]]/[Not Applicable]

39. European Covered Bonds (Premium)

[Yes]/[No]

## PART B – OTHER INFORMATION

### 1. ADMISSION TO TRADING

[Application has been made by the Issuer (or on its behalf) for the [Covered Bonds/CSD Covered Bonds] to be admitted to trading on [the Regulated Market of the Luxembourg Stock Exchange/Nasdaq Iceland Main Market][*other*] with effect from [●]].

[Application is expected to be made by the Issuer (or on its behalf) for the [Covered Bonds/CSD Covered Bonds] to be admitted to trading on [the Regulated Market of the Luxembourg Stock Exchange/Nasdaq Iceland Main Market][*other*] with effect from [●].]  
[Not Applicable.]

Estimate of total expenses related to admission to trading: [●]

### 2. RATINGS

Ratings:

The Covered Bonds to be issued have [not] been rated[:]

[Moody's: [●]]

[[Other]: [●]]

[The Covered Bonds to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert credit rating agency name(s)*].]

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

Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **EU CRA Regulation**).

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

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

[Save for any fees payable to the [Manager[s]/Dealer[s]], so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer. The [Manager[s]/Dealer[s]] and [their/its] affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business]

#### 4. USE OF PROCEEDS AND ESTIMATED NET PROCEEDS

(i) Use of Proceeds	[See [" <i>Use of Proceeds</i> "] in the Base Prospectus/ <i>Give details</i> ]  <i>(See ["Use of Proceeds"] wording in Base Prospectus – if the use of proceeds are different from what is disclosed in the Base Prospectus, give details)</i>
(ii) Estimated net proceeds:	[●] / [Not Applicable]

#### 5. YIELD (FIXED RATE COVERED BONDS ONLY)

Indication of yield: [●] / [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 COVERED BONDS AND INFLATION LINKED NON AMORTISING COVERED BONDS ONLY*)

[Not Applicable]

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

The Covered Bonds 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 [\[https://www.statice.is/publications/indices-overview/\]](https://www.statice.is/publications/indices-overview/)

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

*(N.B. This paragraph only applies if the Covered Bonds are derivative securities to which Annex 17 of the Prospectus Regulation applies.)*

#### 7. OPERATIONAL INFORMATION

(i) ISIN Code: [●]

(ii) Common Code: [●]

(iii) CFI: *[[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]

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

- (v) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together with the address of each such clearing system) and the relevant identification number(s): [Not Applicable]/[[Nasdaq CSD Iceland /Verðbréfamiðstöð Íslands CSD] (the CSD). The Issuer shall be entitled to obtain certain information from the register maintained by the CSD for the purpose of performing its obligations under the issue of CSD Covered Bonds. The CSD Agent shall be entitled to obtain such information as is required to perform its duties under the Conditions of the Covered Bonds and rules and regulations of, and applicable to, the CSD.]
- (vi) Delivery: Delivery [against/free of] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any) or, in the case of CSD Covered Bonds, the CSD Agent: [●]/[Not Applicable]
- (viii) Deemed delivery of clearing system notices for the purposes of Condition 14 (*Notices*): Any notice delivered to Covered Bondholders through the clearing systems will be deemed to have been given on the [second] [business] day after the day on which it was given to Euroclear, and Clearstream, Luxembourg and CSD.
- (ix) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] [*include this text for Registered Covered Bonds which are to be held under the NSS*] and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
- [No. Whilst designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of

the ICSDs as common safekeeper (and registered in the name of a nominee of one of the ICSDs acting as common Safekeeper). Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

Signed on behalf of the Issuer:

By: \_\_\_\_\_

*Duly authorised signatory*

## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the Terms and Conditions of the Covered Bonds. Where applicable, the Terms and Conditions will be incorporated by reference into each Global Covered Bond (as defined below) and each Definitive Covered Bond, in the latter case only if permitted by the rules of the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Covered Bond 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 Covered Bond and definitive Covered Bond. Reference should be made to "Form of the Covered Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

The Covered Bonds are bonds issued by Arion Bank hf. (the **Issuer**) in accordance with the Icelandic Act on Covered Bonds no. 11/2008 (as amended, the **Icelandic Covered Bond Act**) and the Rules No. 190/2023 on covered bonds (the **Rules**). The Covered Bonds will be issued in compliance with any applicable legal or regulatory restrictions, and any reference to currencies other than ISK, and to Inflation Linked Covered Bonds and related expressions shall be construed as taking effect subject to such restrictions being lifted.

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

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

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

The Covered Bonds (other than the CSD Covered Bonds), the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement dated 10 February 2012, as amended and restated on 23 December 2016 and on 8 January 2019 and on 9 January 2020 and on 16 July 2021 and on 12 October 2022 and on 14 December 2023 (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**), and made between the Issuer and The Bank of New York Mellon, London Branch as fiscal agent (the **Fiscal Agent**) and transfer agent (the **Transfer Agent**, which expression shall include any additional or successor transfer agents) and as paying agent (the **Paying Agent**, which expression shall include any successor paying agent) and The Bank of New York Mellon SA/NV Luxembourg Branch as registrar (the **Registrar**, which expression shall include any successor registrar). In relation to the CSD Covered Bonds, Arion Bank hf. will act as the CSD system account manager (the **CSD Agent**, which expression shall include any additional agent appointed by the Issuer from time to time in relation to the CSD Covered Bonds). The Fiscal Agent, the Registrar, the other Paying Agents, the CSD Agent and the other Transfer Agents are 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).

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

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

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

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which (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 Covered Bondholders (except in the case of CSD Covered Bonds), the Receiptholders and the Couponholders are entitled to the benefit of the Deed of Covenant (subject to the terms of such Deed of Covenant) dated 14 December 2023 (such Deed of Covenant as amended and/or supplemented and/or restated from time to time, the **Deed of Covenant**) made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear and Clearstream, Luxembourg (each as defined below).

Copies of the Agency Agreement and the Deed of Covenant (i) are available for inspection and collection during normal business hours at the specified office of each of the Fiscal Agent and the Registrar or (ii) may be provided by email to a Covered Bondholder following their prior written request to the Fiscal Agent or the Issuer and provision of proof of holding and identity (in a form satisfactory to the relevant Fiscal Agent or the Issuer, as the case may be). Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Fiscal Agent and on the Luxembourg Stock Exchange's website (<https://www.luxse.com/>) and copies may be obtained from those offices save that, if this Covered Bond is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Regulation, the applicable Final Terms will only be obtainable by a Covered Bondholder holding one or more unlisted Covered Bonds of that Series and such Covered Bondholder must produce evidence satisfactory to the Issuer and (except in the case of CSD Covered Bonds) the relevant Paying Agent as to its holding of such Covered Bonds and identity. The Covered Bondholders, the Receiptholders 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 (subject to the terms of such Deed of Covenant) and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

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

## 1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in bearer form (**Bearer Covered Bonds**) or registered form (**Registered Covered Bonds**) or, in the case of CSD Covered Bonds, uncertificated book entry form, as specified in the applicable Final Terms, and, in the case of definitive Covered Bonds, in the Specified Currency and the Specified Denomination(s) and (other than CSD Covered Bonds) serially numbered. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination and Bearer Covered Bonds may not be exchanged for Registered Covered Bonds and *vice versa*. Neither Bearer Covered Bonds nor Registered Covered Bonds may be exchanged for CSD Covered Bonds and *vice versa*.

This Covered Bond may be a Fixed Rate Covered Bond, a Floating Rate Covered Bond, a Zero Coupon Covered Bond, an Inflation Linked Covered Bond, an Inflation Linked Non-Amortising Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms and may be an Instalment Covered Bond.

This Covered Bond may be an Inflation Linked Covered Bond or an Inflation Linked Non-Amortising Covered Bonds depending on the Redemption/Payment Basis shown in the applicable Final Terms.

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

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

For so long as any of the Covered Bonds is represented by a Global Covered Bond held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) or so long as any of the Covered Bonds is an CSD Covered Bond each person (other than Euroclear, Clearstream, Luxembourg or the CSD) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg or the CSD, as the case may be, as the holder of a particular nominal amount of such Covered Bonds (in which regard any certificate or other document issued by Euroclear, Clearstream, Luxembourg or the CSD, as the case may be, as to the nominal amount of such Covered Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the relevant Agents as the holder of such nominal amount of such Covered Bonds for all purposes other than (in the case

only of Covered Bonds not being CSD Covered Bonds) with respect to the payment of principal or interest on such nominal amount of such Covered Bonds, for which purpose, in the case of Covered Bonds represented by a bearer Global Covered Bond, the bearer of the relevant Global Covered Bond, or, in the case of Covered Bonds represented by Registered Global Covered Bonds, the registered holder shall be treated by the Issuer and any Agent as the holder of such nominal amount of such Covered Bonds in accordance with and subject to the terms of the relevant Global Covered Bond and the expressions **Covered Bondholder** and **holder of Covered Bonds** and related expressions shall be construed accordingly. Covered Bonds which are represented by a Global Covered Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

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

References to the CSD, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms or as may otherwise be approved by the Issuer.

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

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

Transfers of beneficial interests in Registered Global Covered Bonds will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Covered Bond will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Covered Bonds in definitive form or for a beneficial interest in another Registered Global Covered Bond 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 Covered Bonds in definitive form**

Subject as provided in paragraphs 2.5 and 2.6 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Covered Bond in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Covered Bond for registration of the transfer of the Registered Covered Bond (or the relevant part of the Registered Covered Bond) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 8 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Covered Bond in definitive form of a like

aggregate nominal amount to the Registered Covered Bond (or the relevant part of the Registered Covered Bond) transferred. In the case of the transfer of part only of a Registered Covered Bond in definitive form, a new Registered Covered Bond in definitive form in respect of the balance of the Registered Covered Bond not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

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

In the event of a partial redemption of Covered Bonds under Condition 8, the Issuer shall not be required to register the transfer of any Registered Covered Bond, or part of a Registered Covered Bond, called for partial redemption.

### **2.4 Costs of registration**

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

### **2.5 Transfers of interests in Regulation S Global Covered Bonds**

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Covered Bond to a transferee in the United States or who is a U.S. person will only be made upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a **Transfer Certificate**), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Covered Bond or beneficial interest therein to the effect that such transfer is being made pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States, and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

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

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

### **2.7 Definitions**

In this Condition, the following expressions shall have the following meanings:

**Distribution Compliance Period** means the period that ends 40 days after the completion of the distribution of each Tranche of Covered Bonds;

**Regulation S** means Regulation S under the Securities Act;

**Regulation S Global Covered Bond** means a Registered Global Covered Bond representing Covered Bonds sold outside the United States in reliance on Regulation S;

**Securities Act** means the United States Securities Act of 1933, as amended.

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

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

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

### **4. COMPLIANCE WITH THE ICELANDIC COVERED BOND ACT**

So long as any of the Covered Bonds, Receipts or Coupons remains outstanding the Issuer undertakes that with respect to the Covered Bonds and the related Cover Pool, it will comply with all provisions of the Icelandic Covered Bond Act, and the related Rules, as amended from time to time.

### **5. REDENOMINATION**

#### **5.1 Redenomination**

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Covered Bondholders, the Receiptholders and the Couponholders, on giving prior notice to the Fiscal Agent, Euroclear and Clearstream, Luxembourg (in the case of Covered Bonds other than CSD Covered Bonds) or to the CSD Agent and the CSD (in the case of CSD Covered Bonds) and at least 30 days' prior notice to the Covered Bondholders in accordance with Condition 14, elect that, with effect from the Redenomination Date specified in the notice, the Covered Bonds with a Specified Currency other than euro shall be redenominated in euro.

The election will have effect as follows:

- (a) the Covered Bonds and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Covered Bond and Receipt equal to the nominal amount of that Covered Bond or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Fiscal Agent in the case of Covered Bonds other than CSD Covered Bonds, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Covered Bondholders, the stock exchange (if any) on which the Covered Bonds may be listed and the Agents of such deemed amendments;
- (b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Covered Bonds will be calculated by reference to the aggregate nominal amount of Covered Bonds presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01;
- (c) if definitive Covered Bonds are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Covered Bonds in the denomination of euro 100,000 and/or such higher amounts as the Fiscal Agent (in the case of

Covered Bonds other than CSD Covered Bonds ) or the Issuer (in the case of CSD Covered Bonds) may determine and notify to the Covered Bondholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Covered Bondholders in euro in accordance with Condition 7 (*Payments*); and (ii) in the case of Covered Bonds which are not Relevant Covered Bonds, in the denominations of €1,000, €10,000, €100,000 and (but only to the extent of any remaining amounts less than €1,000 or such smaller denominations as the Agent may approve) €0.01 and such other denominations as the Fiscal Agent (in the case of Covered Bonds other than CSD Covered Bonds) or the Issuer (in the case of CSD Covered Bonds) shall determine and notify to the Covered Bondholders;

- (d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Covered Bonds) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Covered Bonds, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Covered Bonds and Receipts so issued will also become void on that date although those Covered Bonds and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Covered Bonds, Receipts and Coupons will be issued in exchange for Covered Bonds, Receipts and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent (in the case of Covered Bonds other than CSD Covered Bonds) or the Issuer (in the case of CSD Covered Bonds) may specify and as shall be notified to the Covered Bondholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Covered Bonds;
- (e) after the Redenomination Date, all payments in respect of the Covered Bonds, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Covered Bonds to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;
- (f) if the Covered Bonds are Fixed Rate Covered Bonds and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:
  - (i) in the case of the Covered Bonds represented by a Global Covered Bond or CSD Covered Bonds, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds; and
  - (ii) in the case of definitive Covered Bonds, by applying the Rate of Interest to 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 to the Calculation Amount in the case of Fixed Rate Covered Bonds in definitive form) shall be rounded to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Covered Bond shall be the product of the amount (determined in the manner provided above) for each the Calculation Amount and the amount which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding;

- (g) if the Covered Bonds are Floating Rate Covered Bonds, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and
- (h) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Fiscal Agent in the case of Covered Bonds other than CSD Covered Bonds), and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

## 5.2 Definitions

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

**Established Rate** means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

**euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

**Redenomination Date** means (in the case of interest bearing Covered Bonds) any date for payment of interest under the Covered Bonds or (in the case of Zero Coupon Covered Bonds) any date, in each case specified by the Issuer in the notice given to the Covered Bondholders pursuant to Condition 5.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

**Relevant Covered Bonds** means all Covered Bonds where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area; and

**Treaty** means the Treaty on the Functioning of the European Union, as amended.

## 6. INTEREST

### 6.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date or, if the applicable Final Terms specifies that an Extended Final Maturity Date applies, the Extended Final Maturity Date or any earlier Interest Payment Date on which the Covered Bonds are redeemed in full, provided that any amounts representing interest payable after the Maturity Date shall be paid at such rate and on such dates specified in the applicable Final Terms.

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

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date or the relevant payment date if the Covered Bonds become payable on a date other than an Interest Payment Date.

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

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

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

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

- (i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:
  - (A) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (B) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (1) 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
    - (2) 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
- (ii) 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.

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.

## 6.2 Interest on Floating Rate Covered Bonds

### (a) Interest Payment Dates

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

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

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

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on 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 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of paragraph (b) below shall apply *mutatis mutandis* or (ii) 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 (1) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (2) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

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

- I. a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- II. either (1) 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 (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer System or any successor or replacement for that system (**T2**) is open.

(b) Rate of Interest

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

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

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Fiscal Agent or the Calculation Agent or the CSD Agent, as applicable, under an interest rate swap transaction if the Fiscal Agent or Calculation Agent or the CSD Agent, as applicable, were acting as Calculation Agent (as defined in the ISDA Definitions (as defined below)) for that swap transaction under the terms of an agreement incorporating (i) if "2006 ISDA Definitions" is specified in the applicable Final Terms, the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. (**ISDA**) and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds; or (ii) if "2021 ISDA Definitions" is specified in the applicable Final Terms, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions as published by ISDA as at the Issue Date of the first Tranche of the Covered Bonds (together, the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity, if applicable is a period specified in the applicable Final Terms;
- (C) the relevant Reset Date is the day specified in the applicable Final Terms;
- (D) if the Floating Rate Option is an Overnight Floating Rate Option, the Overnight Rate Compounding Method is one of the following as specified in the applicable Final Terms:
  - I. Compounding with Lookback;

- II. Compounding with Observation Period Shift;
  - III. Compounding with Lockout; and
- (E) if the Floating Rate Option is a Compounded Index Floating Rate Option, the Index Method is Compounded Index Method with Observation Period Shift as specified in the applicable Final Terms.

In connection with the Overnight Rate Compounding Method, references in the ISDA Definitions to numbers or other items specified in the relevant confirmation shall be deemed to be references to the numbers or other items specified for such purpose in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate, Floating Rate Option, Designated Maturity, Reset Date, Overnight Floating Rate Option, Overnight Rate Compounding Method, Compounding with Lookback, Compounding with Observation Period Shift, Compounding with Lockout, Averaging with Lookback, Averaging with Observation Period Shift, Averaging with Lockout, Compounded Index Floating Rate Option, Index Method and Compounded Index Method with Observation Period Shift** have the meanings given to those terms in the ISDA Definitions.

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

- (ii) *Screen Rate Determination for Floating Rate Covered Bonds not referencing Compounded Daily SONIA or Compounded Daily SOFR*

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

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

(expressed as a percentage rate per annum) for the Reference Rate 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) 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, 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 Calculation 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), the Issuer shall request each of the Reference Banks to provide the Fiscal Agent or the Calculation Agent, as applicable, with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately at 11.00 a.m. (Brussels time, in the case of EURIBOR) on the Interest

Determination Date in question. If two or more of the Reference Banks provide the Fiscal Agent or Calculation 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 Calculation Agent, as applicable.

If on any Interest Determination Date one only or none of the Reference Banks provides the Fiscal Agent or Calculation Agent, as applicable, at the request of the Issuer, with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Fiscal Agent or Calculation 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 Calculation Agent, as applicable, at the request of the Issuer, by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (Brussels time, in the case of EURIBOR) 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) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Fiscal Agent or Calculation Agent, as applicable, at the request of the Issuer, with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Fiscal Agent or Calculation Agent, as applicable, at the request of the Issuer, it is quoting to leading banks in the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) 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).

In the case of Floating Rate Covered Bonds which are CSD Covered Bonds:

- I. 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 the Specified Time, the CSD Agent shall request each of the Reference Banks to provide the CSD Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the CSD Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the CSD Agent, as applicable, in consultation with the Issuer.
- II. If on any Interest Determination Date one only or none of the Reference Banks provides the CSD Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the CSD Agent determines as being the arithmetic mean (rounded if

necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the CSD Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the CSD Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the CSD Agent it is quoting to leading banks in the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) 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).

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

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, as selected by the Issuer;

(iii) *Screen Rate Determination for Floating Rate Covered Bonds referencing Compounded Daily SONIA*

(A) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined and the Reference Rate 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 CSD 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 CSD 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<sub>x</sub>** 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<sub>y</sub>** is the SONIA Compounded Index 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<sub>x</sub> or SONIA Compounded Index<sub>y</sub> does not appear 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 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 and each subsequent 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 6.2(b)(iii)(A)II applies to such Interest Period pursuant to the proviso in Condition 6.2(b)(iii)(A)I above, the rate determined by the Fiscal Agent or the Calculation Agent or the CSD 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):

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

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<sub>0</sub>** 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 <sub>$i-p$ LBD</sub>** 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 <sub>$i-p$ LBD</sub> shall be replaced in the above formula with SONIA <sub>$i$</sub> , where SONIA <sub>$i$</sub>  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 CSD 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 Covered Bonds for the first scheduled Interest Period had the Covered Bonds 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 6.2(b)(iii):

**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;

**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 a successor administrator of SONIA) as such rate appears 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)), 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 (or a successor administrator of SONIA) to authorised distributors (the **SONIA authorised** distributors) and as then published on the Relevant Screen Page (or, if 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 CSD 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 6.3 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, 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); and

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

(iv) *Screen Rate Determination for Floating Rate Covered Bonds referencing Compounded Daily SOFR*

- (A) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined and the Reference Rate 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 CSD 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 CSD 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):

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

where:

**SOFR Index<sub>Start</sub>** 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<sub>End</sub>** 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<sub>Start</sub> or SOFR Index<sub>End</sub> does not appear on 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 and each Interest Period thereafter will be determined in accordance with Condition 6.2(b)(iv)(A)II below; or

- II. if either (x) Index Determination is specified as being not applicable in the applicable Final Terms, or (y) this Condition 6.2(b)(iv)(A)II below applies to such Interest Period pursuant to the proviso in Condition 6.2(b)(iv)(A)I above, the rate determined by the Fiscal Agent or the Calculation Agent or the CSD 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):

$$\left[ \prod_{i=1}^{d_0} \left( 1 + \frac{\text{SOFR}_i \times n_i}{360} \right) - 1 \right] \times \frac{365}{d}$$

where:

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

**d<sub>0</sub>** 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 "d<sub>0</sub>", 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<sub>i</sub>**, 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<sub>i</sub>** 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 Reference Rate or U.S. Government Securities Business Day and/or (ii) any other technical changes to any other provision in this Condition 6.2(b), are necessary in order to implement the SOFR Benchmark Replacement (including any alternative method described in sub-paragraph (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 CSD Agent, as applicable, shall agree without any requirement for the consent or approval of Covered Bondholders 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; and
- IV. 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 CSD Agent, as applicable, and to the Covered Bondholders in accordance with Condition 15, 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 6.2(b)(iv):

**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;

**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 covered bonds 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 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 Covered Bondholders 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 covered bonds 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 6.2(b)(iv) 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 (for the avoidance of doubt, the SOFR Benchmark Replacement Agent shall not be the Fiscal Agent or the Calculation Agent unless such Fiscal Agent or Calculation Agent has accepted such appointment in writing);

**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 SOFR Administrator's Website 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 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 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**), 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 6.2(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 6.2(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.
- (E) An Independent Adviser appointed pursuant to this Condition 6.2(b) shall act in good faith in a commercially reasonable manner but shall have no relationship of agency or trust with the Covered Bondholders and (in the absence of fraud) shall have no liability whatsoever to the SOFR Benchmark Replacement Agent or the Covered Bondholders 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 6.2(b)(iv) or otherwise in connection with the Covered Bonds.

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 Covered Bondholders 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 Covered Bonds.

Any determination, decision or election that may be made by the Bank or the SOFR Benchmark Replacement Agent, if any, pursuant to this Condition 6.2(b)(iv), 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.

In no event shall the Fiscal Agent or the Calculation Agent, unless it is appointed as the SOFR Benchmark Replacement Agent, be responsible for determining a SOFR Benchmark Transition Event, SOFR Benchmark Replacement, any substitute for SOFR, or for making any adjustments to any alternative benchmark or spread thereon or for calculating any such substitute or successor benchmark to SOFR. In connection with and in the circumstances referred to in the foregoing, the Fiscal Agent and the Calculation Agent will be entitled to conclusively rely on any determinations made by the Bank, the SOFR Benchmark Replacement Agent or the Independent Adviser (as applicable) and will have no liability for such actions taken at the direction of, or determinations made by, the Bank, the SOFR Benchmark Replacement Agent or the Independent Adviser (as applicable).

In this Condition 6.2(b) **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.

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

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

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

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

The Fiscal Agent or the Calculation Agent or the CSD Agent, in the case of Floating Rate Covered Bonds other than CSD Covered Bonds, and the Calculation Agent, in the case of Floating Rate Covered Bonds which are CSD Covered Bonds, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Fiscal Agent or the Calculation Agent or the CSD Agent (in the case of Covered Bonds other than CSD Covered Bonds) and the Calculation Agent (in the case of CSD Covered Bonds) will calculate

the amount of interest (the **Interest Amount**) payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to:

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Covered Bond which is a Bearer Covered Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination without any further rounding. **Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

(e) **Maximum Interest Amounts**

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

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

The Fiscal Agent or the Calculation Agent or the CSD Agent or, where the relevant Floating Rate Covered Bonds are CSD Covered Bonds, the Calculation Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed (by no later than the first day of each Interest Period (or, where the relevant Floating Rate Covered Bonds are not CSD Covered Bonds and the Calculation Agent is other than the Fiscal Agent, as soon as reasonably practicable after the Calculation Agent has notified the Fiscal Agent of such)) and notice thereof to be published in accordance with Condition 14 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 be promptly be notified to (i) each stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed by no later than the first day of each Interest Period and (ii) the Covered Bondholders in accordance with Condition 14. 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 6.2, whether by the Fiscal Agent or, if applicable, the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents, the CSD Agent (in the case of CSD Covered Bonds) and all Covered Bondholders, Receiptholders and Couponholders and (in the absence of wilful default or bad faith) no liability to the Issuer, the Covered Bondholders, the Receiptholders or the Couponholders shall attach to the Fiscal Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

### **6.3 Benchmark Discontinuation**

Notwithstanding the provisions in 6.2, as the case may be, above, (in the case of Floating Rate Covered Bonds 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 6.3 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 6.3 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 CSD Agent, as applicable, in accordance with Condition 14, the Covered Bondholders of such Successor Rate and that Successor Rate shall (subject to adjustment as provided in Condition 6.3(b)) subsequently be used by the Fiscal Agent or the Calculation Agent or the CSD 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 Covered Bonds (subject to the further operation of this Condition 6.3).

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 CSD Agent, as applicable, and, in accordance with Condition 14, the Covered Bondholders of such Alternative Rate and that Alternative Rate shall (subject to adjustment as provided in Condition 6.3(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 Covered Bonds (subject to the further operation of this Condition 6.3).

(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 CSD Agent, as applicable, and, in accordance with Condition 14, the Covered Bondholders of such Adjustment Spread and the Fiscal Agent or the Calculation Agent or the CSD 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 CSD Agent, as applicable, and, in accordance with Condition 14, the Covered Bondholders of such Adjustment Spread and the Fiscal Agent or the Calculation Agent or the CSD 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 Covered Bondholders 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 CSD Agent, as applicable, and, in accordance with Condition 14, the Covered Bondholders 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 6.3 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 Covered Bondholders in accordance with Condition 14, without any requirement for the consent or approval of Covered Bondholders, agree to the necessary modifications to these Conditions and/or the Agency Agreement, as determined by the Bank, 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 6.3(c), the Bank shall comply with the rules of any stock exchange on which the Covered Bonds are for the time being listed or admitted to trading.

Any Benchmark Amendments determined under this Condition 6.3(c) shall be notified promptly by the Bank to the Fiscal Agent or the Calculation Agent or the CSD Agent, as applicable, and, in accordance with Condition 14, the Covered Bondholders. 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 6.3, the Bank shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, for the purposes of any such consultation. Neither the Fiscal Agent nor the Calculation Agent shall act as Independent Adviser unless such Agent shall have accepted such appointment in writing.

An Independent Adviser appointed pursuant to this Condition 6.3 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 Covered Bondholders 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 6.3 or otherwise in connection with the Covered Bonds.

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 Covered Bondholders 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 Covered Bonds (acting in such capacity), shall have any relationship of agency or trust with the Covered Bondholders.

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

Without prejudice to the obligations of the Bank under this Condition 6.3, the Original Reference Rate and the fallback provisions provided for in Condition 6.2, 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 6.3.

(f) **Definitions**

In this Condition 6.3:

**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 6.3 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 Covered Bonds;

**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 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 Covered Bonds 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.

#### 6.4 Interest on Inflation Linked Covered Bonds

Each Inflation Linked Covered Bond 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 Final 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 6.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*)), and rounding the resultant figure to the nearest sub-unit (as defined in Condition 6.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*))

of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention.

## 6.5 Interest on Inflation Linked Non-Amortising Covered Bonds

Each Inflation Linked Non-Amortising Covered Bond 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 7.1(b) (*Payments in respect of Inflation Linked Covered Bonds*)) below. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Final Maturity Date or, if the applicable Final Terms specifies that an Extended Final Maturity Date applies, the Extended Final Maturity Date or any earlier Interest Payment Date on which the Covered Bonds are redeemed in full, provided that any amounts representing interest payable after the Final Maturity Date shall be paid at such rate and on such dates specified in the applicable Final Terms.

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 7.1(b) (*Payments in respect of Inflation Linked Covered Bonds*)) to:

- (a) in the case of Inflation Linked Non-Amortising Covered Bonds which are represented by a Global Covered Bond or Inflation Linked Non-Amortising Covered Bonds which are CSD Covered Bonds, the aggregate outstanding nominal amount of the Inflation Linked Non-Amortising Covered Bonds; or
- (b) in the case of Inflation Linked Non-Amortising Covered Bonds in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction (as defined in Condition 6.1), 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 Non-Amortising Covered Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Inflation Linked Non-Amortising Covered Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

As used in these 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.

## 6.6 Accrual of interest

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, 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 Covered Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Fiscal Agent, the Registrar or the CSD Agent, as the case may be, and notice to that effect has been given to the Covered Bondholders in accordance with Condition 14.

## 7. PAYMENTS

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

- (a) If this is an Inflation Linked Covered Bond, the Issuer shall, on each relevant Interest Payment Date, make a combined payment of principal due under Condition 8.3, interest due under Condition 6.4 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 Covered Bonds;

$$r = \frac{c}{[\textit{insert number of interest payments per year}]};$$

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = [*Insert total number of annuity payments on the relevant Covered Bonds*]; and

IR = The Index Ratio as determined in accordance with paragraph (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

$$\text{being IR} = \frac{\text{RI}}{\text{BI}}$$

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 Covered Bonds, 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.

## 7.2 Method of payment

Subject as provided below:

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

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment or other laws and regulations to which the Issuer or its Agents are subject, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9 (*Taxation*)) any law implementing an intergovernmental approach thereto (**FATCA**).

### 7.3 Presentation of definitive Bearer Covered Bonds, Receipts and Coupons

Payments of principal in respect of definitive Bearer Covered Bonds will (subject as provided below) be made in the manner provided in paragraph 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Covered Bonds, and payments of interest in respect of definitive Bearer Covered Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Covered Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Covered Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Covered Bond to which it appertains. Receipts presented without the definitive Bearer Covered Bond to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Covered Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Covered Bonds and Inflation Linked Covered Bonds in definitive bearer form (other than Long Maturity Covered Bonds (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 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

Upon the date on which any Floating Rate Covered Bond, or Long Maturity Covered Bond in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Covered Bond** is a Fixed Rate Covered Bond (other than a Fixed Rate Covered Bond which on issue had a Talon attached) or an Inflation Linked Non-Amortising Covered Bond whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Covered Bond shall cease to be a Long Maturity Covered Bond 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 Covered Bond.

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

#### 7.4 Payments in respect of Bearer Global Covered Bonds

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

#### 7.5 Payments in respect of Registered Covered Bonds

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Covered Bond at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the register of holders of the Registered Covered Bonds maintained by the Registrar (the **Registered Covered Bond Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Covered Bonds held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Registered Covered Bond Register and Designated Bank means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Covered Bond (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Covered Bond appearing in the Registered Covered Bond Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Registered Covered Bond Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Covered Bond, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Covered Bonds which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect

of each Registered Covered Bond on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Covered Bond.

Holders of Registered Covered Bonds will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Covered Bond as a result of a cheque posted in accordance with this Condition 7.5 arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Covered Bonds.

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

## **7.6 General provisions applicable to payments**

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

Notwithstanding the foregoing provisions of this Condition 7.6, if any amount of principal and/or interest in respect of Bearer Covered Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Covered Bonds will be made at the specified office of a Paying Agent in the United States if:

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

## **7.7 Payments in respect of CSD Covered Bonds**

Payments of principal and interest in respect of CSD Covered Bonds will be made to the Covered Bondholders shown in the relevant records of the CSD in accordance with and subject to the rules and regulations from time to time governing the CSD.

## **7.8 Payment Day**

If the date for payment of any amount in respect of any Covered Bond, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment 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 10) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
  - (i) in the case of Covered Bonds in definitive form only, the relevant place of presentation; and
  - (ii) each Additional Financial Centre specified in the applicable Final Terms; and
- (b) either (1) 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 (2) in relation to any sum payable in euro, a day on which the T2 is open.

## **7.9 Interpretation of principal and interest**

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

- (a) any additional amounts which may be payable with respect to principal under Condition 9;
- (b) the Final Redemption Amount of the Covered Bonds;
- (c) the Early Redemption Amount of the Covered Bonds;
- (d) the Optional Redemption Amount(s) (if any) of the Covered Bonds;
- (e) in relation to Covered Bonds redeemable in instalments, the Instalment Amounts; and
- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Covered Bonds.

Any reference in the Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

## **7.10 Partial Payment**

If on the Maturity Date of a Series of Covered Bonds where an Extended Final Maturity Date is specified in the applicable Final Terms the Issuer has insufficient moneys to pay the Final Redemption Amount on that Series of Covered Bonds and any other amounts due and payable by the Issuer in respect of Covered Bonds on such date, then the Issuer shall apply available moneys, after having made payment of all other amounts due and payable by the Issuer in respect of Covered Bonds on such date, to redeem the relevant Series of Covered Bonds in part at par together with accrued interest *pro rata* and *pari passu* with any other Series of Covered Bonds for which an Extended Final Maturity Date is specified in the Final Terms.

## 8. REDEMPTION AND PURCHASE

### 8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at the Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

#### (a) Extension of Maturity Date

If an Extended Final Maturity Date is specified as applicable in the Final Terms for a Series of Covered Bonds and the Issuer (i) has received approval from the Icelandic FSA to extend the maturity of the Covered Bonds (a **Maturity Extension Approval**) and (ii) has failed to pay the Final Redemption Amount on the Maturity Date specified in the Final Terms, then (subject as provided below) the maturity of the outstanding Covered Bonds not so redeemed and the date on which such Covered Bonds will, notwithstanding any insolvency, bankruptcy or resolution in respect of the Issuer at the relevant time, be due and repayable for the purposes of these Terms and Conditions, will be extended up to and including (but no later than) the Extended Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter to the extent that funds are available in the Cover Pool up to (and including) the relevant Extended Final Maturity Date.

The Issuer shall promptly give notice to the Fiscal Agent and the Covered Bondholders (in accordance with Condition 14 (*Notices*)) of such Maturity Extension Approval (provided, however, that any failure by the Issuer to give such notice shall not in any event affect the validity or effectiveness of the extension of maturity or give any Covered Bondholder any right to receive any payment of interest, principal or otherwise with respect to the relevant Covered Bonds other than as provided for in these Conditions).

The Issuer shall confirm to the Rating Agencies (if applicable), any relevant Swap Provider and the Fiscal Agent as soon as reasonably practicable and in any event at least 4 business days in London prior to the Maturity Date of any inability of the Issuer to pay in full the Final Redemption Amount in respect of a Series of Covered Bonds on that Maturity Date.

Where the applicable Final Terms for a relevant Series of Covered Bonds provides that such Covered Bonds are subject to an Extended Final Maturity Date, such failure to pay by the Issuer on the Maturity Date shall not constitute a default in payment.

### 8.2 Redemption for tax reasons

(a) The Covered Bonds may, subject to Condition 8.2(b) below, be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Covered Bond is neither a Floating Rate Covered Bond, an Inflation Linked Covered Bond nor an Inflation Linked Non-Amortising Covered Bond) or on any Interest Payment Date (if this Covered Bond is either a Floating Rate Covered Bond, an Inflation Linked Covered Bond or an Inflation Linked Non-Amortising Covered Bond), on giving not less than 30 nor more than 60 days' notice to the Agent and, in accordance with Condition 14, the Covered Bondholders (which notice shall be irrevocable), if:

- (i) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Republic of Iceland (**Iceland**) or any political subdivision of, or any authority in, or of, Iceland having power to tax, or any change in the application or official interpretation of such laws or regulations, which change

or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

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

- (b) Prior to the publication of any notice of redemption pursuant to this Condition 8.2, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.
- (c) Each Covered Bond redeemed pursuant to this Condition 8.2 will be redeemed at the Early Redemption Amount.

### 8.3 Calculation of principal payments in respect of Inflation Linked Covered Bonds

Unless previously redeemed or purchased and cancelled, each Inflation Linked Covered Bond will, subject to Condition 7.1 (*Payments in respect of Inflation Linked Covered Bonds*), be redeemed in one or more amounts constituting payments of principal in relation to such Inflation Linked Covered Bond, 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 Covered Bonds;

$r = \frac{c}{[\textit{insert number of interest payments per year}]}$ ;

c = The Rate of Interest applicable to the relevant Covered Bonds;

d = The Specified Denomination of the relevant Covered Bonds;

n = [*Insert total number of [annuity] payments on the relevant Covered Bonds*]; 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*)

For the avoidance of doubt, this formula does not link the principal amount calculated to inflation.

### 8.4 Calculation of principal payments in respect of Inflation Linked Non-Amortising Covered Bonds

Unless previously redeemed or purchased and cancelled, each Inflation Linked Non-Amortising Covered Bond will be redeemed in one or more amounts constituting payments of principal in relation

to such Inflation Linked Non-Amortising Covered Bond, 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 Covered Bond;

N = the Specified Denomination (as specified in the relevant Final Terms) for each Inflation Linked Non-Amortising Covered Bond; and

IR = the Index Ratio as set out in Condition 7.1(b), above.

### **8.5 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (a) not less than 15 nor more than 30 days' notice to the Covered Bondholders in accordance with Condition 14; and
- (b) not less than 15 days before the giving of the notice referred to in notice to the Fiscal Agent and, (in the case of a redemption of Registered Covered Bonds) the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Covered Bonds then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in 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 or not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Covered Bonds, the Covered Bonds to be redeemed (**Redeemed Covered Bonds**) will be selected individually by lot, in the case of Redeemed Covered Bonds represented by definitive Covered Bonds, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) in the case of Redeemed Covered Bonds represented by a Global Covered Bond, and in accordance with the rules of the CSD in the case of the CSD Covered Bonds, in each case not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the **Selection Date**). In the case of Redeemed Covered Bonds represented by definitive Covered Bonds, a list of the serial numbers of such Redeemed Covered Bonds will be published in accordance with Condition 14 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Covered Bond will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.5 and notice to that effect shall be given by the Issuer to the Covered Bondholders in accordance with Condition 14 at least five days prior to the Selection Date.

### **8.6 Redemption at the option of the Covered Bondholders (Investor Put)**

If Investor Put is specified in the applicable Final Terms, upon the holder of any Covered Bond giving to the Issuer in accordance with Condition 14 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Covered Bond on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Covered Bonds may be redeemed under this Condition 8.6 in any

multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must, if this Covered Bond is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 8.6 and, in the case of Registered Covered Bonds, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Covered Bonds so surrendered is to be redeemed, an address to which a new Registered Covered Bond in respect of the balance of such Registered Covered Bonds is to be sent subject to and in accordance with the provisions of Condition 2. If this Covered Bond is in definitive bearer form, the Put Notice must be accompanied by this Covered Bond or evidence satisfactory to the Paying Agent concerned that this Covered Bond will, following delivery of the Put Notice, be held to its order or under its control.

If the Covered Bond is represented by a Global Covered Bond or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must, within the notice period, give notice to the Fiscal Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Covered Bond is represented by a Global Covered Bond, at the same time present or procure the presentation of the relevant Global Covered Bond to the Agent for notation accordingly.

If the Covered Bond is an CSD Covered Bond, to exercise the right to require redemption of this Covered Bond the holder of this Covered Bond must, within the notice period, give notice to the CSD Agent of such exercise in accordance with the standard procedures of the CSD from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg or, in the case of CSD Covered Bonds, the CSD given by a holder of any Covered Bond pursuant to this paragraph shall be irrevocable.

## **8.7 Early Redemption Amounts**

For the purpose of Condition 8.2 above (*Redemption for tax reasons*):

- (a) each Covered Bond (other than a Zero Coupon Covered Bond) will be redeemed at its Early Redemption Amount specified in the applicable Final Terms; and
- (b) each Zero Coupon Covered Bond, will be redeemed at its Early Redemption Amount calculated in accordance with the following formula:

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

where:

**RP** means the Reference Price;

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

**x** is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

## **8.8 Instalments**

Instalment Covered Bonds will be redeemed at the lesser of the Instalment Amounts and the Maximum Instalment Amounts and on the Instalment Dates. In the case of early redemption, each Instalment Covered Bond will be redeemed at the Early Redemption Amount.

## **8.9 Purchases**

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

## **8.10 Cancellation**

All Covered Bonds which are redeemed or surrendered for cancellation pursuant to Condition 8.9 above will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Covered Bonds so cancelled (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

## **8.11 Late payment on Zero Coupon Covered Bonds**

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 8.1, 8.2, 8.3 or 8.6 above is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 8.7(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Fiscal Agent or the Registrar and notice to that effect has been given to the Covered Bondholders in accordance with Condition 14.

## **9. TAXATION**

All payments of principal and interest in respect of the Covered Bonds, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties, assessments or government charges of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction, unless such withholding or deduction is required by law. In such

event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds, Receipts 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 Covered Bonds, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond, Receipt or Coupon:

- (a) presented for payment in Iceland;
- (b) the holder of which is liable for such taxes or duties in respect of such Covered Bond, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond, Receipt 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 7.8); or
- (d) [RESERVED]
- (e) [RESERVED]
- (f) where such withholding or deduction is required to be made based on provisions of the Act on Withholding of Public Levies at Source No 45/1987, as amended, the Act on Withholding of Tax on Financial Income No 94/1996, as amended, and Article 3 of the Income Tax Act no. 90/2003 (ITA), and any other legislation, laws or regulations, replacing or supplementing the same.

As used herein:

**Tax Jurisdiction** means Iceland or any political subdivision or any authority thereof or therein having power to tax; and

**Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Fiscal Agent or the Registrar or, in the case of CSD Covered Bonds, the CSD Agent, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bondholders in accordance with Condition 14.

## 10. PRESCRIPTION

The Covered Bonds (whether in bearer, registered or dematerialised form), Receipts 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 9) 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 10 or Condition 7.3) or any Talon which would be void pursuant to Condition 7.3.

## 11. REPLACEMENT OF COVERED BONDS, RECEIPTS, COUPONS AND TALONS

Should any Covered Bond, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent (in the case of Bearer Covered Bonds,

Receipts or Coupons) or the Registrar (in the case of Registered Covered Bonds) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Covered Bonds, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **12. AGENTS**

The names of the initial Agents and their initial specified offices are set out below.

The Issuer 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 and a Registrar;
- (b) so long as the Covered Bonds are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Covered Bonds) which may be the Fiscal Agent and a Transfer Agent (in the case of Registered Covered Bonds) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (c) [RESERVED];
- (d) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated; and
- (e) in the case of CSD Covered Bonds, there will at all times be an CSD Agent authorised to act as an account holding institution with the CSD and one or more calculation agent(s) where the Terms and Conditions of the relevant CSD Covered Bonds so require.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.6. Any variation, termination, appointment or change shall only take effect (other than in the case of winding up or, from the effective date of withholding on "passthru payments," where the Paying Agent is an FFI and does not become, or ceases to be, exempt from withholding under FATCA, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Covered Bondholders in accordance with Condition 14.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Covered Bondholders, Receiptholders 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.

## **13. 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 Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Covered Bond to which it appertains) a further Talon, subject to the provisions of Condition 10.

## 14. NOTICES

### (a) *Covered Bonds other than CSD Covered Bonds*

All notices regarding the Bearer Covered Bonds 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 the Bearer Covered Bonds are admitted to trading on the regulated market of the Luxembourg Stock Exchange and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website (<https://www.luxse.com/>). It is expected that any such publication in a newspaper will be made in the Financial Times in London and in the Luxemburger Wort or the Tageblatt in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Bearer Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication 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 Covered Bonds will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Registered Covered Bond Register and will be deemed to have been given on the fourth day after mailing and, in addition, (a) for so long as any Registered Covered Bonds are admitted to trading on the regulated market of the Luxembourg Stock Exchange and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website (<https://www.luxse.com/>), and (b) a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

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

### (b) *CSD Covered Bonds*

All notices regarding the CSD Covered Bonds will be valid if published in a manner which complies with the rules and regulations of the relevant act which apply to publicly listed securities and/or any stock exchange and/or any other relevant authority on which the CSD Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication. Where the Covered Bonds are CSD Covered Bonds, the Issuer can additionally at its own discretion obtain information from the CSD on the Covered Bondholders in order to send notices to each Covered Bondholder directly.

### (c) *Notices given by Covered Bondholders*

Notices to be given by any Covered Bondholder shall be in writing and given by lodging the same, together (in the case of any Covered Bond in definitive form) with the relative Covered Bond or

Covered Bonds, with the Fiscal Agent (in the case of Bearer Covered Bonds) or the Registrar (in the case of Registered Covered Bonds). Whilst any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any holder of a Covered Bond to the Fiscal Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Fiscal Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **15. MEETINGS OF COVERED BONDHOLDERS, MODIFICATION AND WAIVER**

### *(a) Covered Bonds other than CSD Covered Bonds*

The Agency Agreement contains provisions for convening meetings of the Covered Bondholders (including by way of conference call or by use of a videoconference platform) to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Covered Bonds, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Covered Bondholders holding not less than 5% in nominal amount of the Covered Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50% in nominal amount of the Covered Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Covered Bondholders whatever the nominal amount of the Covered Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds, the Receipts or the Coupons (including modifying the date of maturity of the Covered Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Covered Bonds or altering the currency of payment of the Covered Bonds, the Receipts or the Coupons or amending the Deed of Covenant in certain respects), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Covered Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Covered Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Covered Bondholders shall be binding on all the Covered Bondholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Issuer and the Fiscal Agent shall agree, without the consent of the Covered Bondholders, Receiptholders or Couponholders, to:

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

Pursuant to Condition 15(a)(i) above, the Issuer shall be entitled to determine in its sole discretion that any modification required in order to accommodate the substitution of a Rating Agency with respect to any Series of Covered Bonds will not be prejudicial to the interests of the Covered Bondholders provided that the relevant modifications are required to accommodate equivalent or higher rating criteria of the replacement Rating Agency. In such case, the related ratings requirements specified by and/or relating to such Rating Agency to be substituted (including those specified in the Deed of Covenant) shall be amended to refer to the respective ratings requirements of the replacement Rating Agency.

Any such modification shall be binding on the Covered Bondholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Covered Bondholders in accordance with Condition 14 as soon as practicable thereafter.

In relation to modifications made pursuant Conditions 15(a)(i) and 15(a)(ii) above, the Issuer shall consider the interest of the Covered Bondholders and in the event that the Issuer proposes any modification to the Agency Agreement, the Covered Bonds, the Receipts, the Coupons, the Deed of Covenant or any other document that has been entered into by the Issuer in relation to the Programme, the Agents shall assume without further enquiry that the conditions set out in this Condition 15 have been satisfied.

(b) *CSD Covered Bonds*

The Issuer may, in its capacity as CSD Agent, convene meetings of the holders of CSD Covered Bonds to consider any matter affecting their interests, including sanctioning by a majority of votes a modification of the CSD Covered Bonds. Such a meeting may be convened by the Issuer or by the holders of not less than 10 per cent. of the Voting CSD Covered Bonds. For the purpose of this Condition 15, **Voting CSD Covered Bonds** means the aggregate nominal amount of the total number of CSD Covered Bonds not redeemed or otherwise deregistered in the CSD, less the CSD Covered Bonds owned by the Issuer, any party who has decisive influence over the Issuer or any party over whom the Issuer 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 CSD Covered Bonds or at any adjourned meeting one or more persons being or representing holders of Voting CSD Covered Bonds whatever the nominal amount of the CSD Covered Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the CSD Covered Bonds (including modifying the date of maturity of the CSD Covered Bonds 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 CSD Covered Bonds or altering the currency of payment of the CSD Covered Bonds), the quorum shall be one or more persons holding or representing not less than two-thirds in aggregate nominal amount of the Voting CSD Covered Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in aggregate nominal amount of the Voting CSD Covered Bonds. A resolution passed at any meeting of the holders of CSD Covered Bonds shall be binding on all the holders, whether or not they are present at such meeting. If and whenever the Issuer has issued and has outstanding CSD Covered Bonds of more than one Series, (i) a resolution which affects the CSD Covered Bonds of only one Series shall be deemed to have been duly passed if passed at a separate meeting of the holders of the CSD Covered Bonds of that Series; (ii) a resolution which affects the CSD Covered Bonds of more than one Series but does not give rise to a conflict of interest between the holders of CSD Covered Bonds of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the CSD Covered Bonds of all the Series so affected; and (iii) a resolution which affects the CSD Covered Bonds of more than one Series and gives or may give rise to a conflict of interest between the holders of the CSD Covered Bonds of one Series or group of Series so affected and the holders of the CSD Covered Bonds of another Series or

group of Series so affected shall be deemed to have been duly passed only if it is duly passed at separate meetings of the holders of the CSD Covered Bonds of each Series or group of Series so affected.

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

## **16. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Covered Bondholders, the Receiptholders or the Couponholders to create and issue further covered bonds having terms and conditions the same as the Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds.

## **17. THE CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **18.1 Governing law**

The Agency Agreement, the Deed of Covenant, the Covered Bonds (except for Condition 3 and for CSD Covered Bonds, respectively), the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with the aforementioned, are governed by, and shall be construed in accordance with, English law. Condition 3 of the Covered Bonds and the CSD Covered Bonds are governed by, and shall be construed in accordance with, Icelandic law.

### **18.2 Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Covered Bondholders, the Receiptholders and the Couponholders, that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Covered Bonds (other than the CSD Covered Bonds), the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Covered Bonds, the Receipts and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the English courts. The Issuer irrevocably agrees that any dispute arising out of the CSD Covered Bonds shall be subject to the exclusive jurisdiction of the District Court of Reykjavík. Legal action taken in respect of the CSD Covered Bonds under this Condition 18 may be proceeded with in accordance with the Act on Civil Procedure No. 91/1991, chapter 17.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Covered Bondholders, the Receiptholders and the Couponholders, may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Covered Bonds, the Receipts and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Covered Bonds, the Receipts

and/or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **18.3 Appointment of Process Agent**

The Issuer appoints Law Debenture Corporate Services Limited at its registered office at 8th Floor 100 Bishopsgate, London EC2N 4AG as its agent for service of process in England, and undertakes that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

### **18.4 Waiver of immunity**

The Issuer hereby irrevocably and unconditionally waives with respect to the Covered Bonds, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

### **18.5 Other documents**

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

## **19. DEFINITIONS**

In these Conditions the following words shall have the following meanings:

**Cover Pool Swap Agreement** means the ISDA Master Agreement, schedule and confirmation(s) (as amended and supplemented from time to time) relating to the Cover Pool Swap entered into from time to time between the Issuer and the Cover Pool Swap Provider;

**Cover Pool Swap Provider** means the third party counterparties in their respective capacities as cover pool swap provider under a Cover Pool Swap Agreement;

**Cover Pool Swap** means the Cover Pool swap which enables the Issuer to convert ISK interest payments (less a client margin) received by the Issuer in respect of assets (other than Swaps) registered to the Cover Pool into floating or fixed payments (as the case may be) payments linked to the interest rate payable on the Covered Bonds;

**Cover Pool** means the pool of eligible assets recorded in the Register maintained by the Issuer in accordance with the Icelandic Covered Bond Act;

**Currency Swap Agreement** means the ISDA Master Agreement, schedule, credit support annex (if applicable) and confirmation(s) (as amended and supplemented from time to time) relating to the Currency Swap(s) entered into from time to time between the Issuer and each Currency Swap Provider;

**Currency Swap Provider** means any reference or actual (as the context requires) third party counterparty;

**Currency Swap** means each currency swap which enables the Issuer to hedge currency risks arising from (a) Covered Bonds which are issued in currencies other than ISK and (b) if required, assets (other than Mortgage Bonds) which are registered to the Cover Pool and are denominated in ISK;

**Indexed Currency Swap Agreement** means the ISDA Master Agreement, schedule and confirmation(s) (as amended and supplemented from time to time) relating to the Indexed Currency Swap(s) entered into from time to time between the Issuer and each Indexed Currency Swap Provider;

**Indexed Currency Swap Provider** means the third party counterparties in their respective capacities as indexed currency swap provider under an Indexed Currency Swap Agreement;

**Indexed Currency Swap** means each currency swap which enables the Issuer to hedge currency and inflation risks arising from (a) Covered Bonds which are issued in currencies other than ISK and not indexed linked and (b) assets which are registered to the Cover Pool and are denominated in ISK and indexed linked;

**Interest Rate Swap Agreement** means the ISDA Master Agreement, schedule and confirmation(s) (as amended and supplemented from time to time) relating to the Interest Rate Swap(s) entered into from time to time between the Issuer and each Interest Rate Swap Provider;

**Interest Rate Swap Provider** means the third party counterparties in their respective capacities as interest rate swap provider under an Interest Rate Swap Agreement;

**Interest Rate Swap** means each single currency interest rate swap which enables the Issuer to hedge the Issuer's interest rate risks in ISK and/or other currencies to the extent that they have not been hedged by the Cover Pool Swap or a Currency Swap;

**Rating Agency** means any rating agency engaged by the Issuer to assign a rating to a Series of Covered Bonds including any successor to any such rating agency's rating business, and **Rating Agencies** shall be construed accordingly.

**records** of Euroclear, Clearstream, Luxembourg and the CSD means the records that each of Euroclear, Clearstream, Luxembourg and the CSD holds for its customers which reflect the amount of such customer's interest in the Covered Bonds;

**Register** has the meaning given to it in the Icelandic Covered Bond Act;

**Relevant Percentage** means, from time to time, the proportion which the outstanding principal amount of the relevant Series of Covered Bonds bears to the aggregate of the outstanding principal amounts of all series of Covered Bonds outstanding; and

**Swap Providers** means the Cover Pool Swap Provider, each Currency Swap Provider, each Interest Rate Swap Provider and each Indexed Currency Swap Provider.

## **USE OF PROCEEDS**

The net proceeds from each issue of Covered Bonds will be applied by the Issuer for general funding purposes, which include making a profit and/or hedging certain risks.

## OVERVIEW OF THE ICELANDIC LEGISLATION REGARDING COVERED BONDS

### *Introduction*

The Icelandic Act on Covered Bonds No. 11/2008 (as amended with Acts No. 35/2008, No. 71/2019, No. 91/2019 and No. 7/2023) (the **Icelandic Covered Bond Act**) was adopted by the Icelandic Parliament on 4 March 2008 but amended and restated with an Act adopted by Parliament on 23 February 2023. This legislation enables Icelandic commercial banks, savings banks and credit undertakings which have been licensed to issue covered bonds as defined therein.

*The following summary contains a general summary of the Icelandic Covered Bond Act, and does not entirely apply to the Covered Bonds issued pursuant to the proposed Programme, and should not be construed as being an exhaustive presentation or description of all aspects regarding the Icelandic Covered Bond Act.*

### *Covered Bonds*

The Icelandic Covered Bond Act defines "covered bonds" (Ice: *sértryggð skuldabréf*) as bonds and other unilateral, unconditional, written debt obligations which enjoy a right of priority over the cover pool of the issuer and which are issued in compliance with the Icelandic Covered Bond Act.

The Icelandic Covered Bond Act has been amended and restated (by way of Act no. 7/2023) and the Rules have been amended and restated (as Rules No. 190/2023) to comply with and transpose the EU Covered Bond Rules. Whilst certain non-mandatory provisions of the Covered Bond Directive have not been implemented into Icelandic legislation, covered bonds that fulfil the requirements set forth in the Icelandic Covered Bond Act, which inter alia requires that the assets included in the cover pool must meet the criteria set out in Article 129 of the CRR and appurtenant regulations may be marketed under the label 'European Covered Bond' (Ice: *evrópsk sértryggð skuldabréf*) or 'European Covered Bond (Premium)' (Ice: *evrópsk sértryggð skuldabréf (úrvals)*), or under the official translation of the same terms of another member state of the EEA.

### *Cover Pool*

The Icelandic Covered Bond Act defines a "cover pool" as the collection of bonds, substitute collateral and other assets that have been registered on a register in accordance with Chapter VI of the Icelandic Covered Bond Act and covered bondholders and counterparties of the Issuer under derivative agreements have a priority claim to seek enforcement in respect of such assets in accordance with the Icelandic Covered Bond Act.

Pursuant to Article 129 of the CRR, in order to qualify for the preferential treatment set out in paragraph 4 and 5 of that Article, covered bonds need to be collateralised by the following eligible assets:

- (a) to or guaranteed by central governments, the ESCB central banks, public sector entities, regional governments or local authorities in the EEA;
- (b) exposures to or guaranteed by third country central governments, third-country central banks, multilateral development banks, international organisations that qualify for the credit quality step 1, and exposures to or guaranteed by third-country public sector entities, third-country regional governments or third- country local authorities that are risk weighted as exposures to institutions or central governments and central banks in accordance with Article 115(1) or (2), or Article 116(1), (2) or (4) respectively and that qualify for the credit quality step 1, and exposures within the meaning of this point that qualify as a minimum for the credit quality step 2, provided that they do not exceed 20 per cent. of the nominal amount of outstanding covered bonds of the issuing institutions;
- (c) exposures to credit institutions that qualify for credit quality step 1 or credit quality step 2, or exposures to credit institutions that qualify for credit quality step 3 where those exposures are in the form of (i) short-term deposits with an original maturity not exceeding 100 days, where used to meet the cover

pool liquidity buffer requirement of Article 16 of the Covered Bond Directive; or (ii) derivative contracts that meet the requirements of Article 11(1) of that Directive, where permitted by the competent authorities, and meet the exposure requirements set out in paragraph 1a of Article 129 of the CRR;

- (d) loans secured by residential property up to the lesser of the principal amount of the liens that are combined with any prior liens and 80 per cent. of the value of the pledged properties. The limit of 80 per cent. shall apply on a loan-by-loan basis, shall determine the portion of the loan contributing to the coverage of liabilities attached to the covered bond, and shall apply throughout the entire maturity of the loan;
- (e) residential loans fully guaranteed by an eligible protection provider referred to in Article 201 of the CRR qualifying for the credit quality step 2 or above, where the portion of each of the loans that is used to meet the requirement set out in this paragraph for collateralisation of the covered bond does not represent more than 80 per cent. of the value of the corresponding residential property located in France, and where a loan-to-income ratio respects at most 33 per cent. when the loan has been granted. There shall be no mortgage liens on the residential property when the loan is granted, and for the loans granted from 1 January 2014 the borrower shall be contractually committed not to grant such liens without the consent of the credit institution that granted the loan. The loan-to-income ratio represents the share of the gross income of the borrower that covers the reimbursement of the loan, including the interests. The protection provider shall be either a financial institution authorised and supervised by the competent authorities and subject to prudential requirements comparable to those applied to institutions in terms of robustness or an institution or an insurance undertaking. It shall establish a mutual guarantee fund or equivalent protection for insurance undertakings to absorb credit risk losses, whose calibration shall be periodically reviewed by the competent authorities. Both the credit institution and the protection provider shall carry out a creditworthiness assessment of the borrower;
- (f) loans secured by commercial immovable property up to the lesser of the principal amount of the liens that are combined with any prior liens and 60 per cent. of the value of the pledged properties. Loans secured by commercial immovable property are eligible where the loan-to-value ratio of 60 per cent. is exceeded up to a maximum level of 70 per cent. if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 per cent., and the bondholders' claim meets the legal certainty requirements set out in Chapter 4 of the CRR. The bondholders' claim shall take priority over all other claims on the collateral;
- (g) loans secured by maritime liens on ships up to the difference between 60 per cent. of the value of the pledged ship and the value of any prior maritime liens;

Article 129 of the CRR further provides that the following criteria must be met:

- (a) immovable property and ships collateralising covered bonds that comply with the CRR, the requirements set out in Article 208 of the CRR shall be met. The monitoring of property values in accordance with point (a) of Article 208(3) of the CRR shall be carried out frequently and at least annually for all immovable property and ships;
- (b) covered bonds shall be subject to a minimum level of 5 per cent. of overcollateralisation as defined in point (14) of Article 3 of the Covered Bond Directive. For these purposes, the total nominal amount of all cover assets as defined in point (4) of Article 3 of that Directive shall be at least of the same value as the total nominal amount of outstanding covered bonds ('nominal principle'), and shall consist of eligible assets as set out above, subject to the authorisation of member states to set a lower minimum level of overcollateralisation for covered bonds or authorise their competent authorities to set such a level; and

- (c) eligible assets listed above may be included in the cover pool as substitution assets as defined in point (13) of Article 3 of the Covered Bond Directive, subject to the limits on credit quality and exposure size set out in paragraphs 1 and 1a of Article 129 of the CRR.

A cover pool will consist primarily of mortgage bonds secured against residential property; industrial, office or commercial property; agricultural property; debt instruments including those issued by the Icelandic government or other member state, municipality in Iceland or in another member state, or guaranteed by such member state within the EEA and certain substitute collateral (**Substitute Collateral**) up to a specific limit of the value of the relevant cover pool. These assets are to be kept separate from the other business operations of the issuer, as further described under "*The Register*" below. The Icelandic Covered Bond Act defines a bond as a written debt instrument whereby an issuer recognises unilaterally and unconditionally its obligations to make specific monetary payments.

The Icelandic Covered Bond Act requires that the total current value (in Icelandic "*uppreiknuð heildarfjárhæð höfuðstóls*") of the mortgage bonds and other assets in the cover pool that is to serve as collateral for a specific class of covered bonds shall always exceed the total current value (in Icelandic "*uppreiknuð heildarfjárhæð höfuðstóls*") of the principal of the same class of covered bonds (see further "*Coverage Requirements*" below).

#### *The Financial Supervisory Authority and the Central Bank*

The issue of covered bonds requires a licence from the Icelandic FSA, which is also the supervisory authority for the business operations of the Issuer conducted in connection with the issue of covered bonds. Effective 1 January 2020 the Icelandic FSA was merged with the Icelandic Central Bank and subject to a new Act on the Central Bank No. 92/2019 (**CBA**). There has been no change to tasks entrusted to these two institutions. There is however integration of tasks within one institution, of governance and decision-making arrangements, as further set out in the CBA, as well as Act No. 91/2019 on amendment to various Acts as a consequence of the merger between the Central Bank and the Icelandic FSA. A licence from the Icelandic FSA requires, *inter alia*, that the issuance complies with the Icelandic Covered Bond Act and that a certified public accountant certifies that the Issuer's budget and accounts demonstrate that its financial situation is stable enough not to jeopardise the interests of other creditors. Furthermore, the Icelandic FSA may grant the licence subject to specified conditions.

The Icelandic FSA may revoke an issuer's license to issue covered bonds if (a) the issuer no longer fulfils the requirements to issue covered bonds; (b) the issuer's budget, as attested to by a certified public accountant, demonstrates that its financial situation is no longer sufficiently sound so that the issuance of covered bonds will jeopardise the interests of other creditors; or (c) the issuer violates provisions of the Icelandic Covered Bond Act or rules adopted by virtue of it. If the Icelandic FSA revokes the issuer's license to issue covered bonds it shall decide how to terminate such activities of the issuer.

An issuer of covered bonds must annually deliver to the Icelandic FSA a report, in such format as the FSA decides, containing information on (a) cover pool assets, including liquid assets, and how they are segregated from the issuer's other assets; (b) compliance with matching rules; (c) conditions for covered bonds' maturity extensions, as applicable; and (d) the monitoring activities of the Independent Inspector.

Subject to Icelandic FSA's authorisation, previously issued bonds and other comparable debt instruments which were issued for the purpose of financing the assets in a cover pool may be converted to covered bonds under the Icelandic Covered Bond Act. The term 'covered bond' may be used for covered bonds issued prior to 1 March 2023 that complied with the requirements laid down prior to the implementation of the EU Covered Bond Rules, as applicable on the date of their issue. The same applies to tap issues of covered bonds issued between 1 March 2023 and 31 December 2024, provided that those issues comply with certain requirements. The Icelandic FSA has issued Rules No. 190/2023 on covered bonds, replacing Rules No. 528/2008, that concern among other things the conditions for being granted a licence to issue covered bonds, appraisal and revaluation of the assets in the cover pool, matching rules, assets that may be considered for the liquidity buffer, derivative agreements, the cover bond register and the eligibility and reporting of the independent

inspector and reporting of the Issuer to the Icelandic FSA (the **Rules**). The Rules are issued with reference to the Icelandic Cover Bond Act and elaborate on the provisions of the Act. Effective 1 January 2020 rules on covered bonds, may be issued by the Central Bank, cf. article 25 of the Icelandic Covered Bond Act.

### *The Register*

The rights of priority that covered bondholders have over the cover pool, which rank junior to swap providers in respect of the derivative agreements related to the covered bonds or the cover pool, arise from a registration being made in a register kept by the issuer (referred to herein as the **Register**). The Register shall always show, among other things, (1) the nominal value, interest terms, and final maturity dates of the covered bonds (2) the types of assets in the cover pool, and (3) in respect of each mortgage bond in the cover pool, the name of the underlying borrowers, their ID no., the nominal value of the loan, date of issue, maturity, terms of instalments and interest. Furthermore, the Register shall show the appraisal of the collateral security in the cover pool, when the appraisal was made and the premises used. Mortgage bonds in a cover pool must be endorsed showing they are part of a cover pool and have been entered in the Register as provided in Chapter VI of the Icelandic Covered Bond Act. The endorsement shall also indicate that the mortgage bond is to secure priority rights of a specific class of covered bonds.

### *Independent Inspector ("Sjálfstæður skoðunarmaður")*

The Icelandic FSA shall supervise the Issuer to ensure that the Issuer acts in accordance with the Icelandic Covered Bond Act and other applicable legislation and regulations that govern the Issuer's operations. The Issuer must appoint an independent inspector, and this appointment must be approved by the Icelandic FSA. Further, the appointee must meet the qualification requirements set forth in the Rules of the Icelandic Central Bank. The independent inspector is assigned the task of monitoring that the Register is maintained in accordance with the provisions of the Icelandic Covered Bond Act and verifying that the valuation of collateral for debt instruments in the cover pool is based on the prescribed methodology. Furthermore, the Independent Inspector is tasked with the ongoing monitoring of a cover pool liquidity buffer and the dissemination of information to investors. The independent inspector shall semi-annually deliver a report to the Icelandic FSA on his observations, and immediately inform the Icelandic FSA of any circumstances he becomes aware of, that could affect the Icelandic FSA's assessment of the Issuer, as frequently and in such format as the Icelandic FSA decides, or above and beyond this if exceptional circumstances so warrant, among other things.

### *Investor Information*

Pursuant to the Icelandic Covered Bond Act, issuers of covered bonds are required to provide information on their covered bond programmes. The information must be sufficiently detailed to allow investors to assess the profile and risks of that programme and to carry out their due diligence. At least on a quarterly basis the following minimum information shall be published:

- (a) the value of the cover pool and outstanding covered bonds;
- (b) the International Securities Identification Numbers (ISINs) for all covered bond issues under that programme, to which an ISIN has been attributed;
- (c) the geographical distribution and type of assets in the cover pool, the size of loans in the cover pool and valuation method of the cover pool assets;
- (d) the market risk, including interest rate risk and currency risk, and credit and liquidity risks;
- (e) the maturity structure of cover pool assets and covered bonds, including an overview of maturity extension triggers;

- (f) the levels of required and available coverage, and the levels of statutory, contractual and voluntary overcollateralisation above what is required by the Icelandic Covered Bond Act; and
- (g) the percentage of loans that are more than 90 days past due or are otherwise considered to be in default pursuant to Article 178 of CRR.

#### *Eligible Cover Pool Assets*

The cover pool consists primarily of mortgage bonds issued by borrowers against collateral in the form of real property or public credit (i.e. loans to creditors with high credit worthiness, such as the State of Iceland, Icelandic municipalities and foreign central banks). Collateral for mortgage bonds shall consist of (a) pledged real property designated for residential purposes; (b) pledged real property designated for industrial, office or business purposes, and (c) pledged real property designated for agricultural purposes. The collateral may form part of the cover pool only to the extent that the ratio of the principal balance of the mortgage bond compared to the Market Value (the **LTV**) in relation to the collateral does not exceed (a) 80% of the Market Value for real property designated for residential purposes, (b) 70% of the Market Value for real property designated for agricultural purposes and (c) 60% of the Market Value for real property designated for industrial office or commercial purposes. Furthermore, the mortgage bonds issued against mortgages in residential, industrial, office, commercial or agricultural purposes may not be registered in the cover pool if payment is in arrears for 90 days or more.

The cover pool may also include a limited proportion of Substitute Collateral. The Substitute Collateral may constitute no more than 20% of the cover pool. The Icelandic FSA may, however, approve that the Substitute Collateral constitutes as much as 30% of its value.

The **Market Value** of real properties is assessed by an appraisal which must be based on the selling price in recent transactions with comparable properties. The Issuer shall regularly monitor the development of such selling prices. If the Market Value of collateral in the cover pool (i.e. the underlying mortgaged real estate) substantially decreases, the amount of the value of the assets in the cover pool shall be decreased to ensure that the LTV lies within the limits described above.

#### *Coverage Requirements*

The Icelandic Covered Bond Act requires the value of the assets in the cover pool at all times to exceed the value of the claims against the cover pool. The percentage level by which the value of the cover pool exceeds the nominal value of the liabilities, relating to the issued and outstanding covered bonds, along with all accrued interests, from time to time is known as "overcollateralisation". The Icelandic Covered Bond Act requires a minimum overcollateralisation of 5 per cent. and the Issuer undertakes under Condition 4 (*Compliance with the Icelandic Covered Bond Act*) to comply with all provisions of the Icelandic Covered Bond Act, and the related Rules, as amended from time to time.

Moreover, instalments and other cash flows accruing on the assets in the cover pool and from derivative agreements shall be in such a manner that at any given time the issuer can meet all its financial obligations to covered bondholders and counterparties to derivative agreements.

In order to maintain a suitable balance between the cover pool and the corresponding covered bond programme, the issuer (a) must ensure that the assets in the cover pool (including Substitute Collateral) are valued having proper regard to currency exchange rates, interest rates, maturity dates, and other relevant factors; and (b) may enter into derivative agreements for the purpose of achieving this balance.

#### *Liquidity Buffer*

The Icelandic Covered Bond Act requires that an issuer must maintain a cover pool liquidity buffer to cover the maximum cumulative net liquidity outflow on the covered bonds and related derivative contracts over the

next 180 days. Where the maturity of covered bonds can be extended, for the calculation of the net liquidity outflow it may be assumed that the principal amount of the covered bonds is to be repaid on the extended maturity date as determined in the contractual terms and conditions of the covered bond.

The Rules on Covered Bonds further define the assets that the liquidity buffer may consist of. Pursuant to the Rules on Covered Bonds, the liquidity buffer can only consist of (i) assets that qualify as level 1, level 2A or level 2B assets pursuant to the LCR Regulation and not issued by the credit institution issuing the covered bonds itself, its parent undertaking, other than a public sector entity that is not a credit institution, its subsidiary or another subsidiary of its parent undertaking or by a securitisation special purpose entity with which the credit institution has close links, or (ii) short-term exposures to credit institutions that qualify for credit quality step 1 or 2, or credit step 3, subject to the conditions in point (c) of Article 129(1) of Regulation (EU) No 575/2013 (as amended). It should also be noted that the Icelandic Covered Bond Act specifically states that the uncollateralised claims from exposures considered in default pursuant to Article 178 of CRR cannot contribute to the cover pool liquidity buffer.

#### *Extendable Maturity Structures*

The Icelandic Covered Bond Act allows for the exercise of extendable maturity (aka 'soft bullet') pursuant to the transposing of the EU Covered Bond Rules. Any such extension of maturity shall be subject to the approval of the Icelandic FSA. If approval is not granted, the maturity of the covered bond cannot be extended. Under the Icelandic Covered Bond Act, such approval is subject to the following conditions:

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

Furthermore, an issuer, or, upon winding-up of the issuer, its winding-up committee, is required to promptly inform the covered bondholders of the deferral of the maturity of the covered bonds and the duration of such deferral. The terms and conditions of the relevant covered bond shall otherwise determine what is required to be communicated by the relevant issuer to covered bondholders with respect to the maturity of their covered bonds.

With respect to paragraph (a)(ii) above, the objective of the Act referred to therein (as set out in Article 1 of such Act) is to preserve financial stability and minimise the adverse effects of financial shocks by protecting insured deposits and investors, client assets and the continuity of the undertaking's critical functions and minimising the risk of distribution of funds from the National Treasury of Iceland.

### *Rights of Priority*

In the event of winding up of the issuer, covered bondholders and derivative agreement counterparties are entitled to rights of priority to the assets in the cover pool that are registered in the Register, as well as over the funds that originate from those assets.

### *Handling of assets in the event of winding up of the Issuer*

If an Issuer enters into resolution, financial restructuring, bankruptcy or winding up proceedings, any issued covered bonds do not fall due. Furthermore, any derivative agreements entered into by the Issuer in relation thereto shall not accelerate upon the winding of the Issuer and such agreements may not include provisions on automatic closing of contracts under such circumstances. In case of the winding up of the issuer, the winding up committee shall keep the covered bonds, Substitute Collateral and other assets in the cover pool segregated from other assets of the Issuer's estate. The same shall apply to funds and other assets substituted for the covered bonds, Substitute Collateral and other assets in the cover pool, or paid in respect of such assets. Such separation shall be maintained until claims arising from the covered bonds have been paid in full.

The winding up committee shall also keep derivative agreements, and funds returned by such assets or which must be paid from the cover pool to the counterparties to those derivative agreements, separate from other assets of the Issuer's estate.

Payments received by the Issuer after the date of a winding up order in respect of funds and other assets substituted for the covered bonds, Substitute Collateral and other assets in the cover pool intended for payment of claims, including fulfilment of derivative agreements, shall be entered in the Register by the winding up committee.

However, Article 17(1) of the Icelandic Covered Bond Act states that the winding up committee shall fulfil the Issuer's commitments under the covered bonds and derivative agreements using mortgage bonds and other assets in the cover pool and payments received on such assets provided these assets are listed in the register.

The separation of the cover pool shall be maintained until claims arising from the covered bonds have been paid in full. The general rule is that to the extent that a cover pool is not sufficient to cover the covered bonds and derivative agreements, the covered bondholders may continue to file claims as non-preferential creditors of the Issuer and to receive dividends from the other assets of the Issuer and be ranked *pari passu* with other, general and non-prioritised non-preferential creditors of the Issuer.

Under the act on Bankruptcy etc. no. 21/1991 (the **Bankruptcy Act**), the covered bondholders' priority rights to the cover pool rank third after (1) third party's assets held by the Issuer, provided that the third party can prove his entitlement to the asset (no such third party's assets should be a part of the cover pool); (2) (i) certain bankruptcy costs, (ii) third party claims incurred after the date of the winding up order due to agreements made on behalf of the bankruptcy estate by the winding up committee or to liability for losses incurred by third parties as a result of any negligent act of the bankruptcy estate; and (iii) lawful third party claims, including claims due to derivative agreements concluded in accordance with the provisions of the Icelandic Covered Bond Act, incurred by the estate after the date of a moratorium order or a composition proceedings order, if applicable.

Where the Issuer seeks composition with creditors, the composition arrangement will not affect claims which benefit from security (such as the claims of Covered Bondholders), to the extent the security is sufficient to pay the claim and the security interest will not cease to exist as a result of the composition arrangements. However, according to article 60(4) of the Bankruptcy Act, if the creditor values the collateral as being insufficient to meet his claim, he may (in order to increase the chances of recovery) partly waive his right to a secured claim and thereby partly obtain a contractual claim on the debtor, to the extent of such waiver.

The part of the winding up costs that concerns the covered bonds, the cover pool, and payments with respect to the covered bonds, cover pool or derivative agreements shall be paid from the cover pool. Payments received by the issuer after the date of the winding up order in accordance with the terms and conditions governing the cover pool should be entered in the Register.

Notwithstanding the provisions of Chapter XX of the Bankruptcy Act actions taken by the Issuer in accordance with the Icelandic Covered Bond Act, including the delivery of funds or Substitute Collateral to the cover pool, payments on the cover pool, or disposal of funds from the cover pool to fulfil obligations under a covered bond or a derivative agreement concluded in accordance with the Icelandic Covered Bond Act and in connection with the cover pool, shall not be subject to annulment or claw-back.

In relation to specific risk factors of the Icelandic Covered Bond Act that have been identified, please see the section on "*Risk Factors*" above.

### *The Rules*

The Rules provide further detail on a few issues described in the Icelandic Covered Bond Act. Below is a short summary of the main sections of the Rules:

The Rules list the documents to be submitted to the Icelandic FSA by the issuer when the issuer seeks Icelandic FSA's license to issue covered bonds. Such documents include, i.e., approvals, descriptions of the proposed programme, the issuer's budget, information and requirements concerning IT systems, etc.

The Rules describe the assets which are eligible to be registered to the cover pool and how such asset's eligibility shall be evaluated.

The Rules provide further clarifications with respect to the matching requirements described above and provide a method of calculating the present value of assets/liabilities in relation thereto. The Rules prescribe that the Issuer shall complete such calculations as often as deemed necessary and at least on a weekly basis.

The Rules provide for certain restrictions to the provisions and counterparties of derivative agreements. Such agreements may not include provisions on automatic closing of contracts upon the winding up or resolution of the issuer, or similar insolvency events. Furthermore, the counterparties to derivative agreements be rated as qualifying for credit quality steps 1 or 2, as defined in Annex III of Regulation (EU) No. 2016/1799 (as amended), by a registered or certified credit rating agency in accordance with Regulation (EU) No. 1060/2009 (as amended). Such rating must be in place at the beginning of the contract making process for the relevant derivative agreement and cover both the institutions short- and long-term ratings. However, issuers may with the prior approval of the Icelandic FSA enter into derivative agreements with counterparties that do not meet the above criteria, if the Icelandic FSA considers the counterparty sufficiently reliable to fulfil its obligations pursuant to the relevant derivative agreement.

The Rules provide further detail on the Register. The Register shall be kept in a secure manner and updated on a daily basis. The Icelandic FSA shall have access to the Register.

Furthermore, the Rules provide further detail on the obligations of the independent inspector to be appointed by the issuer. The independent inspector shall ensure that the Register is properly maintained and updated and shall therefore verify that bonds and derivative agreements are correctly registered, only eligible assets and Substitute Collateral are included in the cover pool, the value of the assets registered in the cover pool and the valuation thereof is in accordance with the Icelandic Covered Bond Act and the Rules, that LTV calculations are correctly updated upon significant decrease in the Market Value of mortgaged assets, and that the matching rules are complied with.

The independent inspector shall semi-annually provide the Icelandic FSA with a written report regarding his/her surveillance, as further described in the Rules on Covered Bonds. Furthermore, the independent

inspector shall as soon as possible notify the Icelandic FSA should he/she become aware of any matters which could affect the Icelandic FSA's assessment of the Issuer's position in general.

## DESCRIPTION OF THE BANK

### OVERVIEW

The Bank was established on 18 October 2008 and is incorporated in Reykjavík 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 2021, the Bank's total assets were ISK 1,469,556 million.

In the nine month period ended 30 September 2023, the Bank's net interest income was ISK 33,338 million (compared to ISK 29,578 million in the nine month period ended 30 September 2022), its operating income was ISK 47,869 million (compared to ISK 40,648 million in the nine month period ended 30 September 2022) and its net earnings were ISK 19,513 million (compared to ISK 20,993 million in the nine month period ended 30 September 2022). As at 30 September 2023, the Bank's total assets were ISK 1,540,669 million.

The Group applied IFRS 17 Insurance Contracts from 1 January 2023 for its insurance subsidiary Vördur, the full retrospective approach as if the standard had always been applied. The Group recognized ISK 917 million as a deduction of equity as of 1 January 2022. The Group restated comparative figures in the Consolidated Financial Statements for the year 2022. For further information on the effect of the IFRS 17 implementation see Note 3 in the Condensed Consolidated Interim Financial Statements for the first nine months of 2023.

The Bank's registered address is Borgartúni 19, 105 Reykjavík, Iceland and its telephone number is +354 444 7000.

The information on the Bank's website (<https://www.arionbanki.is/english/>) does not form part of this Prospectus unless that information is incorporated by reference into this Prospectus.

## 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 Icelandic 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.

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 13 December 2023 there were ten shareholders in the Bank holding more than 2.5 per cent. of the share capital, as shown in the table below.

<b>As of 13 December 2023</b>	<b>Percentage of all shares</b>
Gildi Pension Fund .....	9.85
LSR Pension Fund .....	9.66
Live Pension Fund .....	9.17
Stodir hf. ....	5.38
Brú Pension Fund .....	4.17
Vanguard.....	3.99
Birta Pension Fund. ....	3.60
Stapi Pension Fund .....	3.11

<b>As of 13 December 2023</b>	<b>Percentage of all shares</b>
Frjálsi Pension Fund .....	3.51
Hvalur hf. ....	2.52
<b>Total</b> .....	<b>54.96</b>

### **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 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. (41.9 per cent. for the nine months ended 30 September 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 on focusing on holistic customer journey optimisation, 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 was split into individuals and corporates and is now 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 Stefnir, 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 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.

**Nine month period ended 30 September 2023**

	<b>Retail banking including insurance<sup>(1)</sup></b>	<b>Corporate &amp; Investment banking including insurance<sup>(1)</sup></b>	<b>Markets and Stefnir</b>	<b>Treasury<sup>(2)</sup></b>	<b>Subsidiaries excluding Stefnir and Vördur</b>	<b>Supporting units and elimination<sup>(3)</sup></b>	<b>Total</b>
	<i>(ISK in millions)</i>						
Operating income.....	19,046	18,982	5,052	2,976	1,546	267	47,869
Earnings before tax .....	9,384	13,553	1,588	1,275	1,345	118	27,263
Total assets .....	692,160	484,780	100,054	584,518	18,486	(339,329)	1,540,669

- (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**

	<b>Retail banking including insurance</b>	<b>Corporate &amp; Investment banking including insurance<sup>(1)</sup></b>	<b>Markets and Stefnir</b>	<b>Treasury<sup>(2)</sup></b>	<b>Subsidiaries excluding Stefnir and Vördur</b>	<b>Supporting units and elimination<sup>(3)</sup></b>	<b>Total</b>
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**

	<b>Retail banking</b>	<b>Corporate &amp; Investment banking</b>	<b>Markets and Stefmir</b>	<b>Treasury<sup>(1)</sup></b>	<b>Vördur</b>	<b>Other subsidiaries<sup>(2)</sup></b>	<b>Supporting units and elimination<sup>(3)</sup></b>	<b>Total</b>
	<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 Keflavík 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. In addition, a new role was created in November 2017 for a product manager for deposits, who is authorised to manage prices and interest rates on deposits as well as promote deposits within the branch network and via digital channels.

## *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.

Regulation (EU) 2015/751 on interchange fees for card-based payment transactions (the **EU Interchange Fee Regulation**) was implemented in Iceland on 1 September 2019. The EU Interchange Fee Regulation will not generally affect debit card income as the cap is already set at 0.2 per cent. in Iceland. However, it will affect the Bank's revenue from domestic credit card turnover. Pursuant to the implementation of this legislation, the domestic interchange rate fee cap was lowered to 0.3 per cent. The Bank has budgeted for this expected revenue loss and has taken certain steps to mitigate the effect, mostly by reducing cost associated with the cards, simplifying the card product portfolio, reducing the number of third-party processors and increasing card related revenues other than interchange fees.

## **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 1,314 billion in assets under management as of 30 September 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 243 billion as of 30 September 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 were held in a special holding vehicle called Stakksberg ehf., established by the Bank, which is a subsidiary of Eignabjarg ehf, but were sold to Landey in 2022.

#### **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 of 2020, 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 five 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 Icelandic 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.

#### *Operation & Culture*

Operation & Culture is a new cross functional support unit. It includes human resources, legal services, business services and transformation. It is led by the COO.

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 services 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.

### *CEO Office*

The CEO office includes communications and sustainability.

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 the Icelandic 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 Icelandic 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 have also become increasingly active in the mortgage loans market and, in 2017, 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*

*In a lawsuit brought in June 2013, Kortapjónustan hf. claimed damages from Arion Bank hf., Íslandsbanki hf., Landsbankinn hf., Borgun hf. and Valitor hf. in the amount of ISK 1.2 billion plus interest. The lawsuit is a result of damage Kortapjónustan hf. contended the five parties caused the company due to violations of the Competition Act. In June 2017 the Supreme Court dismissed the case on procedural grounds. Since then, Kortapjónustan hf. and subsequently its largest shareholder EC-Clear have tried to initiate five lawsuits against the same defendants which have all been dismissed, the last one in March 2021. In September 2021 EC-Clear has once again brought the same matter of dispute, claiming damages in the amount of ISK 922 million plus interest, against the same defendants. In September 2022 the District Court dismissed the claims. EC-Clear appealed the dismissal but with a ruling 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 2023 the District Court of Reykjavík acquitted the Bank. The plaintiffs have appealed this decisions in the Court of Appeal.

#### *On-site inspection by the Central Bank*

The Financial Supervisory Authority of the Central Bank of Iceland (the “FSA”) did an on-site inspection at the Bank in 2022. Following the inspection, the FSA identified and reported deficiencies in the Bank's compliance with the relevant Act and regulations. In August 2023, following receipt of FSA’s final report, the Bank requested that the matter be concluded by way of settlement. The matter is now pending with the FSA.

#### *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 which the bankruptcy estate is referring to is 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 – Subsidiaries and Supporting Units – 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 Q3 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 19,476 million from continuing operations for the nine months ended 30 September 2023, compared to a net earnings from continuing operations of ISK 14,084 million for the nine months ended 30 September 2022. The Bank's net impairments for the nine months ended 30 September 2023 were negative with net impairments of ISK 1,361 million as compared to ISK 267 million for the nine months ended 30 September 2022.

## KEY FINANCIAL INDICATORS

The following table includes certain of the Bank's key financial indicators for the nine month period ended 30 September 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 Q3 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 Q3 2023 Interim Financial Statements and the Annual Financial Statements, as applicable.

	As of and for the nine month period ended	As of and for the year ended	
	30 September 2023	31 December 2022	31 December 2021
	%	%	%
<b>Profitability</b>			
Return on equity <sup>6</sup> .....	13.9	13.7	14.7
Return on assets <sup>7</sup> .....	1.7	1.8	2.3
Return on risk exposure amount <sup>8</sup> .....	2.9	3.0	3.7
<b>Net interest margin</b>			
Net interest margin on interest bearing-assets <sup>9</sup> ..	3.1	3.1	2.8
Net interest margin on total assets <sup>10</sup> .....	3.0	2.9	2.6
<b>Efficiency</b>			
Cost-to-income ratio <sup>11</sup> .....	41.9	47.0	44.4

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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.

<sup>9</sup> 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 33,338 million for the nine month period ended 30 September 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 177,058 million as at 30 September 2023, ISK 138,174 million as at 31 December 2022 and ISK 151,852 million as at 31 December 2021), derivatives (ISK 9,662 million as at 30 September 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 2,679 million as at 30 September 2023, ISK 3,890 million as at 31 December 2022 and ISK 14,044 million as at 31 December 2021). See Note 25 to the Q3 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.

<sup>10</sup> 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.

<sup>11</sup> 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 nine month period ended 30 September 2023 includes expenses from insurance operations.

Cost-to-total assets ratio <sup>12</sup> .....	1.8	1.9	2.1
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<sup>12</sup> 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 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 nine month period ended 30 September 2023 includes expenses from insurance operations.

## FUNDING AND LIQUIDITY

### Funding

The Bank is partially funded with domestic deposits. Its total deposit base as at 30 September 2023 was ISK 806,331 million, or 59.8 per cent. of its total liabilities. In addition to deposits, the Bank's other funding comprises bonds issued under its EMTN Programme and this European Covered Bond (Premium) Programme, bills issued and other loans and equity. The Bank issues bonds internationally under its EMTN Programme and covered bonds under this European Covered Bond (Premium) 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

The applicable rules on the liquidity of lending credit institutions were issued by the Icelandic Central Bank in 2017, as amended in 2019 and 2020. The rules are based on the liquidity standards introduced by the Basel Committee and CRD IV. 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 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 requirement for foreign currency is 100 per cent. effective from 1 January 2017. The LCR as at 30 September 2023, 31 December 2022 and 31 December 2021 is shown below:

	As at		
	30 September 2023	31 December 2022	31 December 2021
<b>Liquidity coverage ratio</b>			
FX.....	1580%	720%	607%
Total.....	179%	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 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 Q3 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 Q3 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.

<b>Primary risk factor</b>	<b>Swaps</b>	<b>Forwards</b>	<b>Options</b>
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 September 2023, the Bank had one large exposure of ISK 18.8 billion, being 10.1 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 September 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.

	<b>30 September 2023</b>	
	<b>-10.0%</b>	<b>+10.0%</b>
	<i>(ISK in millions)</i>	
EUR .....	(178)	178
USD .....	105	(105)
GBP .....	11	(11)
DKK.....	(2)	2
NOK.....	21	(21)
Other .....	39	(39)

(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.

	<b>As of 30 September</b>	<b>As of 31 December</b>	
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Total NSFR</b> .....	<b>122%</b>	<b>119%</b>	<b>121%</b>

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 Icelandic 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 860/2022, 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 Icelandic 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 Icelandic FSA. The Icelandic FSA has defined the Bank as a systemically important financial institution in Iceland.

<b>Capital buffer requirement as a percentage of risk-weighted assets</b>	<b>As of 30 September 2023</b>	<b>Max CCyB</b>
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 <sup>(1)</sup> .....	2.0	2.5
<b>Combined capital buffer requirement</b> .....	<b>9.5</b>	<b>10.0</b>

(1) The maximum countercyclical risk buffer which can be applied in Iceland is 2.5 per cent.; however, the Icelandic FSA is authorised to apply a higher countercyclical risk buffer on the basis of a recommendation from the Financial Stability Council. The countercyclical buffer is expected to increase to 2.5 per cent. in March 2024.

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, in March 2019 and December 2022 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 September 2023.

<b>Total regulatory capital requirement as a percentage of risk-weighted assets</b>	<b>CET1</b>	<b>Tier 1</b>	<b>Total</b>
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%
<b>Total regulatory capital requirement</b> .....	<b>14.9%</b>	<b>16.8%</b>	<b>19.3%</b>
Available capital .....	19.0%	20.5%	24.1%

(1) SREP result based on the Group's financial position as of 31 December 2022. The Pillar 2 requirement is 2.1 per cent. of risk-weighted exposure amount based on the Group's prudential consolidation under CRR, which excludes Vördur 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 Icelandic 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.

<b>Stress Test</b>	<b>Frequency</b>	<b>Description</b>
Icelandic Central Bank and FSA stress tests .....	Annually	Stressed scenarios provided by the Icelandic Central Bank in collaboration with the Icelandic 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 implemented 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 as the EU regulations had fully been transposed into national law.

On 22 January 2016, the Financial Stability Council of Iceland published its recommendation to the Icelandic 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 Icelandic 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 Icelandic 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 Icelandic FSA following a SREP. The Group's own funds exceeded the Icelandic 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 September 2023, the Group's total capital base amounted to ISK 218,528 million (exceeding the Icelandic FSA's requirements under the SREP), as compared to ISK 212,101 million as of 31 December 2022. The Group's capital adequacy ratio, calculated in accordance with Icelandic requirements, was 24.1 per cent. as of 30 September 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 Q3 2023 Interim Financial Statements for details on the Group's RWA calculations as at 30 September 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 Icelandic 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 Marinvest 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 2017-2019, chairman of the board of directors of the Icelandic National Broadcasting Service (RÚV) 2016-2017, director at the Nordic Arbitration Center, chairman of the board of directors of the Icelandic Dance Company 2013-2016 and was elected by the Icelandic parliament to serve on the National Electoral Commission in 2013-2017. Gunnar also lectured in competition law in 1995-2007 at the University of Iceland, Faculty of Law.

### ***Kristín Petursdóttir***

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 Kvika 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 2005-2007. Kristín has also served as a board member at Ölgerdin, Tal, Yggdrasil, Singer & Friedlander, Vidskiptarád, 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 at the date of this 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 (today 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 programme 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 at the date of this 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 2016-2017. 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 2018-2021.

As at the date of this Prospectus, Paul serves on the board of AIB (UK) P.L.C., chairs its risk committee and is a 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 2015-2017 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 at the date of this Prospectus, 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 Borgartúni 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's alternate director is Sigurbjörg Ásta Jónsdóttir, a 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 Borgartúni 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 Títan, 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 United Kingdom 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 Borgartúni 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 problems 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).

## 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 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.

The BRRD also provides for an EEA 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 EEA 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.

### ***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 Icelandic FSA ([www.fme.is](http://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 Icelandic FSA are primarily governed by Act No. 87/1998, on the Official Supervision of Financial Operations, and Act No. 99/1999, on the Payment of Cost Due to the Official Supervision of Financial Activities.

Pursuant to the introduction of Act No. 24/2017 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](http://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 Icelandic FSA merged with the Icelandic Central bank in January 2020 to create one supervisory authority for financial markets. The tasks carried out by the Icelandic FSA will now be carried out by a division of the Icelandic Central Bank which shall be referred to as the Icelandic 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.

## OVERVIEW OF TRANSACTION DOCUMENTS

### Cover Pool Swap Agreement

The Issuer may enter into an interest rate swap transaction governed by an ISDA Master Agreement (including a schedule, a credit support annex and confirmation(s)) in respect of the assets registered to the Cover Pool (respectively, the **Cover Pool Swap** and the **Cover Pool Swap Agreement**) with a Cover Pool Swap Provider.

On each monthly payment date under the Cover Pool Swap, the Issuer may pay to the Cover Pool Swap Provider all revenue payments (i.e. excluding principal payments) received in respect of the assets (other than Eligible Swaps) registered to the Cover Pool (but excluding amounts corresponding to the client margin) and the Cover Pool Swap Provider may pay to the Issuer an amount calculated on the nominal amount of the assets (other than Eligible Swaps) which are registered to the Cover Pool, based on the applicable floating rate or fixed rate payable under the Covered Bonds plus a margin.

The matching requirements referred to in "*Overview of the Icelandic Legislation Regarding Covered Bonds – Coverage Requirements*" above will apply in respect of the Cover Pool Swap.

### *Ratings downgrade*

Under the Cover Pool Swap Agreement, in the event that the relevant rating(s) of the Cover Pool Swap Provider are downgraded by a rating agency below the rating(s) specified in the Cover Swap Agreement (in accordance with the requirements of the rating agencies) for the Cover Pool Swap Provider, the Cover Pool Swap Provider will, in accordance with the Cover Pool Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the Cover Pool Swap, arranging for its obligations under the Cover Pool Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the Cover Pool Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the Cover Pool Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the Cover Pool Swap or taking some other action as it may agree with the relevant rating agency.

### *Termination events*

The Cover Pool Swap Agreement will or may be terminated under certain circumstances, including the following:

- at the option of the Cover Pool Swap Provider, if the Issuer is in breach of representations contained in the Cover Pool Swap Agreement to register the Cover Pool Swap Agreement and the Cover Pool Swap thereunder in the Cover Pool register;
- at the option of one party to the Cover Pool Swap Agreement, if there is a failure by the other party to pay any amounts due under the Cover Pool Swap Agreement and any applicable grace period has expired;
- at the option of the Issuer, upon the occurrence of an insolvency of the Cover Pool Swap Provider or its guarantor, or the merger of the Cover Pool Swap Provider without an assumption of its obligations under the Cover Pool Swap Agreement, or if a material misrepresentation is made by the Cover Pool Swap Provider under the Cover Pool Swap Agreement, or if the Cover Pool Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and the Cover Pool Swap Provider or if a breach of a provision of the Cover Pool Swap Agreement by the Cover Pool Swap Provider is not remedied within the applicable grace period;

- if a change in law results in the obligations of one party becoming illegal or if a *force majeure* event occurs;
- at the option of the Cover Pool Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the Cover Pool Swap Provider under the Cover Pool Swap due to a change in law;
- if the Cover Pool Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the Cover Pool Swap Agreement and described above under "*Ratings downgrade*"; and
- at the option of the Cover Pool Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the Cover Pool Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources) and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from the Cover Pool Swap Provider.

### ***Transfer***

The Cover Pool Swap Provider may, subject to certain conditions specified in the Cover Pool Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under the Cover Pool Swap to another entity.

### ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Cover Pool Swap Provider will rank senior to the Covered Bondholders in respect of its claims against the Issuer in respect of assets registered to the Cover Pool.

The margins over the applicable floating rate or fixed rate applicable to the Cover Pool Swap will be determined on the effective date of such swap and may be varied from time to time by the Issuer and the Cover Pool Swap Provider, subject to written confirmation from the rating agencies that the proposed amendment will not adversely affect the then current ratings of the Covered Bonds.

The Cover Pool Swap Agreement will be governed by English law.

### **Interest Rate Swap Agreements**

The Issuer may also, from time to time, enter into additional interest rate swaps with Interest Rate Swap Providers by executing an ISDA Master Agreement (including schedules, a credit support annex and confirmations) (each such agreement, an **Interest Rate Swap Agreement** and each of the transactions

thereunder, an **Interest Rate Swap**), in order to hedge the Issuer's interest rate risks in ISK and/or other currencies to the extent that these have not already been hedged by the Cover Pool Swap, Currency Swap or an Indexed Currency Swap, subject always to the matching requirements as referred to in "*Overview of the Icelandic Legislation Regarding Covered Bonds – Coverage Requirements*" above.

### ***Ratings downgrade***

Under each of the Interest Rate Swap Agreements, in the event that the relevant rating(s) of an Interest Rate Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the rating agencies) for such Interest Rate Swap Provider, the relevant Interest Rate Swap Provider will, in accordance with the relevant Interest Rate Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Interest Rate Swap, arranging for its obligations under the relevant Interest Rate Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Interest Rate Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Interest Rate Swap or taking some other action as it may agree with the relevant rating agency.

### ***Termination events***

The Interest Rate Swap Agreements will or may be terminated under certain circumstances, including the following:

- at the option of each Interest Rate Swap Provider, if the Issuer is in breach of representations contained in the relevant Interest Rate Swap Agreement to register the relevant Interest Rate Swap Agreement and each Interest Rate Swap thereunder in the Cover Pool register;
- at the option of one party to the relevant Interest Rate Swap Agreement, if there is a failure by the other party to pay any amounts due under that Interest Rate Swap Agreement and any applicable grace period has expired;
- at the option of the Issuer, upon the occurrence of an insolvency of the relevant Interest Rate Swap Provider or its guarantor, or the merger of the relevant Interest Rate Swap Provider without an assumption of its obligations under the relevant Interest Rate Swap Agreement, or if a material misrepresentation is made by the relevant Interest Rate Swap Provider under the relevant Interest Rate Swap Agreement, or if the relevant Interest Rate Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Interest Rate Swap Provider or if a breach of a provision of the relevant Interest Rate Swap Agreement by the Interest Rate Swap Provider is not remedied within the applicable grace period;
- if a change in law results in the obligations of one party becoming illegal or if a *force majeure* event occurs;
- at the option of the relevant Interest Rate Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Interest Rate Swap Provider under the relevant Interest Rate Swap due to a change in law;
- if the relevant Interest Rate Swap Provider, or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Interest Rate Swap Agreement and described above under "*Ratings downgrade*"; and

- at the option of the relevant Interest Rate Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Interest Rate Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from an Interest Rate Swap Provider.

### ***Transfer***

Each Interest Rate Swap Provider may, subject to certain conditions specified in the relevant Interest Rate Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Interest Rate Swap to another entity.

### ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Interest Rate Swap Agreements will be governed by English law.

The Interest Rate Swap Providers will rank senior to the Covered Bondholders in respect of their claims against the Issuer in respect of assets registered to the Cover Pool.

### **Currency Swap Agreements**

Subject to currency restrictions in place at each time, if Covered Bonds are issued in currencies other than ISK, the Issuer may enter into Currency Swaps from time to time with Currency Swap Providers by executing ISDA Master Agreements (including schedules, a credit support annex and confirmations) (each such agreement, a **Currency Swap Agreement** and each of the transactions thereunder, a **Currency Swap**), in order to hedge currency risks arising between (a) Covered Bonds issued in currencies other than ISK and (b) assets (other than Mortgage Bonds and Eligible Swaps) forming part of the Cover Pool but denominated in ISK, subject always to the matching requirements as referred to in "*Overview of the Icelandic Legislation Regarding Covered Bonds – Coverage Requirements*" above.

### ***Ratings downgrade***

Under each of the Currency Swap Agreements, in the event that the relevant rating(s) of a Currency Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Currency Swap Agreement (in accordance with the requirements of the rating agencies) for such Currency Swap Provider, the relevant Currency Swap Provider will, in accordance with the relevant Currency Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Currency Swap, arranging for its obligations under the relevant Currency Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Currency Swap

Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Currency Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Currency Swap or taking some other action as it may agree with the relevant rating agency.

### ***Termination events***

The Currency Swap Agreements will or may be terminated under certain circumstances, including the following:

- at the option of each Currency Swap Provider, if the Issuer is in breach of representations contained in the relevant Currency Swap Agreement to register the relevant Currency Swap Agreement and each Currency Swap thereunder in the Cover Pool register;
- at the option of one party to the relevant Currency Swap Agreement, if there is a failure by the other party to pay any amounts due under that Currency Swap Agreement and any applicable grace period has expired;
- at the option of the Issuer, upon the occurrence of an insolvency of the relevant Currency Swap Provider or its guarantor, or the merger of the relevant Currency Swap Provider without an assumption of its obligations under the relevant Currency Swap Agreement, or if a material misrepresentation is made by the relevant Currency Swap Provider under the relevant Currency Swap Agreement, or if the relevant Currency Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Currency Swap Provider or if a breach of a provision of the relevant Currency Swap Agreement by the Currency Swap Provider is not remedied within the applicable grace period;
- if a change in law results in the obligations of one party becoming illegal;
- at the option of the relevant Currency Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Currency Swap Provider under the relevant Currency Swap due to a change in law;
- if the relevant Currency Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Currency Swap Agreement and described above under "*Ratings downgrade*"; and
- at the option of the relevant Currency Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Currency Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from a Currency Swap Provider.

### ***Transfer***

Each Currency Swap Provider may, subject to certain conditions specified in the relevant Currency Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Currency Swap to another entity.

### ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Currency Swap Agreements will be governed by English law.

The Currency Swap Provider will rank senior to the Covered Bondholders in respect of their claims against the Issuer in respect of assets registered to the Cover Pool.

Where the Issuer enters into both interest rate swap transactions and currency swap transactions with the same counterparty these may be entered into under the same ISDA Master Agreement.

### **Indexed Currency Swap Agreements**

The Issuer will enter into Indexed Currency Swaps from time to time with Indexed Currency Swap Providers by executing ISDA Master Agreements (including schedules, a credit support annex and confirmations) (each such agreement, an **Indexed Currency Swap Agreement** and each of the transactions thereunder, an **Indexed Currency Swap** in order to hedge currency and inflation risks arising between (a) Covered Bonds issued in currencies other than ISK and (b) assets forming part of the Cover Pool but denominated in ISK and indexed linked, subject always to the matching requirements as referred to in "*Overview of the Icelandic Legislation Regarding Covered Bonds – Coverage Requirements*" above.

### ***Ratings downgrade***

Under each of the Indexed Currency Swap Agreements, in the event that the relevant rating(s) of an Indexed Currency Swap Provider are downgraded by a rating agency below the rating(s) specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the rating agencies) for such Indexed Currency Swap Provider, the relevant Indexed Currency Swap Provider will, in accordance with the relevant Indexed Currency Swap Agreement, be required to take certain remedial measures which may include providing additional collateral for its obligations under the relevant Indexed Currency Swap, arranging for its obligations under the relevant Indexed Currency Swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant Indexed Currency Swap Agreement (in accordance with the requirements of the relevant rating agency) to become a co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Indexed Currency Swap or taking some other action as it may agree with the relevant rating agency.

### ***Termination events***

The Indexed Currency Swap Agreements will or may be terminated under certain circumstances, including the following:

- at the option of each Indexed Currency Swap Provider, if the Issuer is in breach of representations contained in the relevant Indexed Currency Swap Agreement to register the relevant Indexed Currency Swap Agreement and each Indexed Currency Swap thereunder in the Cover Pool register;
- at the option of one party to the relevant Indexed Currency Swap Agreement, if there is a failure by the other party to pay any amounts due under that Indexed Currency Swap Agreement and any applicable grace period has expired;
- at the option of the Issuer, upon the occurrence of an insolvency of the relevant Indexed Currency Swap Provider or its guarantor, or the merger of the relevant Indexed Currency Swap Provider without an assumption of its obligations under the relevant Indexed Currency Swap Agreement, or if a material misrepresentation is made by the relevant Currency Swap Provider under the relevant Indexed Currency Swap Agreement, or if the relevant Indexed Currency Swap Provider defaults under an over-the-counter derivatives transaction under another agreement between the Issuer and such Indexed Currency Swap Provider or if a breach of a provision of the relevant Indexed Currency Swap Agreement by the Indexed Currency Swap Provider is not remedied within the applicable grace period;
- if a change in law results in the obligations of one party becoming illegal or if a *force majeure* event occurs;
- at the option of the relevant Indexed Currency Swap Provider, if withholding taxes are imposed on payments made by the Issuer or by the relevant Indexed Currency Swap Provider under the relevant Indexed Currency Swap due to a change in law;
- if the relevant Indexed Currency Swap Provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provisions contained in the relevant Indexed Currency Swap Agreement and described above under "*Ratings downgrade*";
- at the option of the relevant Indexed Currency Swap Provider, upon the redemption, prepayment or purchase of the Covered Bonds in whole or in part.

Upon the occurrence of a swap early termination event, the Issuer or the relevant Indexed Currency Swap Provider may be liable to make a termination payment to the other. The amount of any termination payment will be based on a good faith determination of total losses and costs (or gains) as to entering into a swap with terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (which may be determined following consideration of quotations sought from leading dealers, relevant market data and information from internal sources), and will include any unpaid amounts that became due and payable prior to termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Covered Bondholders.

Covered Bondholders will not receive extra amounts (over and above interest and principal payable on the Covered Bonds) as a result of the Issuer receiving a termination payment from a Indexed Currency Swap Provider.

### ***Transfer***

Each Indexed Currency Swap Provider may, subject to certain conditions specified in the relevant Indexed Currency Swap Agreement, including the satisfaction of certain requirements of the rating agencies, transfer its obligations under any Indexed Currency Swap to another entity.

## ***Taxation***

Either party may be obliged to gross up payments made by it to the other party if withholding taxes are imposed on payments made under a Swap. However, if due to a change in law, either the Issuer or the Swap Provider is required to gross up a payment under a Swap or to receive a payment under a Swap from which an amount has been deducted or withheld, either the Issuer or the relevant Swap Provider, as the case may be, may terminate the relevant Swap.

The Indexed Currency Swap Agreements will be governed by English law.

## **Eligibility Criteria for Swap Providers**

The Issuer will only enter into Swaps with entities which are "qualified counterparties" for the purposes of the Icelandic Covered Bond Act (such Swaps, the **Eligible Swaps**).

## **Deed of Covenant**

The Issuer has entered into a Deed of Covenant for the benefit of the Covered Bondholders, including amongst others, the following covenants:

### *Relevant Reference Currency Swaps*

- (a) In connection with an issuance of each Series of Covered Bonds denominated in a currency other than ISK and assigned a rating by a Rating Agency, in circumstances where the Issuer does not maintain a counterparty risk assessment rating of at least 'Baa1 (cr)' by Moody's at any time when a Series of Covered Bonds rated by Moody's is outstanding and the Issuer does not otherwise enter into a Currency Swap in connection with such issuance, the Issuer covenants to establish on or before the Issue Date of such Series and maintain and update (to the extent required) on a weekly basis in its books, subject to paragraph (b) of "*Establishment of Issuer Accounts*" below, an account (a **Collateral Reserve Account**). All amounts of cash and, if applicable, securities standing to the credit of the relevant Collateral Reserve Account will be denominated in the relevant currency and registered and updated (to the extent required) on a weekly basis in the Register so as to form part of the Cover Pool.
- (b) The Issuer shall within one Business Day of a relevant issuance and thereafter on a weekly basis (to the extent a Currency Swap Provider, which is subject to the collateral posting requirements in accordance with the Moody's Criteria would have been required to in accordance with the terms of the relevant credit support annex(es) forming part of an agreement in the form of the Relevant Reference Currency Swap Agreement(s), as if the Collateral Trigger Requirements (as defined in the Relevant Reference Currency Swap Agreement) applied to the Currency Swap Provider, if it had entered into such agreement(s) with the Issuer in connection with the relevant Series of Covered Bonds) credit and/or debit cash or securities to or from the relevant Collateral Reserve Account in accordance with paragraph (c) below.
- (c) The amount of cash or securities required to be maintained in the relevant Collateral Reserve Account in connection with the issuance of a Series of Covered Bonds will be at least equal to the Collateral Reserve Account Required Amount.
- (d) In the event of the Issuer ceasing to hold the relevant Issuer Required Rating, the Issuer shall use commercially reasonable endeavours to enter into a Currency Swap Agreement for each Series of Covered Bonds substantially in the form of the Relevant Reference Currency Swap Agreement (together with such amendments as may be agreed by the Issuer) with an eligible Currency Swap Provider within 30 days of the Issuer ceasing to hold the relevant Issuer Required Rating and may use amounts standing to the credit of the relevant Collateral Reserve Account to enter into such Currency

Swap to exchange receipts from the assets comprising the Cover Pool payable in ISK and the currency of the relevant Series of Covered Bonds. For the purposes of this provision, "eligible Currency Swap Provider" means such Currency Swap Provider whose rating is capable of supporting the then current rating by the relevant Rating Agency of the relevant issuance of Covered Bonds and whose rating is in accordance with the provisions of the Icelandic Covered Bond Act.

- (e) Where a Currency Swap Agreement is entered into between the Issuer and an eligible Currency Swap Provider, such Currency Swap Agreement shall be registered in the Register so as to form part of the Cover Pool and the requirement to maintain the relevant Collateral Reserve Account by the Issuer pursuant to paragraph (a) above shall cease with respect to the relevant Series of Covered Bonds.
- (f) Where a Currency Swap Agreement is entered into between the Issuer and an eligible Currency Swap Provider, any collateral posting amounts required to be posted by the Currency Swap Provider, which is subject to the collateral trigger requirements in accordance with the Moody's Criteria, shall be maintained at an Eligible Swap Collateral Account Bank. If the Swap Collateral Account Bank ceases to be an Eligible Swap Collateral Account Bank, the Issuer shall within 90 calendar days (or such longer period as may be agreed by Moody's) following the first Business Day on which the Swap Collateral Account Bank ceases to be an Eligible Swap Collateral Account Bank, transfer the collateral posting amounts to an Eligible Swap Collateral Account Bank.
- (g) In the event that the Issuer is unable to enter into a Currency Swap with an eligible Currency Swap Provider in accordance with paragraph (d) above the requirements of paragraph (a) above to (c) above shall continue to apply and amounts standing to the credit of the relevant Collateral Reserve Account from time to time will remain registered in the Register so as to form part of the Cover Pool and will, if applicable, be transferred to a corresponding Swap Collateral Account established in accordance with the Issuer's obligations set out in paragraph (a)(ii) of "*Establishment of Issuer Accounts*" below.
- (h) The Issuer shall use reasonable endeavours to ensure that any Currency Swap Agreement entered into pursuant to paragraph (d) above includes a subordinated swap termination payment provision, such that any Early Termination Amount due and payable by the Issuer to the relevant Currency Swap Provider under the relevant Currency Swap Agreement following the occurrence of (i) an Event of Default or a Termination Event in respect of a Tax Event upon Merger where the Currency Swap Provider is the Defaulting Party or the sole Affected Party, respectively, or (ii) an Additional Termination Event in respect of the Currency Swap Provider following a ratings downgrade of such Currency Swap Provider shall be subordinated to all other amounts payable in respect of the relevant Series of Covered Bonds.
- (i) The obligations of the Issuer to post collateral under paragraphs (a) to (c) (inclusive) above shall not apply:
  - (i) if there are no non-ISK Series of Covered Bonds remain outstanding; or
  - (ii) during such time that the Issuer maintains a counterparty risk assessment rating of at least 'Baa1 (cr)' by Moody's at any time when a Series of Covered Bonds rated by Moody's is outstanding; or
  - (iii) if such obligations are not required to maintain the then current rating of the relevant Series of Covered Bonds.
- (j) The obligations of the Issuer to enter into a Currency Swap Agreement under Clauses (d), (e), (g) and (h) (inclusive) above shall not apply:
  - (i) if there are no non-ISK Series of Covered Bonds remain outstanding; or

- (ii) during such time that the Issuer maintains a counterparty risk assessment rating of at least 'Baa3 (cr)' by Moody's at any time when a Series of Covered Bonds rated by Moody's is outstanding; or
- (iii) if such obligations are not required to maintain the then current rating of the relevant Series of Covered Bonds.

*Asset Coverage Test*

(a) On each Monthly Calculation Date, the Issuer shall determine whether the then total value, without double counting, of:

- (i) the assets comprising the Cover Pool (including any amounts comprising the liquidity buffer required to be maintained in accordance with the Icelandic Covered Bond Act) (the **Cover Pool Value**) (calculated in accordance with the Icelandic Covered Bond Act);
- (ii) any amounts standing to the credit of the Collateral Reserve Account or the Swap Collateral Account; and
- (iii) any cash amounts or securities in any Issuer Account,

(such total value amount being the **ACT Assets Amount**) exceeds the then total value of:

- (i) the Principal Amount Outstanding of all Series of Covered Bonds, together with all accrued interest thereon (provided that for the purpose of calculating such amounts in respect of any Series of Covered Bonds denominated in a currency other than ISK, the Principal Amount Outstanding (and such accrued interest) shall be calculated according to (i) the relevant prevailing spot exchange rate (as determined by the Issuer) on the relevant Monthly Calculation Date or (ii) if a Currency Swap has been entered into in respect of such Series of Covered Bonds, the relevant rate under that Currency Swap);
- (ii) any other payment obligations that must be paid from the Cover Pool in accordance with the Icelandic Covered Bond Act during the period to and including the next following Monthly Calculation Date; and
- (iii) the Deposit Set-off Amount,

(such total value amount being the **ACT Liabilities Amount**) provided that if on such Monthly Calculation Date the ACT Assets Amount does not exceed the ACT Liabilities Amount (such determination, the **Asset Coverage Test**) the Asset Coverage Test shall be deemed to have been breached for the purpose of paragraph (b) below.

- (b) In the event of a breach of the Asset Coverage Test on a Monthly Calculation Date, the Issuer shall use reasonable endeavours to allocate sufficient additional assets to the Cover Pool and register such assets in the Register in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Monthly Calculation Date.
- (c) In calculating the Cover Pool Value, subject to the provisions of paragraph (a)(i) above, the value of any non-ISK denominated assets comprising the Cover Pool shall be converted into ISK on the basis of the exchange rate published by the Central Bank of Iceland as at such Monthly Calculation Date.

### *Establishment of Issuer Accounts*

- (a) If the Issuer ceases to be an Eligible Institution, the Issuer shall within 90 calendar days (or such longer period as may be agreed by Moody's) following the first Business Day on which it ceases to be an Eligible Institution, establish one or more of the following bank accounts in its name with an Eligible Institution:
  - (i) a transaction account denominated in ISK (the **Transaction Account**); and
  - (ii) any liquidity reserve account required under the Icelandic Covered Bond Act into which the requirement of the liquidity buffer in cash or cash equivalent will be deposited (the **Liquidity Buffer Account** and together with the Transaction Account, the **Issuer Accounts**).
- (b) If the Issuer is required to post collateral under paragraph (a) of "*Relevant Reference Currency Swaps*" above and the Issuer ceases to be an Eligible Collateral Reserve Account Bank, the Issuer shall within 90 calendar days (or such longer period as may be agreed by Moody's) following the first Business Day on which it ceases to be an Eligible Collateral Reserve Account Bank, establish cash and securities accounts denominated in the relevant currency in respect of each relevant Series of Covered Bonds (each such account, a Swap Collateral Account).
- (c) Following the establishment of the Issuer Accounts in accordance with paragraph (a) above, the Issuer shall:
  - (i) transfer all payments received from the Cover Pool (**Cover Pool Revenue**) to the Transaction Account within 3 Business Days of receipt by the Issuer (any such amounts being capable of being withdrawn from such account either to discharge the obligations of the Issuer under the Covered Bonds or otherwise used by the Issuer as it considers appropriate and shall only be so withdrawn if (A) to do so would not breach the Icelandic Covered Bond Act, (B) on the subsequent Monthly Calculation Date the amounts so withdrawn would not, in the Issuer's opinion, be required to enable the Asset Coverage Test to be complied with and (C) the Issuer is not otherwise in breach of its obligations under the Deed of Covenant or the Terms and Conditions of the Covered Bonds then outstanding);
  - (ii) provide, or procure the provision of, servicing, administration and cash management services with respect to the Cover Pool Revenue and the operation of the Issuer Accounts;
  - (iii) create security over each Issuer Account for the benefit of the Covered Bondholders; and
  - (iv) take all necessary steps to register the Issuer Accounts and the amounts standing to the credit of the Issuer Accounts in the Register.
- (d) Following the establishment of a Swap Collateral Account in accordance with Clause 11.2, the Issuer shall:
  - (i) where the Issuer is required to post collateral as set out in paragraph (a) above of the section "*Relevant Reference Currency Swaps*" and where the Issuer ceases to be an Eligible Collateral Reserve Account Bank as set out in paragraph (a) above (of this section *Establishment of Issuer Accounts*), transfer all amounts standing to the credit of any Collateral Reserve Account to the relevant Swap Collateral Account and thereafter on a weekly basis (to the extent required) credit and/or debit cash or securities to or from the Swap Collateral Account in accordance with paragraph (c) above of the section "*Relevant Reference Currency Swaps*" and continue to maintain and update (to the extent required) on a weekly basis thereafter, a record of such amounts on the relevant Collateral Reserve Account;

- (ii) provide, or procure the provision of, servicing, administration and cash management services with respect to the Cover Pool Revenue and the operation of the Swap Collateral Account;
  - (iii) create security over the Swap Collateral Account for the benefit of the Covered Bondholders; and
  - (iv) take all necessary steps to register the Swap Collateral Account and the amounts standing to the credit of the Swap Collateral Account in the Register.
- (e) In the event that any Eligible Institution appointed pursuant to paragraph (a) above ceases to be an Eligible Institution, the Issuer will be obliged to transfer the relevant Issuer Account to an Eligible Institution.
- (f) In the event that any Eligible Collateral Reserve Account Bank appointed pursuant to paragraph (b) above ceases to be an Eligible Collateral Reserve Account Bank, the Issuer will be obliged to transfer the Swap Collateral Account to an Eligible Collateral Reserve Account Bank.
- (g) The obligations of the Issuer under paragraphs (a), (c) and (e) above shall not apply:
- (i) if there are no non-ISK Series of Covered Bonds remain outstanding; or
  - (ii) during such time that the Issuer maintains a counterparty risk assessment rating of at least 'Baa3 (cr)' by Moody's at any time when a Series of Covered Bonds rated by Moody's is outstanding; or
  - (iii) if such obligations are not required to maintain the then current rating of the relevant Series of Covered Bonds.
- (h) The obligations of the Issuer under paragraphs (b), (d) and (f) above shall not apply:
- (i) if there are no non-ISK Series of Covered Bonds remain outstanding; or
  - (ii) during such time that the Issuer maintains a long term deposit rating of at least 'A3' by Moody's at any time when a Series of Covered Bonds rated by Moody's is outstanding; or
  - (iii) if such obligations are not required to maintain the then current rating of the relevant Series of Covered Bonds.

#### Obligations of the Issuer

- (i) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps*, *Asset Coverage Test* and *Establishment of Issuer Accounts* will not result in any events of default relating to the Issuer, accordingly payments under the Covered Bonds will not be accelerated in such circumstances and any such failure by the Issuer to comply with these obligations will not entitle Covered Bondholders to accelerate the Covered Bonds.
- (j) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps*, *Asset Coverage Test* and *Establishment of Issuer Accounts* will result in the Issuer not being able to issue further Covered Bonds whilst such failure is continuing. For the avoidance of doubt, the Issuer will be able to continue issuing Covered Bonds denominated in ISK.

#### *Rating Agency Substitution*

The Issuer may amend the provisions of the Deed of Covenant to accommodate the substitution of a Rating Agency provided that the relevant modifications are required to accommodate equivalent or higher rating

criteria of the replacement Rating Agency. In such case, the related ratings requirements specified by and/or relating to such Rating Agency to be substituted shall be amended to refer to the respective ratings requirements of the replacement Rating Agency.

The defined terms used in this section "*Deed of Covenant*" shall have the following meanings:

**ACT Assets Amount** has the meaning given to it in "*Asset Coverage Test*" above.

**ACT Liabilities Amount** has the meaning given to it in "*Asset Coverage Test*" above.

**Asset Coverage Test** has the meaning given to it in "*Asset Coverage Test*" above.

**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.

**Collateral Reserve Account** has the meaning given to it in "*Relevant Reference Currency Swaps*" above.

**Collateral Reserve Account Required Amount** means in respect of all Series of non-ISK Covered Bonds, an amount (as set out in the collateralisation requirements described in "Moody's Approach to Assessing Counterparty Risks in Structured Finance" as published on 28 June 2022 (**Moody's Criteria**)) commensurate with the collateral posting amounts that a Currency Swap Provider, which is subject to the collateral posting requirements in accordance with the Moody's Criteria that it would have been required to maintain in respect of a cross-currency hedge transaction, that is not a cap, floor or swaption transaction, which applies the Moody's original collateral provisions as if the Collateral Trigger Requirements (as defined in the Relevant Reference Currency Swap Agreement) applied to the Currency Swap Provider in accordance with the terms of the relevant credit support annex(es) forming part of an agreement in the form of the Relevant Reference Currency Swap Agreement(s) if it had entered into such agreement(s) with the Issuer in connection with the relevant Series of Covered Bonds (or such other lower amount as agreed with Moody's that is required to maintain the then current rating of the relevant Series of Covered Bonds).

**Cover Pool** means the pool of eligible assets recorded in the Register maintained by the Issuer in accordance with the Icelandic Covered Bond Act.

**Cover Pool Value** has the meaning given to it in "*Asset Coverage Test*" above.

**Cover Pool Revenue** has the meaning given to it in "*Establishment of Issuer Accounts*" above.

**Currency Swap Agreement** means the ISDA Master Agreement, schedule, credit support annex (if applicable) and confirmation(s) (as amended and supplemented from time to time) relating to the Currency Swap(s) entered into from time to time between the Issuer and each Currency Swap Provider.

**Currency Swap Provider** means any reference or actual (as the context requires) third party counterparty.

**Currency Swap** means a currency swap which enables the Issuer to hedge currency risks arising from (a) Covered Bonds which are issued in currencies other than ISK and (b) if required, assets (other than bonds as defined in Article 2 of the Icelandic Covered Bond Act which are issued by borrowers and as described in Article 5 of the Icelandic Covered Bond Act) which are registered to the Cover Pool and are denominated in ISK.

**Deposit Set-off Amount** means in respect of a Series of Covered Bonds assigned a rating by Moody's (i) nil if the Issuer's counterparty risk assessment rating assigned by Moody's is at least 'Baa3(cr)' or above, or (ii) if (i) is not applicable, the "Potential Set-Off Amount" calculated pursuant to the relevant Moody's rating methodology.

**Eligible Institution** means in respect of a Series of Covered Bonds rated by Moody's, any bank whose counterparty risk assessment rating is at least 'Baa3 (cr)' by Moody's (or such other rating as may be agreed by Moody's).

**Eligible Swap Collateral Account Bank** means in respect of a Series of Covered Bonds rated by Moody's, any bank whose long term deposit rating is at least 'A3' by Moody's (or such other rating as may be agreed by Moody's).

**Eligible Collateral Reserve Account Bank** means in respect of a Series of Covered Bonds rated by Moody's, any bank whose long term deposit rating is at least 'A3' by Moody's (or such other rating as may be agreed by Moody's).

**Issuer Accounts** means the Transaction Account and the Liquidity Buffer Account and **Issuer Account** means any of them.

**Issuer Rating** means the Issuer's long-term issuer credit rating assigned by, as the context requires, Moody's or such other Rating Agency.

**Issuer Required Rating** means in respect of a Series of Covered Bonds rated by Moody's, the counterparty risk assessment rating from Moody's (**CR Assessment**) of the Issuer is 'Baa3 (cr)' or above by Moody's or if there's no CR Assessment then the Issuer's long-term, unsecured and unsubordinated debt or counterparty obligations are rated 'Baa3' or above.

**Liquidity Buffer Account** has the meaning given to it in "*Establishment of Issuer Accounts*" above.

**Monthly Calculation Date** means the last Business Day of each month.

**Moody's** means Moody's Investors Service Ltd or any successor to its rating business.

**Rating Agency** means any rating agency engaged by the Issuer to assign a rating to a Series of Covered Bonds including any successor to any such rating agency's rating business, and **Rating Agencies** shall be construed accordingly.

**Register** has the meaning given to it in the Icelandic Covered Bond Act.

**Relevant Reference Currency Swap Agreement** means, in relation to a Series of Covered Bonds which are denominated in a currency other than ISK, an agreement in the form of an ISDA 2002 Master Agreement including the Schedule and Credit Support Annex thereto, together with the relevant form of currency swap confirmation for a Currency Swap, in each case in the form annexed to the applicable Series Deed of Covenant.

**Series Deed of Covenant** means a deed of covenant prepared in relation to a particular Series of Covered Bonds including the applicable form of Relevant Reference Currency Swap Agreement, and **applicable Series Deed of Covenant** shall mean the Series Deed of Covenant applicable to the relevant particular Series of Covered Bonds.

**Swap Collateral Account** has the meaning given to it in "*Establishment of Issuer Accounts*" above.

**Swap Collateral Account Bank** means the bank that maintains any collateral posting amounts required to be maintained by the Currency Swap Provider, in accordance with the relevant credit support annex(es) forming part of an agreement in the form of the Relevant Reference Currency Swap Agreement(s).

**Third Party Expenses** means any fees or expenses necessary to ensure the continued uninterrupted maintenance of the Cover Pool and timely payments to the Covered Bondholders including amounts payable to any Agent, any Calculation Agent, the Independent Inspector, any Eligible Institution, the Cover Pool Swap

Provider and the Currency Swap Providers, if any, and any other creditor of the Issuer pursuant to any agreement entered into in the course of the Programme.

**Transaction Account** has the meaning given to it in "*Establishment of Issuer Accounts*" above.

The Deed of Covenant is governed by English Law.

### **S&P Deed of Covenant**

The Issuer entered into the following covenants for the benefit of the holders of those Series of Covered Bonds assigned a rating by S&P and issued prior to the date of this Prospectus (the **S&P Legacy Covered Bonds**) and which shall only apply whilst the S&P Legacy Covered Bonds remain outstanding:

#### *Relevant Reference Currency Swaps*

- (a) In connection with an issuance of a Series of Covered Bonds denominated in a currency other than ISK and assigned a rating by S&P, in circumstances where the Issuer does not otherwise enter into a Currency Swap in connection with such issuance, the Issuer covenants to establish on or before the Issue Date of such Series and maintain and update (to the extent required) on a weekly basis in its books an account (a **Collateral Reserve Account**). All amounts of cash and, if applicable, securities standing to the credit of the relevant Collateral Reserve Account will be denominated in the relevant currency and registered and updated (to the extent required) on a weekly basis in the Register so as to form part of the Cover Pool.
- (b) The Issuer shall within one Business Day of a relevant issuance and thereafter on a weekly basis (to the extent required under the terms of the Relevant Reference Currency Swap) credit and/or debit cash or securities to or from the relevant Collateral Reserve Account in accordance with paragraph (c) below.
- (c) The amount of cash or securities required to be maintained in the relevant Collateral Reserve Account in connection with the issuance of a Series of Covered Bonds will be at least equal to the amount commensurate with an "adequate" collateral framework assessment under the relevant S&P criteria that a Currency Swap Provider would have been required to maintain under the credit support annex forming part of an agreement in the form of the Relevant Reference Currency Swap Agreement if it had entered into such an agreement with the Issuer in connection with the relevant Series of Covered Bonds.
- (d) In the event of the Issuer ceasing to hold such rating from S&P (the **Rating**) that is required to support the then current rating by S&P of an issuance of Covered Bonds under an "adequate" collateral framework assessment (such Rating being, as at the date hereof, 'BBB'), the Issuer shall use commercially reasonable endeavours to enter into a Currency Swap Agreement substantially in the form of the Relevant Reference Currency Swap Agreement (together with such amendments as may be agreed by the Issuer) with an eligible Currency Swap Provider and may use amounts standing to the credit of the relevant Collateral Reserve Account to enter into such Currency Swap to exchange receipts from the assets comprising the Cover Pool payable in ISK and the currency of the relevant Series of Covered Bonds. For the purposes of this provision, "eligible Currency Swap Provider" means such Currency Swap Provider whose rating is capable of supporting the then current rating by S&P of the relevant issuance of Covered Bonds and whose rating is in accordance with the provisions of the Icelandic Covered Bond Act.
- (e) Where a Currency Swap Agreement is entered into between the Issuer and an eligible Currency Swap Provider, such Currency Swap Agreement shall be registered in the Register so as to form part of the Cover Pool and the requirement to maintain the relevant Collateral Reserve Account pursuant to paragraph (a) above shall cease.

- (f) In the event that the Issuer does not enter into a Currency Swap with an eligible Currency Swap Provider in accordance with paragraph (d) above the requirements of paragraph (a) above shall continue to apply and amounts standing to the credit of the relevant Collateral Reserve Account from time to time will remain registered in the Register so as to form part of the Cover Pool and will be transferred to a corresponding Swap Collateral Account in accordance with the Issuer's obligations as to the establishment of Issuer Accounts (in respect of which see paragraph (a) of "*Establishment of Issuer Accounts*" below).
- (g) The Issuer shall use reasonable endeavours to ensure that any Currency Swap Agreement entered into pursuant to paragraph (d) above includes a subordinated swap termination payment provision, such that any Early Termination Amount due and payable by the Issuer to the relevant Currency Swap Provider under the relevant Currency Swap Agreement following the occurrence of (i) an Event of Default or a Termination Event in respect of a Tax Event upon Merger where the Currency Swap Provider is the Defaulting Party or the sole Affected Party, respectively, or (ii) an Additional Termination Event in respect of the Currency Swap Provider following a ratings downgrade of such Currency Swap Provider shall be subordinated to all other amounts payable in respect of the relevant Series of Covered Bonds.

#### *Liquidity Reserve*

- (a) The Issuer covenants to establish and maintain in its books an ISK denominated ledger (the **ISK Liquidity Reserve Ledger**) and any other ledger denominated in such other specified currency specified in the relevant Final Terms (**Specified Currency**) as may be required from time to time in respect of a particular issuance of Covered Bonds (the **Specified Currency Liquidity Reserve Ledger** and together with the ISK Liquidity Reserve Ledger, the **Liquidity Reserve Ledgers**). All amounts of cash standing to the credit of the Liquidity Reserve Ledgers will be registered in the Register so as to form part of the Cover Pool.
- (b) The amount required to be credited to the ISK Liquidity Reserve Ledger (the **ISK Liquidity Reserve Ledger Required Amount**) will be equal to the amount that will be required to be paid in ISK by the Issuer on all outstanding Covered Bonds in respect of interest and any Third Party Expenses payable in ISK for the immediately following six month period from and including each Monthly Calculation Date.
- (c) If on any Monthly Calculation Date, the amount standing to the credit of the ISK Liquidity Reserve Ledger is less than the ISK Liquidity Reserve Ledger Required Amount (an **ISK Liquidity Reserve Shortfall**), the Issuer shall credit an amount equal to the ISK Liquidity Reserve Shortfall to the ISK Liquidity Reserve Ledger.
- (d) The amount required to be credited to the Specified Currency Liquidity Reserve Ledger (the **Specified Currency Liquidity Reserve Ledger Required Amount**) will be equal to the amount that will be required to be paid in the Specified Currency by the Issuer on all outstanding Covered Bonds in respect of interest and any Third Party Expenses payable in the Specified Currency for the immediately following six month period from and including each Monthly Calculation Date.
- (e) If on any Monthly Calculation Date, the amount standing to the credit of the Specified Currency Liquidity Reserve Ledger is less than the Specified Currency Liquidity Reserve Ledger Required Amount (a **Specified Currency Liquidity Reserve Shortfall**), the Issuer shall credit an amount equal to the Specified Currency Liquidity Reserve Shortfall to the Specified Currency Liquidity Reserve Ledger.

### *Asset Coverage Test*

- (a) On each Monthly Calculation Date, the Issuer shall determine whether the then total value, without double counting, of:
- (i) the assets comprising the Cover Pool (the **Cover Pool Value**) (calculated in accordance with the Icelandic Covered Bond Act);
  - (ii) any amounts standing to the credit of the:
    - (A) Collateral Reserve Account; and
    - (B) Liquidity Reserve Ledgers; and
  - (iii) any cash amounts (excluding any amounts included in paragraph (ii) above) in any Issuer Account,

(such total value amount being the **ACT Assets Amount**) exceeds the then total value of:

- (A) the Principal Amount Outstanding of all Series of Covered Bonds, together with all accrued interest thereon (provided that for the purpose of calculating such amounts in respect of any Series of Covered Bonds denominated in a currency other than ISK, the Principal Amount Outstanding (and such accrued interest) shall be calculated according to (i) the relevant prevailing spot exchange rate (as determined by the Issuer) on the relevant Monthly Calculation Date or (ii) if a Currency Swap has been entered into in respect of such Series of Covered Bonds, the relevant rate under that Currency Swap);
- (B) any other payment obligations that must be paid from the Cover Pool in accordance with the Icelandic Covered Bond Act during the period to and including the next following Monthly Calculation Date; and
- (C) the S&P Deposit Set-off Amount,

(such total value amount being the **ACT Liabilities Amount**) provided that if on such Monthly Calculation Date the ACT Assets Amount does not exceed the ACT Liabilities Amount (such determination, the **Asset Coverage Test**) the Asset Coverage Test shall be deemed to have been breached for the purpose of paragraph (b) above.

- (b) In the event of a breach of the Asset Coverage Test on a Monthly Calculation Date, the Issuer shall use reasonable endeavours to allocate sufficient additional assets to the Cover Pool and register such assets in the Register in an aggregate amount sufficient to ensure that the Asset Coverage Test is met on the next following Monthly Calculation Date.
- (c) In calculating the Cover Pool Value, subject to the provisions of paragraph (a)(i) above, the value of any non-ISK denominated assets comprising the Cover Pool shall be converted into ISK on the basis of the exchange rate published by the Central Bank of Iceland as at such Monthly Calculation Date.

### *Establishment of Issuer Accounts*

- (a) If the Issuer ceases to be an S&P Eligible Institution, the Issuer shall within 90 calendar days (or such longer period as may be agreed by S&P) following the first Business Day on which it ceases to be an S&P Eligible Institution, establish one or more of the following bank accounts in its name with an S&P Eligible Institution:

- (i) a transaction account denominated in ISK (the **Transaction Account**);
  - (ii) a liquidity reserve account denominated in ISK (the **ISK Liquidity Reserve Account**);
  - (iii) a liquidity reserve account denominated in the relevant Specified Currency (the **Specified Currency Liquidity Reserve Account**); and
  - (iv) if required, a swap collateral cash and securities account denominated in the relevant currency in respect of each relevant Series of Covered Bonds (each such account, a **Swap Collateral Account** and together with the Transaction Account and the Liquidity Reserve Account, the **Issuer Accounts**).
- (b) Following the establishment of the Issuer Accounts in accordance with paragraph (a) above, the Issuer shall:
- (i) transfer all payments received from the Cover Pool (**Cover Pool Revenue**) to the Transaction Account within 3 Business Days of receipt by the Issuer;
  - (ii) only if required in accordance with paragraph (f) of the section "*Relevant Reference Currency Swaps*" above following the event described in paragraph (a) above, transfer all amounts standing to the credit of any Collateral Reserve Account to the relevant Swap Collateral Account and thereafter on a weekly basis (to the extent required) credit and/or debit cash or securities to or from the Swap Collateral Account in accordance with paragraph (c) above of the section "*Relevant Reference Currency Swaps*" and continue to maintain and update (to the extent required) on a weekly basis thereafter, a record of such amounts on the relevant Collateral Reserve Account;
  - (iii) provide, or procure the provision of, servicing, administration and cash management services with respect to the Cover Pool Revenue and the operation of the Issuer Accounts;
  - (iv) create security over each Issuer Account for the benefit of the Covered Bondholders; and
  - (v) take all necessary steps to register the Issuer Accounts and the amounts standing to the credit of the Issuer Accounts in the Register.
- (c) In the event that any S&P Eligible Institution appointed pursuant to paragraph (a) above ceases to be an S&P Eligible Institution, the Issuer will be obliged to transfer the relevant Issuer Account to a credit institution with the appropriate minimum ratings.

*Obligations of the Issuer*

- (a) The obligations of the Issuer under the aforementioned sections, *Relevant Reference Currency Swaps*, *Liquidity Reserve*, *Asset Coverage Test* and *Establishment of Issuer Accounts* shall only apply:
- (i) to the extent that compliance with such obligations is required to maintain the ratings of the relevant Series of Covered Bonds;
  - (ii) in respect of the Issuer's obligations under *Relevant Reference Currency Swaps* only, during such time that the Issuer does not maintain a long-term issuer credit rating (**ICR**), long-term resolution counterparty rating (**RCR**) or reference rating level (**RRL**) of at least A- by S&P and shall cease at any time that the Issuer satisfies one or more of such ratings;

- (iii) in respect of the Issuer's obligations under *Establishment of Issuer Accounts* only, during such time that the Issuer does not maintain the required ratings specified in *Establishment of Issuer Accounts* and shall cease at any time that the Issuer satisfies the relevant rating; and
  - (iv) to the extent that any mitigants as may be agreed with S&P for the purposes of maintaining the rating of the relevant Series of Covered Bonds are not otherwise available.
- (b) The obligations of the Issuer under *Establishment of Issuer Accounts* shall cease to apply in their entirety if its long-term issuer credit rating by S&P is at any time at least BBB- (or such other lower rating as may be agreed by S&P), notwithstanding any subsequent downgrade of the long-term issuer credit rating of the Issuer by S&P.
  - (c) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps, Liquidity Reserve, Asset Coverage Test* and *Establishment of Issuer Accounts* will not result in any events of default relating to the Issuer, accordingly payments under the Covered Bonds will not be accelerated in such circumstances and any such failure by the Issuer to comply with these obligations will not entitle Covered Bondholders to accelerate the Covered Bonds.
  - (d) Any failure by the Issuer to comply with the obligations under *Relevant Reference Currency Swaps, Liquidity Reserve, Asset Coverage Test* and *Establishment of Issuer Accounts* will result in the Issuer not being able to issue further Covered Bonds whilst such failure is continuing. For the avoidance of doubt, the Issuer will be able to continue issuing Covered Bonds denominated in ISK.

The defined terms used in this section S&P Deed of Covenant shall have the following meanings:

**Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London;

**Cover Pool** means the pool of eligible assets recorded in the Register maintained by the Issuer in accordance with the Icelandic Covered Bond Act;

**Currency Swap Agreement** means the ISDA Master Agreement, schedule, credit support annex (if applicable) and confirmation(s) (as amended and supplemented from time to time) relating to the Currency Swap(s) entered into from time to time between the Issuer and each Currency Swap Provider;

**Currency Swap Provider** means any reference or actual (as the context requires) third party counterparty;

**Currency Swap** means a currency swap which enables the Issuer to hedge currency risks arising from (a) Covered Bonds which are issued in currencies other than ISK and (b) if required, assets (other than bonds as defined in Article 2 of the Icelandic Covered Bond Act which are issued by borrowers and as described in Article 5 of the Icelandic Covered Bond Act) which are registered to the Cover Pool and are denominated in ISK;

**S&P Deposit Set-off Amount** means (i) nil, (A) if the rating assigned to the covered bonds is A and the Issuer's long-term issuer credit rating is at least BBB- by S&P, or (B) if the rating assigned to the covered bonds by S&P is no longer A and the Issuer's long-term issuer credit rating meets the requirement specified in S&P's methodology at the relevant time, or (ii) if (i) is not applicable, the "Potential Set-Off Amount" calculated pursuant to the relevant S&P rating methodology;

**S&P Eligible Institution** means any bank whose long-term issuer credit rating is at least BBB- by S&P (or such other rating as may be agreed by S&P);

**Monthly Calculation Date** means the last Business Day of each month;

**Register** has the meaning given to it in the Icelandic Covered Bond Act;

**Relevant Reference Currency Swap Agreement** means, in relation to a Series of Covered Bonds which are denominated in a currency other than ISK, an agreement in the form of an ISDA 2002 Master Agreement including the Schedule and Credit Support Annex thereto, together with the relevant form of currency swap confirmation for a Currency Swap, in each case in the form annexed to the applicable Series Deed of Covenant;

**S&P** means S&P Global Ratings Europe Limited;

**Series Deed of Covenant** means a deed of covenant prepared in relation to a particular Series of Covered Bonds including the applicable form of Relevant Reference Currency Swap Agreement, and **applicable Series Deed of Covenant** shall mean the Series Deed of Covenant applicable to the relevant particular Series of Covered Bonds; and

**Third Party Expenses** means any fees or expenses necessary to ensure the continued uninterrupted maintenance of the Cover Pool and timely payments to the Covered Bondholders including amounts payable to any Agent, any Calculation Agent, the Independent Inspector, any S&P Eligible Institution, the Cover Pool Swap Provider and the Currency Swap Providers, if any, and any other creditor of the Issuer pursuant to any Transaction Document entered into in the course of the Programme.

The S&P Deed of Covenant is governed by English Law.

## BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg or the CSD (together, the **Clearing Systems**) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Covered Bonds held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

*In light of the existing withholding tax regime in Iceland, the clearing of the Covered Bonds through Euroclear or Clearstream, Luxembourg will be subject to confirmation that the relevant registration requirements with the Icelandic authorities have been completed.*

### **Book-entry Systems**

#### *Euroclear and Clearstream, Luxembourg*

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

### **Transfers of Covered Bonds Represented by Registered Global Covered Bonds**

Transfers of any interests in Covered Bonds represented by a Registered Covered Bond within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system.

Subject to compliance with the transfer restrictions applicable to the Registered Covered Bonds described under "*Subscription and Sale and Selling Restrictions*", and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent and any custodian (**Custodian**) with whom the relevant Registered Global Covered Bonds have been deposited.

On or after the Issue Date for any Series, transfers of Covered Bonds of such Series between accountholders in Clearstream, Luxembourg and Euroclear will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Covered Bonds among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Agents or any Dealer will be responsible for any performance by Clearstream,

Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Covered Bonds represented by Registered Global Covered Bonds or for maintaining, supervising or reviewing any records relating to such beneficial interests.

## TAXATION

### General

Prospective purchasers of Covered Bonds are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Covered Bonds, including, but not limited to, the consequences of receipt of payments under the Covered Bonds and their disposal or redemption.

### Iceland

The comments below are of general nature based on the understanding of the Issuer of current law and practice in Iceland. They should not be construed as providing specific advice as to Icelandic taxation and are subject to changes as to the applicable rules in the future. They relate only to the position of persons who are the absolute beneficial owners of the Covered Bonds. They may not apply to certain classes of persons, such as dealers. Prospective holders of the Covered Bonds who are in any doubt as to their personal tax position or who may be subject to tax in any other jurisdiction should consult their professional advisers.

In light of the existing withholding tax regime in Iceland, the clearing of the Covered Bonds through Euroclear or Clearstream, Luxembourg will be subject to confirmation that the relevant registration requirements with the Icelandic authorities have been completed.

### *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 Covered Bonds, by any person or entity residing outside of Iceland is taxable income in Iceland. According to Article 70 (8) of the ITA, the current tax rate on taxable income under Article 3(8) 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 European Economic Area (**EEA**), 3) a member state of The European Free Trade Association (**EFTA**), or 4) the Faroe Islands. In 2015, the Income Tax Act no. 90/2003 (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. Accordingly, the Bank will, based on this confirmation, register any Covered Bonds issued under the Programme with the RSK and request that the RSK provide a certificate confirming that the relevant Covered Bonds are exempt from such taxation.

In the absence of an applicable exemption, the Bank will be making the relevant withholding at source in accordance with the provisions of the ITA and Regulation no. 630/2013, on the taxation and withholding of interest to non-Icelandic tax residents subject to limited tax liability (withholding being dictated by Act no. 45/1987 on Withholding of Public Levies at Source).

There are no estate or inheritance taxes, succession duties, gift taxes or capital gains taxes imposed on the holder of the Covered Bonds by Iceland or any authority of, or in, Iceland in respect of the Covered Bonds if,

at the time of the death of the holder or the transfer of the Covered Bonds, such holder or transferor and transferee are not tax residents of Iceland.

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

In instances other than those specifically stated herein as being applicable, the provisions of Condition 9 will apply and the Issuer will be required to pay additional amounts as provided in Condition 9, but may be entitled to redeem the relevant Covered Bonds pursuant to Condition 8.2.

### ***Icelandic Tax Residents***

Beneficial owners of the Covered Bonds that are resident in Iceland for tax purposes are subject to income tax in Iceland on their interest income in accordance with Icelandic tax law. The rate depends on their tax status. Any capital gains upon sale of Covered Bonds 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 owners of Covered Bonds who are Icelandic residents, cf. Act no. 94/1996 on Withholding of Tax on Financial Income. Such withholding is considered a preliminary tax payment but does not necessarily constitute the final tax liability of the holder. However, the 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.

### ***No gross-up***

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

In the event that any such withholding or deduction is required by law, the Terms and Conditions require the Issuer to pay additional amounts in respect of such withholding or deduction subject to customary exceptions (see Condition 9 (*Taxation*)). If the withholding or deduction arises as a result of one of the circumstances described in paragraphs (a) to (f) of Condition 9, the Issuer will not be required to pay such additional amounts and affected investors will receive interest payments net of such withholding. If however the Issuer is required to pay additional amounts, it will have the option under Condition 8.2 (*Redemption for tax reasons*) to redeem the relevant Covered Bonds early. Paragraph (f) of Condition 9 deals with the Article 3(8) of the (**ITA**), which imposes tax on payments of Icelandic sourced interest to a foreign bondholders at a rate of 12%, unless the issue is exempt on the grounds that the bonds are registered with a securities depository within the EEA or OECD and has been registered as such or bonds issued by the estates of previously operating financial institutions as part of a composition agreement. Further exemptions may be available to the relevant bondholders in their home countries or under a double taxation treaty with Iceland.

The exemption is subject to general registration of the programme with the Director of Revenue (Ríkisskattstjóri).

### **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 Covered Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Covered Bonds should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating EU Member States. Generally, it would apply to certain dealings in the Covered Bonds where at least one party is a financial institution and at least one party is established in a participating 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 Covered Bonds are advised to seek their own professional advice in relation to the FTT and its potential impact on the Covered Bonds.

## **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 Covered Bonds 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**

### **(a) Non-resident holders of Covered Bonds**

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 Covered Bonds, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident holders of Covered Bonds.

### **(b) Resident holders of Covered Bonds**

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 Covered Bonds, nor on accrued but unpaid interest in respect of Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident holders of Covered Bonds.

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. Payments of interest under the Covered Bonds coming within the scope of the Law will be subject to a withholding tax at a rate of 20 per cent.

### **U.S. 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" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer 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 Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining "foreign passthru payments" are published with the U.S. Federal Register and Covered Bonds characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date.

However, if additional notes (as described under Condition 16 ("*Further Issues*")) that are not distinguishable from previously issued Covered Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Covered Bonds, including the Covered Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Covered Bonds.

## SUBSCRIPTION AND SALE AND SELLING RESTRICTIONS

The Dealers have, in a programme agreement dated 10 February 2012, as amended and restated on 12 October 2022 (such Programme Agreement as amended and/or supplemented and/or restated from time to time, the **Programme Agreement**), agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under "*Form of the Covered Bonds*" and "*Terms and Conditions of the Covered Bonds*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Covered Bonds, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Covered Bonds during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Covered Bonds for their own account by selling more Covered Bonds than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Covered Bonds in the open market. In addition, such persons may stabilise or maintain the price of the Covered Bonds by bidding for or purchasing Covered Bonds in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Covered Bonds are reclaimed if Covered Bonds previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Covered Bonds at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Covered Bonds to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilising activities may only be carried on by the Stabilisation Manager(s) named in the applicable Final Terms (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Covered Bonds.

### Selling Restrictions

#### United States

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Covered Bonds in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the **Code**) and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether the Covered Bonds will be issued (i) in compliance with U.S. Treasury regulations §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (**TEFRA C**) rules or U.S. Treasury regulations §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (**TEFRA D**) or (ii) under circumstances pursuant to which the Covered Bonds will not constitute registration required obligations under the U.S. Tax Equity and Fiscal Responsibility Act of 1982 (**TEFRA**) or will be treated as issued in registered form for U.S. federal income tax purposes such that TEFRA is not applicable.

In connection with any Covered Bonds which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S (**Regulation S Covered Bonds**), each Dealer has represented and agreed, and each further Dealer appointed under the

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

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

### **Prohibition of Sales to EEA Retail Investors**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the relevant Final Terms in relation thereto to any retail investor in the EEA. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II;
  - (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the **Prospectus Regulation**); and
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

### **Prohibition of Sales to UK Retail Investors**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by the 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 the domestic law of the United Kingdom 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 the domestic law of the United Kingdom by virtue of the EUWA;  
or

- (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Covered Bonds.

### **United Kingdom**

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

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

### **Republic of Italy**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offering of the Covered Bonds has not been registered with Commissione Nazionale per le Società e la Borsa (**CONSOB**) pursuant to Italian securities legislation and, accordingly, no Covered Bonds may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Covered Bonds be distributed in the Republic of Italy, except:

- (a) to qualified investors (investitori qualificati), as defined pursuant to Article 2 of the Prospectus Regulation and any applicable provision of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and/or Italian CONSOB regulations; or
- (b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11971 of May 1999, as amended from time to time, and the applicable Italian laws.

Furthermore, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Covered Bonds or distribution of copies of the Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under paragraph (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Italian Banking Act**); and
- (ii) in compliance with Article 129 of the Italian Banking Act, as amended and the implementing guidelines of the Bank of Italy (as amended from time to time) pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; or
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or other Italian authority.

### **Iceland**

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 Covered Bonds to the public in Iceland, except in compliance with the Act on Markets in Financial Instruments (No. 115/2021) as amended, and any applicable laws or regulations of Iceland.

### **Japan**

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **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 Covered Bonds (except for Covered Bonds which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (the **SFO**) other than (i) to 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 Ordinance (Cap. 32) of Hong Kong (the **C(WUMP)O**) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Covered Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

## **Belgium**

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 physically delivered and will not physically deliver in Belgium any of the Covered Bonds other than 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.

## **Singapore**

Each Dealer has acknowledged that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Covered Bonds or caused the Covered Bonds to be made the subject of an invitation for subscription or purchase and it will not offer or sell any Covered Bonds or cause any Covered Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Covered Bonds, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the **SFA**)) pursuant to Section 274 of the SFA, or (b) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

**Notification under Section 309B(1)(c) of the SFA** – Unless otherwise stated in the applicable Final Terms in respect of any Covered Bonds, all Covered Bonds 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).

## **General**

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

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

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Covered Bonds were duly authorised by a resolution of the Board of Directors of the Issuer dated 2 March 2011, 11 October 2011 and 27 July 2013. Board approval for the increase of the size of the Programme from €1,000,000,000 to €1,500,000,000 was obtained on 6 December 2017. Board approval for the increase of the size of the Programme from €1,500,000,000 to €3,000,000,000 was duly authorised by a resolution of the Bank's Board dated 16 March 2021. Board approval for the increase of the size of the Programme from €2,000,000,00 to €3,000,000,00 and the update of the Programme and the issue of Covered Bonds was duly authorised by a resolution of the Bank's Board dated 21 June 2023.

### Listing, Approval and Admission to Trading

Application has been made to the Luxembourg Stock Exchange for Covered Bonds issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange and to be listed on the Official List of the Luxembourg Stock Exchange. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of MiFID II.

Application may be made to Nasdaq Iceland for Covered Bonds 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/>).

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>):

- (a) the articles of association (with an English translation thereof) of the Issuer (<https://www.arionbanki.is/english/about-us/corporate-governance/>);
- (b) the Agency Agreement, the Deed of Covenant and the forms of the Global Covered Bonds, the Covered Bonds in definitive form, the Receipts, the Coupons and the Talons;
- (c) a copy of this Base Prospectus; and
- (d) any future offering circulars, prospectuses, information memoranda and supplements, and any Final Terms (save that a Final Terms relating to a Covered Bond which is neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Regulation will only be available for inspection by a holder of such Covered Bond and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Covered Bonds and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference (<https://wwwv2.arionbanki.is/?PageId=9b4d404e-7696-11e7-9bb3-d8d385b77fc4>).

In addition, copies of this Base Prospectus, each Final Terms relating to Covered Bonds which are admitted to trading on the regulated market of the Luxembourg Stock Exchange and each document incorporated by reference are available on the Luxembourg Stock Exchange's website at [www.luxse.com](http://www.luxse.com).

Investors should consult the Issuer should they require a copy of the 2006 ISDA Definitions and the 2021 ISDA Definitions.

### **Clearing systems**

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

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The registered office of Nasdaq CSD Iceland is Laugavegur 182, 105 Reykjavík, Iceland and the registered office of Verðbréfamistöð Íslands CSD is Fiskislóð 31 A, 101 Reykjavík, Iceland.

### **Conditions for determining price**

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

### **Significant change or material adverse change**

Since 30 September 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*" of this Base Prospectus, neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Issuer and its subsidiaries, taken as a whole.

### **Auditors**

On 19 March 2015 Deloitte ehf., members of The Institute of State Authorised Public Accountants in Iceland, were appointed auditors of the Issuer. Deloitte ehf. has audited the Annual Financial Statements as of 31 December 2021 and as of 31 December 2022, without qualification, in accordance with International Standards on Auditing.

Deloitte ehf. does not have a material interest in the Bank.

### **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to any assets underlying any Covered Bonds constituting derivative securities, except if required by any applicable laws and regulations.

**Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its affiliates in the ordinary course of business.

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